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

Form 10-K

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

For the fiscal year ended January 31, 2017

OR

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

For the transition period from to

Commission File Number: 001-36568

HEALTHEQUITY, INC.

(Exact name as specified in its charter)

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)

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

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.0001 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant on July 31, 2016, based on the closing price of $29.52 for shares of the registrant's common stock as reported by the NASDAQ Global Select Market was approximately $1.3 billion. For purposes of determining whether a stockholder was an affiliate of the registrant at July 31, 2016, the registrant assumed that a stockholder was an affiliate of the registrant at July 31, 2016 if such stockholder (i) beneficially owned 10% or more of the registrant's capital stock, as determined based on public filings, and/or (ii) was an executive officer or director, or was affiliated with an executive officer or director of the registrant, at July 31, 2016. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2017, there were 59,628,341 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement related to its 2017 annual meeting of shareholders (the "2017 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2017 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

HealthEquity, Inc. and subsidiaries
Form 10-K annual report

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that involve risks and uncertainties, including in the sections entitled “Business,” “Risk factors,” and “Management’s discussion and analysis of financial condition and results of operations.” These forward-looking statements include, without limitation, statements regarding our industry, business strategy, plans, goals and expectations concerning our market position, product expansion, future operations, margins, profitability, future efficiencies, capital expenditures, liquidity and capital resources and other financial and operating information. When used in this discussion, the words “may,” “believes,” “intends,” “seeks,” “anticipates,” “plans,” “estimates,” “expects,” “should,” “assumes,” “continues,” “could,” “will,” “future” and the negative of these or similar terms and phrases are intended to identify forward-looking statements in this report.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can give you no assurance these expectations will prove to have been correct. Some of these expectations may be based upon assumptions, data or judgments that prove to be incorrect. Actual events, results and outcomes may differ materially from our expectations due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others, the following:

- our expectations regarding our operating revenue, expenses, effective tax rates and other results of operations;
- our anticipated capital expenditures and our estimates regarding our capital requirements;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business;
- the growth rates of the markets in which we compete;
- competitive pressures related to the fees that we charge;
- our ability to successfully identify, acquire and integrate additional portfolio purchases or acquisition targets;
- our reliance on key members of executive management and our ability to identify, recruit and retain skilled personnel;
- management compensation and the methodology for its determination;
- our ability to promote our brand;
- disturbance to our information technology systems;
- our ability to protect our intellectual property rights;
- unavailability of capital;
- general economic conditions;
- risk of future legal proceedings; and
- other risks and factors listed under “Risk factors” and elsewhere in this report.

Unless the context otherwise indicates or requires, the terms “we,” “our,” “us,” “HealthEquity,” and the “Company,” as used in this Annual Report on Form 10-K, refer to HealthEquity, Inc. and its subsidiaries as a combined entity, except where otherwise stated or where it is clear that the terms mean only HealthEquity, Inc. exclusive of its subsidiaries.

Part I

Item 1. Business

Company overview

We are a leader and an innovator in the high growth category of technology-enabled services platforms that empower consumers to make healthcare saving and spending decisions. Our platform provides an ecosystem where consumers can access their tax-advantaged healthcare savings, compare treatment options and pricing, evaluate and pay healthcare bills, receive personalized benefit and clinical information, earn wellness incentives, and make educated investment choices to grow their tax-advantaged healthcare savings. We can integrate with any health plan or banking institution to be the independent and trusted partner that enables consumers as they seek to manage, save and spend their healthcare dollars. We believe the secular shift to greater consumer responsibility for healthcare costs will require a significant portion of the approximately 189 million under-age 65 consumers with private health insurance in the United States to use a platform such as ours.

The core of our ecosystem is the health savings account, or HSA, a financial account through which consumers spend and save long term for healthcare on a tax-advantaged basis. We refer to the HSAs for which we serve as custodian as our HSA Members. As of January 31, 2017, we were the integrated HSA platform for 87 health plans in the country and employees at more than 34,000 employer clients. Our customers include individuals, employers of all sizes and health plans. We refer to our individual customers as our members, our health plan customers as our Health Plan Partners and our employer clients with more than 1,000 employees as our Employer Partners. Our Health Plan Partners and Employer Partners collectively constitute our Network Partners. Through our existing Network Partners, we have the potential to reach over 87 million consumers, representing more than a third of the under-age 65 privately insured population in the United States. As of January 31, 2017, we had over 2.7 million HSAs on our platform, representing over 5.9 million lives. During the years ended January 31, 2017, 2016 and 2015, we added approximately 703,000, 751,000 and 476,000 new HSA Members, representing approximately 1.5 million, 1.7 million and 1.1 million lives, respectively.

We have developed technology and a differentiated focus on the consumer to facilitate the transition to a more consumer-centric approach to healthcare saving and spending. Our solution is deployed as a cloud-based platform that is accessible to our customers through the Internet and on mobile devices and is hosted on private servers, which allows us to scale on demand. Core to our technology is a configurable framework and open platform that we believe provides us greater functionality and flexibility than generic technologies used by our legacy competitors and requires less investment and time to configure and customize to our customers' needs.

We are able to seamlessly integrate third-party applications into our platform, which has afforded us an advantage in an expanding consumer healthcare landscape. A growing number of companies are attempting to integrate into the consumer's daily healthcare spending experience by leveraging our platform. These companies offer functions such as price transparency, benefits enrollment, population health, wellness, analytics, health insurance and investment services, and are looking to reach the consumer at the critical "save" and "spend" moment. In an effort to capitalize on this opportunity, we continue to expand the number of ecosystem partners with whom our platform is integrated.

Our business model provides strong visibility into our future operating performance. As of the beginning of the past several fiscal years, we had approximately 90% visibility into the revenue of the subsequent fiscal year. We earn monthly service revenue (previously referred to as account fee revenue), primarily through multi-year contracts with our Health Plan Partners and employer clients, and our custodial agreements with individual members. We earn custodial revenue (previously referred to as custodial fee revenue) primarily from our custodial cash assets (previously referred to as assets under management, or AUM) that are deposited with our FDIC-insured custodial depository bank partners or invested in an annuity contract with our insurance company partner. In addition, we earn recordkeeping fees in respect of assets held with our investments partner and we earn fees for investment advisory services through our registered investment advisor subsidiary. We also earn interchange revenue (previously referred to as card fee revenue), which is primarily interchange fees charged to merchants on payments made with our cards via payment networks. Monthly service revenue, custodial revenue, and interchange revenue are recurring in nature, providing strong visibility into our future business.

Our products and services

Healthcare saving and spending platform. We offer a cloud-based platform, accessed by our members online via a desktop or mobile device, through which individuals can make health saving and spending decisions, pay healthcare bills, compare treatment options and prices, receive personalized benefit and clinical information, earn wellness incentives, grow their savings and make investment choices. The platform provides users with access to services we provide as well as services provided by third parties selected by us or by our Network Partners.

Among other features, the platform includes the capability to present to users medical bills upon adjudication by a health plan, including details such as the amount paid by insurance, specific nature of the medical service provided, and diagnostic code. Users of the platform can pay these bills from an account of ours or from any bank account, online, via a mobile device, or using our payment card. All users of the platform gain access to our healthcare consumer specialists, available every hour of every day, via a toll-free telephone number or email. Our specialists can assist users with such tasks as contacting a medical provider to dispute a bill, negotiating a payment schedule, optimizing the use of tax-advantaged accounts to reduce medical spending or selecting from among medical plans offered by an employer or health plan.

Health savings accounts. 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. We are an Internal Revenue Services, or IRS, approved non-bank custodian of our members' HSAs. In December 2016, we submitted a request to the IRS for approval to serve as both a passive and non-passive non-bank custodian of HSAs.

To be eligible to contribute to an HSA, an individual must be covered under a high deductible healthcare plan, or HDHP, have no additional health coverage, not be enrolled in Medicare, and not be claimed as a dependent on someone else’s tax return. HSAs have several tax-advantaged benefits, which we call the "triple tax savings": (1) individuals can claim a tax deduction for contributions they, or someone other than their employer, make to their HSAs; contributions to their HSAs made by their employer may be excluded from their gross income for purposes of federal and most state income and employment tax; (2) the interest or earnings on the assets in the account, including reinvestment, are tax free; and (3) distributions may be tax free if they pay qualified medical expenses. There is no requirement to provide receipts to us to substantiate HSA distributions to members, whether made through our payment card or directly from our online platform. Additionally, distributions other than for qualified medical expenses are permitted penalty-free after age 65. Balances remain in the account until used, *i.e.*, there is no “use or lose” requirement. An HSA is owned by the account holder; it remains the account holder’s property upon a change of employment, health plan or retirement.

Investment advisory services. We offer an online-only automated investment advisory service to all of our members whose account balances exceed a stated threshold. This service is entirely elective to the member. The advisory service is delivered through a web-based tool, HealthEquity Advisor, which is offered and managed by HealthEquity Advisors, LLC, our SEC-registered investment adviser subsidiary. HealthEquity Advisors, LLC provides investment advice to its clients exclusively through the HealthEquity Advisor tool on an interactive website. Members who subscribe for HealthEquity Advisor pay asset-based fees, which include the cost of the advisory service and all trading commissions and other expenses associated with transactions made through the online tool.

HealthEquity Advisor provides guidance and management, including how much cash (liquidity) to maintain in an HSA and how to diversify optimally among the mutual funds and other investment vehicles offered on the HealthEquity platform. Advice reflects the personal risk preferences of the individual member.

We offer three levels of service to investors:

- *Self-driven:* For members who do not subscribe for HealthEquity Advisor we provide a mutual fund investment platform to invest HSA balances. Neither we nor HealthEquity Advisor provides advice to members in respect of platform investments;
- *GPS:* HealthEquity Advisor provides guidance and advice, but the member makes the final investment decisions and implements portfolio allocation and investment advice through the HealthEquity platform; and
- *Auto-pilot:* HealthEquity Advisor manages the account and implements portfolio allocation and investment advice automatically for the member.

Regardless of the level of service selected, members are responsible for their proportionate share of fees and expenses payable by the underlying mutual funds and other investment vehicles in which they invest.

Reimbursement arrangements. Reimbursement arrangements, or RAs, include health reimbursement arrangements, or HRAs, and flexible spending arrangements, or FSAs. An HRA may be administered by any third-party administration, or TPA, firm. Most HSA custodians are not TPAs, and most TPAs are not HSA custodians. We are among only a few firms that are able to administer HSAs and HRAs on the same technology platform.

RAs are employee benefits wherein an employer provides a fixed dollar amount of reimbursement for qualified medical or dependent care expenses. Payments must be substantiated with electronic claims from a health plan, data gleaned from operation of our payment card where permitted, or submission of receipts or other documentation by the employee. RAs have the tax benefit that, like HSAs, their value may be excluded from employees' gross income for federal and most state income and employment tax purposes. RAs are not portable; any remaining value is lost upon termination of employment, but are subject to COBRA requirements. An HRA must be paid for entirely by the employer with no salary reduction, is typically integrated with a major medical plan, and typically allows unused benefits to be rolled over from year to year. An FSA is typically paid for entirely through salary reduction from the employee, is typically a stand-alone, voluntary offering, and is subject to "use or lose" restrictions limiting to $500 the amount that may be rolled over from year to year. As of January 31, 2017, we had approximately 528,000 RAs on our platform.

Healthcare incentives. We enable our Employer Partners and Health Plan Partners to easily offer, and our members to earn, financial incentives for participation in wellness programs. Our technology platform includes a financial incentives framework and integration with several wellness providers used by our Network Partners. Once earned, incentives may be deposited directly into an HSA, RA or cash account, with Network Partner-specific messaging to make clear to the member the source of funds. Our platform routes incentives to the right type of account to maintain tax compliance, for example, by creating and routing funds to an RA where an HSA Member is ineligible to receive HSA contributions due to disqualifying coverage.

Our technology

Our proprietary technology is deployed as a cloud-based solution that is accessible to customers through the web and mobile devices. We utilize a multi-tenant architecture that allows changes made for one Network Partner to be extensible to all others. This architecture provides operating leverage by reducing costs and improving efficiencies by enabling us to maximize the utilization of our infrastructure capacity and reduction in required maintenance.

Our solution is hosted on a virtual private cloud with an ability to scale on demand. This allows us to quickly support our current and projected growth. We utilize two redundant third-party data centers to ensure continuous access and data availability. The data centers are purpose-built facilities for hosting mission critical systems with multiple built-in redundancy layers to minimize service disruptions and meet industry-standard measures.

Due to the sensitive nature of our customers' data, we have a heightened focus on data security and protection. We have implemented industry-standard processes, policies and tools through all levels of our software development and network administration, reducing the risk of vulnerabilities in our system.

Our competitive landscape

We view our competition in terms of direct and indirect competitors. Our direct competitors are HSA custodians that include state or federally chartered banks, insurance companies and non-bank trustees approved by the U.S. Department of the Treasury as meeting certain ownership, capitalization, expertise and governance requirements. This market is very fragmented. Our indirect competitors are benefits administration technology and service providers that work with other HSA custodians to sell into health plans and/or employer channels.

We believe that the primary competitive factors in the market for technology platforms that empower healthcare consumers are: integration with the broader healthcare system; level of consumer education and support; breadth of product offering; flexibility of technology to meet partner requirements; brand strength and reputation; and price. We believe that many of our large bank competitors may view their healthcare businesses as non-core and have historically under-invested in developing these businesses. Many of our competitors have not incorporated personal health information into their offerings, as this would require significant upfront investment in technology, training, and segregation of business operations from other bank or custodial operations, as well as integration with data sources such as health plans and pharmacy benefits managers. Potential competitors within the technology or benefits administration service provider sector are limited from entering the space due to regulatory requirements for capital adequacy and demonstrated expertise in custodial operations. However, we experience significant competition and the intensity of competition may increase over time.

Our competitive strengths

We believe we are well-positioned to benefit from the transformation of the healthcare benefits market. Our platform is aligned with a new healthcare environment that rewards consumer engagement and fosters an integrated consumer experience.

Leadership and first-mover advantage. We have established a defensible leadership position in the HSA industry through our first-mover advantage, focus on innovation and differentiated capabilities. Our leadership position is evidenced by the tripling of our market share, from 4% in December 2010 to 12% in December 2016, as noted by the 2016 Devenir HSA Research Report, which indicates we are among the three largest HSA custodians by market share.

Complete solution for managing consumer healthcare saving and spending. Our members utilize our platform in a number of ways and in varying frequencies. For example, our members utilize our platform to evaluate and pay healthcare bills through the member portal, which allows members to pay their healthcare providers, receive reimbursements and learn of savings opportunities for prescription drugs. Members also utilize the platform's mobile app to view and pay claims on-the-go, including uploading medical and insurance documentation to the platform with their mobile phone cameras. During the year ended January 31, 2017, our platform experienced 30.4 million logons and, on average, every month 24% of our members signed into our platform.

Proprietary and integrated technology platform. We have a proprietary cloud-based technology platform, developed and refined during more than a decade of operations, which we believe is highly differentiated in the marketplace for a number of key reasons:

- *Purpose-built technology:* Our platform was designed specifically to serve the needs of healthcare consumers, health plans and employers. We believe it provides greater functionality and flexibility than the generic technologies used by our competitors, many of which were originally developed for banking, benefits administration or retirement services. We believe we are one of few providers with a platform that encompasses all of the core functionality of healthcare saving and spending in a single secure and compliant system, including custodial administration of individual savings and investment accounts, card and electronic funds transaction processing, benefits enrollment and eligibility, electronic and paper medical claims processing, medical bill presentment, tax-advantaged reimbursement account and health incentive administration, HSA trust administration, online investment advice and sophisticated analytics.
- *Data integration:* Our technology platform allows us to integrate data from disparate sources, which enables us to seamlessly incorporate personal health information, clinical insight and individually tailored strategies into the consumer experience. We currently have more than 2,320 distinct integrations with health plans, pharmacy benefit managers, employers and other benefits provider systems. Many of our partners' systems rely on custom data models, non-standard formats, complex business rules and security protocols that are difficult or expensive to change.
- *Configurability:* Our flexible technology platform enables us to create a unique solution for each of our Network Partners. For example, a HealthEquity team member can readily configure more than 240 product attributes, including integration with a partner's chosen healthcare price transparency or wellness tools, single sign on, sales and broker support sites, branding, member communication, custom fulfillment and payment card, savings options and interest rates, fees and mutual fund investment choices. We currently have more than 1,300 unique partner configurations of our offerings in use.

Differentiated consumer experience. We have designed our solutions and support services to deliver a differentiated consumer experience, which is a function of our culture and technology. We believe this provides a significant competitive advantage relative to legacy competitors whom we believe prioritize transaction processing and benefits administration.

- *Culture:* We call our culture "DEEP Purple," which we define as driving excellence, ethics, and process while providing remarkable service. Our DEEP purple culture is a significant factor in our ability to attract and retain customers and to address nimbly opportunities in the rapidly changing healthcare sector.
- *Technology:* Our technology helps us to deliver on our commitment to DEEP Purple. We tailor the content of our platform and the advice of our experts to be timely, personal and relevant to each member. For example, our technology generates health savings strategies that are delivered to our members when they interact with our platform or call us. We employ individuals, which we refer to as Member Education Specialists, who provide real-time assistance to our members via telephone.

We believe our DEEP Purple culture drives our success. Our commitment to DEEP Purple has been rewarded with consumer loyalty scores that far exceed those of most banks and traditional health insurers.

Large and diversified channel access. We believe our differentiated distribution platform provides a competitive advantage by efficiently enabling us to reach a growing consumer market. Our platform is built on a business-to-business-to-consumer, or B2B2C, channel strategy, whereby we rely on our Network Partners to reach consumers instead of marketing our services to these potential members directly. Reaching the consumer is critical in order for us to increase the number of our HSA Members because only the individual consumer can open an HSA. Thus, in order for us to increase the number of our HSA Members, we must find effective ways to reach the consumer.

We work directly with our Network Partners to reach the consumer in various ways. Our Health Plan Partners collectively employ thousands of sales representatives and account managers who promote both the Health Plan Partner’s health insurance products, such as HDHPs, and our HSAs. Our Employer Partners collectively employ thousands of human resources professionals who are tasked with explaining the benefits of our HSAs to their employees. Our sales and account management teams work with and train the sales representatives and account management teams and the human resource professionals of our Network Partners on the benefits of enrolling in, contributing to, and saving and spending through our HSAs, and our Network Partners then convey these benefits to prospective members. As a result of this collaboration, we develop relationships with each member who enrolls in an HSA with us. This constitutes our B2B2C channel strategy.

Scalable operating model. We believe that our technology is scalable because our products and services are accessed primarily through our technology platform, which is cloud based. After initial on-boarding and a period of education, our service costs for any given customer typically decline over time. Our opportunity to generate high-margin revenue from existing HSA Members grows over time because our HSA Members’ balances typically grow, increasing custodial revenue at very little incremental cost to us.

Strong customer retention rates*.* Retention of our HSA Members has been consistent over time. Retention rates for the years ended January 31, 2017, 2016 and 2015 were 95.5%, 97.4% and 98.3%, respectively. Individually owned trust accounts, including HSAs, have inherently high switching costs, as switching requires a certain amount of effort on the part of the account holder and results in closure fees. We believe that our retention rates are also high due to our technology platform’s integration with the broader healthcare system used by our HSA members and our focus on the consumer experience.

Selectively pursue strategic acquisitions. We have a successful history of acquiring HSA portfolios and businesses that strengthen our platform and we expect to continue this growth strategy and are regularly engaged in evaluating opportunities. During the year ended January 31, 2016, we acquired the HSA portfolios of The Bancorp Bank, or Bancorp, and M&T Bank, or M&T. We have developed an internal capability to source, evaluate and integrate acquisitions that have created value for shareholders. We believe the nature of our competitive landscape provides significant acquisition opportunities. Many of our competitors view their HSA businesses as non-core functions. We believe they may look to divest these assets and, in certain cases, be limited from making acquisitions due to depository capital requirements.

Government regulation

Our business is subject to extensive, complex and rapidly changing federal and state laws and regulations.

IRS regulations

We are subject to applicable IRS regulations, which lay the foundation for tax savings and eligible expenses under the HSAs, HRAs and FSAs we administer. The IRS issues guidance regarding these regulations regularly.

HIPAA, privacy and data security regulations

In connection with processing data on behalf of our members, we frequently undertake or are subject to specific compliance obligations under privacy and data security-related laws, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Gramm-Leach-Bliley Act, and similar state laws governing the collection, use, protection and disclosure of nonpublic personally identifiable information.

HIPAA and its implementing regulations, as amended by the Health Information Technology for Economic and Clinical Health Act, or the HITECH Act, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH, through its implementing regulations, makes certain of HIPAA’s privacy and security standards directly applicable to “business associates,” including HealthEquity. We are also contractually subject to various provisions of HIPAA and the HITECH Act via agreements we have entered into with our customers, or Business Associate Agreements. There are both civil and criminal penalties for violating HIPAA, which may be enforced by both the U.S. Department of Health and Human Services' Office for Civil Rights and state attorneys general. Violations of HIPAA may also subject us to contractual ramifications including but not limiting to termination of the applicable Business Associate Agreement. We have developed policies and procedures, trained our team members, and entered into agreements with our clients as appropriate to comply with HIPAA.

We are also subject to various laws, rules and regulations related to privacy, information security and data protection promulgated under the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act guidelines require, among other things, that we develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to our size and complexity, the nature and scope of our activities and the sensitivity of any customer information at issue.

In addition to federal data privacy and security laws and regulations, there are a number of state laws governing confidentiality and security of personally identifiable information that are applicable to our business. We have taken steps to comply with personally identifiable information security requirements to which we are aware that we are subject.

ERISA

Our private-sector clients' FSAs and HRAs are covered by the Employee Retirement Income Security Act of 1974, as amended, or ERISA, which governs the structure of "employee benefits plans." ERISA does not generally apply to HSAs. ERISA generally imposes extensive reporting requirements on employers in respect of FSAs and HRAs, as well as an obligation to provide detailed disclosure to covered individuals, which includes both employees and beneficiaries. The Department of Labor can bring enforcement actions or assess penalties against employers for failing to comply with ERISA's requirements. Participants may also file lawsuits against employers under ERISA.

Department of Labor

The Department of Labor, or the DOL, is responsible for issuing guidance under any component plans that are subject to ERISA, including health FSAs and HRAs, as well as guidance that is applicable to the administration of HSAs.

The DOL issues regulations, technical releases and other pieces of guidance that apply to employee benefit plans generally. In addition, in response to a request by an individual or an organization, the DOL's Employee Benefits Security Administration may issue an advisory opinion that interprets and applies ERISA to a specific situation, including issues related to consumer-centric healthcare accounts. In April 2016, DOL issued a new regulation more broadly defining the circumstances under which a person is considered to be a fiduciary by reason of giving investment advice or recommendations to certain retirement accounts and HSAs. We have taken measures to comply with the DOL's new fiduciary regulation. However, on March 2, 2017, the DOL published a proposal to delay the applicability date from April 10, 2017 until June 9, 2017, and DOL has announced that it is considering a further delay and modifications to the rule.

Healthcare reform

In March 2010, the federal government enacted significant reforms to healthcare legislation through the Affordable Care Act and the Healthcare and Education Reconciliation Act of 2010. These laws amended various provisions in many federal laws, including the Internal Revenue Code of 1986, as amended, or the Code, and ERISA. These amendments include numerous coverage changes affecting group health plans, which now apply to insurers and governmental plans, as well as employer-sponsored health plans, including self-insured plans such as HRAs and health FSAs. We expect that the new presidential administration and U.S. congress will seek to modify, repeal or otherwise invalidate all, or certain provisions of, the Affordable Care Act.

Investment Advisers Act of 1940

Our subsidiary HealthEquity Advisors, LLC is an SEC-registered investment adviser that provides web-only automated investment advisory services to members. As an SEC-registered adviser, it must comply with the requirements of the Investment Advisers Act of 1940, or the Advisers Act, and related Securities and Exchange Commission, or SEC, regulations and is subject to periodic inspections by the SEC staff. Such requirements relate to, among other things, fiduciary duties to clients, disclosure obligations, recordkeeping and reporting requirements, marketing restrictions limitations on agency cross and principal transactions between the adviser and its clients, and general anti-fraud prohibitions. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Failure to comply with the Advisers Act or other federal and state securities and regulations could result in investigations, sanctions, profit disgorgement, fines or other similar consequences.

Intellectual property

Intellectual property is important to our success. We have registered our trademark "HealthEquity" with the U.S. Patent and Trademark Office and maintain trademark rights to the mark "Building Health Savings."

We also rely on other forms of intellectual property rights and measures, including trade secrets, know-how and other unpatented proprietary processes, and nondisclosure agreements, to maintain and protect proprietary aspects of our products and technologies. We require our team members and consultants to execute confidentiality agreements in connection with their employment or consulting relationships with us. We also require our team members and consultants to disclose and assign to us all inventions conceived during the term of their employment or engagement while using our property or which relate to our business.

Geographic areas

Our sole geographic market is the U.S.

Employees

We refer to our employees as our team members. As of January 31, 2017, we had 875 team members, including 620 in service delivery, 128 in technology and development and 127 in sales, general and administrative. We consider our relationship with our team members to be good. None of our team members are represented by a labor union or party to a collective bargaining agreement.

Corporate information

HealthEquity, Inc. was incorporated as a Delaware corporation on September 18, 2002. Our principal business office is located at 15 W. Scenic Pointe Dr., Ste. 100, Draper, Utah 84020. Our website address is www.healthequity.com. We do not incorporate the information contained on, or accessible through, our corporate website into this Annual Report on Form 10-K, and you should not consider it to be part of this report.

Where you can find additional information

Our website is located at www.healthequity.com, and our investor relations website is located at ir.healthequity.com. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material electronically with or furnish it to the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. 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 are 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.

Risks relating to our business and industry

The healthcare industry is rapidly evolving and the market for technology-enabled services that empower healthcare consumers is relatively immature and unproven. If we are not successful in promoting the benefits of our platform, our growth may be limited.

The market for our products and services is subject to rapid and significant change and competition. The market for technology-enabled services that empower healthcare consumers is characterized by rapid technological change, new product and service introductions, evolving industry standards, changing customer needs, existing competition and the entrance of non-traditional competitors. In addition, there may be a limited-time opportunity to achieve and maintain a significant share of this market due in part to the rapidly evolving nature of the healthcare and technology industries and the substantial resources available to our existing and potential competitors. The market for technology-enabled services that empower healthcare consumers is relatively new and unproven, and it is uncertain whether this market will achieve and sustain high levels of demand and market adoption. In order to remain competitive, we are continually involved in a number of projects to develop new services or compete with these new market entrants. These projects carry risks, such as cost overruns, delays in delivery, performance problems and lack of acceptance by our customers.

Our success depends to a substantial extent on the willingness of consumers to increase their use of technology platforms to manage their healthcare saving and spending, the ability of our platform to increase consumer engagement, and our ability to demonstrate the value of our platform to our existing customers and potential customers. If our existing customers do not recognize or acknowledge the benefits of our platform or our platform does not drive consumer engagement, then the market for our products and services might develop more slowly than we expect, which could adversely affect our operating results. In addition, we have limited insight into trends that might develop and affect our business. We might make errors in predicting and reacting to relevant business, legal and regulatory trends, which could harm our business. If any of these events occur, it could materially adversely affect our business, financial condition or results of operations.

Finally, our competitors may have the ability to devote more financial and operational resources than we can to developing new technologies and services, including services that provide improved operating functionality, and adding features to their existing service offerings. If successful, their development efforts could render our services less desirable, resulting in the loss of our existing customers or a reduction in the fees we generate from our products and services.

Our business is dependent upon the availability of tax-advantaged health accounts to consumers and employers. Any diminution in, elimination of, or change in the availability or use of these accounts would materially adversely affect our results of operations, financial condition, business and prospects.

Substantially all of our revenue is generated from transactions involving tax-advantaged health accounts, such as HSAs, HRAs and FSAs. Based on our experience with our customers, we believe that many consumers are not familiar with the tax-advantaged benefits of HSAs and other similar tax-advantaged healthcare savings arrangements. If employers reduce or cease to offer HSA, HRA or FSA programs, or if consumer adoption of these accounts decreases, our results of operations, financial condition, business and prospects would be materially adversely affected.

If our security measures are breached or unauthorized access to data is otherwise obtained, our platform may be perceived as not being secure, our customers may reduce the use of, or stop using, our products and services, we may incur significant liabilities, our reputation may be harmed and we could lose sales and customers.

Our proprietary technology platform enables the exchange of, and access to, sensitive information, and security breaches could result in the loss of this sensitive information, theft or loss of actual funds, litigation, indemnity obligations to our customers, fines and other liabilities, including under laws that protect the privacy of personal information, disrupt our operations and the services we provide to our members and Network Partners, damage our reputation and cause a loss of confidence in our products and services. While we have security measures in place, if our security measures are breached as a result of third-party action, employee error or otherwise, our reputation could be significantly damaged, our business may suffer and we could incur substantial liability which could result in loss of sales and customers. If third parties improperly obtain and use the personal information of our customers, we may be required to expend significant resources to resolve these problems. A major breach of our network security and systems could have serious negative consequences for our businesses, including:

- possible fines, penalties and damages;
- reduced demand for our services;
- an unwillingness of consumers to provide us with their payment information;
- an unwillingness of customers to provide us with personal information; and
- harm to our reputation and brand.

Because techniques used to obtain unauthorized access to or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new customers and increase engagement by existing customers, and/or subject us to third-party lawsuits, regulatory fines, contractual liability and/or other action or liability, thereby harming our operating results.

We have incurred, and expect to continue to incur, significant costs to protect against security breaches. We may incur significant additional costs in the future to address problems caused by any actual or perceived security breaches. Cybersecurity breaches could compromise our data and the data of our customers and partners, which may expose us to liability and would likely cause our business and reputation to suffer.

Our ability to ensure the security of our online platform and thus sensitive customer and partner information is critical to our operations. We rely on standard Internet and other security systems to provide the security and authentication necessary to effect secure transmission of data. Despite our security measures, our information technology and infrastructure may be vulnerable to cybersecurity threats, including attacks by hackers and other malfeasance. Any such security breach could compromise our networks and result in the information stored or transmitted there to be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings leading to liability, including under laws that protect the privacy of personal information, disrupt our operations and the services we provide to our clients, damage our reputation and cause a loss of confidence in our products and services, which could adversely affect our business, operations and competitive position.

Fraudulent and other illegal activity involving our products and services, including our payment cards, could lead to reputational damage to us and reduce the use and acceptance of our platform.

Criminals are using increasingly sophisticated methods to capture personal information in order to engage in illegal activities such as counterfeiting and identity theft. We rely upon third parties for some transaction processing services, data feeds, and vendors, which subjects us to risks related to the vulnerabilities of those third parties. For example, we were exposed to risks relating to the 2013 theft of payment card numbers housed in Target Corporation’s point of sale system when certain of our members used our payment cards at Target Corporation and those cards were compromised. Under our agreement with our payment card processing network, we are required to make our customers whole for losses sustained when using our payment cards, even in instances where we are not directly responsible for the underlying cause of such loss. A single significant incident of fraud, or increases in the overall level of fraud, involving our payment cards, our custodial accounts or our reimbursement administration services, could result in financial and reputational damage to us, which could reduce the use and acceptance of our products and services, or cause our customers to cease doing business with us.

We may be unable to compete effectively against our current and future competitors, which could have a material adverse effect on our results of operations, financial condition, business and prospects.

The market for our products and services is highly competitive, rapidly evolving and fragmented. We view our competition in terms of direct and indirect competitors. Our direct competitors are HSA custodians that include state or federally chartered banks, such as Webster Bank, Optum Bank, and non-bank custodians approved by the U.S. Treasury as meeting certain ownership, capitalization, expertise and governance requirements, such as Payflex Systems USA, Inc. This market is highly fragmented. We also have numerous indirect competitors, including benefits administration technology and service providers that work with other HSA custodians to sell into health plans and/or employer channels. Increased focus on HSA-favorable healthcare regulatory reforms may create renewed interest and investment by our competitors in their HSA offerings and lead to greater competition, which could make it harder for us to maintain our growth trajectory. Our competitors may also offer reduced fee or no-fee HSAs, which may permit them to increase market share in our market and lead to customer and Network Partner attrition, or cause us to reduce our fees. Furthermore, 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 Network Partners or other strategic partners, thereby limiting our ability to promote our solution with these parties. Our Health Plan Partners may also decide to offer HSAs directly, which would significantly reduce our channel partner opportunities.

Many of our competitors, in particular banks and financial institutions, 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 and have offered, or may in the future offer, a wider range of products and services that may be more attractive to potential customers, and they may also use advertising and marketing strategies that achieve broader brand recognition or acceptance.

In addition, well-known retail mutual fund companies, such as Fidelity and Vanguard, who currently do not have a strong presence or have somewhat limited products in the market for technology-enabled services that empower healthcare consumers may in the future decide to expand their products or attempt to grow their presence in the market. These investment companies have significant advantages over us in terms of brand name recognition, years of experience managing tax-advantaged retirement accounts (*e.g.*, 401(k) and IRA), highly developed recordkeeping, trust functions, and fund advisory and customer relations management, among others. If we are unable to compete effectively with new competitors, our results of operations, financial condition, business and prospects could be materially adversely affected.

Developments in the healthcare industry could adversely affect our business.

Substantially all of our revenue is derived from healthcare-related saving and spending by consumers, which could be affected by changes affecting the broader healthcare industry, including decreased spending in the industry overall. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare industry participants interact with consumers and the general public;
- consolidation of healthcare industry participants;
- reductions in governmental funding for healthcare; and
- adverse changes in general business or economic conditions affecting healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending in some or all of the specific market segments that we serve now or in the future. The healthcare industry has changed significantly in recent years, and we expect that significant changes will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot assure you that the demand for our products and services will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in the healthcare industry.

The healthcare regulatory and political framework is uncertain and evolving, and we cannot predict the effect that further healthcare reform, the possible repeal and replacement of the Affordable Care Act and other changes in government programs may have on our business, financial condition or results of operations.

Healthcare laws and regulations are rapidly evolving and may change significantly in the future, which could adversely affect our financial condition and results of operations. For example, the Affordable Care Act, which includes a variety of healthcare reform provisions and requirements that may become effective at varying times through 2020, substantially changes the way healthcare is financed by both governmental and private insurers, and may significantly impact our industry. Since its adoption into law in 2010, the Affordable Care Act has been challenged before the U.S. Supreme Court, and several bills have been and continue to be introduced in Congress to delay, defund or repeal implementation of or amend significant provisions of the Affordable Care Act. In addition, there continues to be ongoing litigation over the interpretation and implementation of certain provisions of the law.

The full impact of recent healthcare reform and other changes in the healthcare industry and in healthcare spending is currently unknown, and we may be unable to predict accurately what effect the Affordable Care Act or other healthcare reform measures that may be adopted in the future will have on our business.

Changes in applicable federal and state laws relating to the tax benefits available through tax-advantaged healthcare accounts such as HSAs would materially adversely affect our business.

The efforts of governmental and third-party payers to raise revenue or contain or reduce the costs of healthcare as well as legislative and regulatory proposals aimed at changing the U.S. healthcare system, which could include restructuring the tax benefits available through HSAs, FSAs, and similar tax-advantaged healthcare accounts, may adversely affect our business, operating results, and financial condition. For example, states may seek to raise revenues by enacting tax laws that eliminate the tax deductions available to individuals who contribute to HSAs. Our business is substantially dependent on the tax benefits available through HSAs. We cannot predict if any healthcare reforms will ultimately become law, or if enacted, what their terms or the regulations promulgated pursuant to such reforms will be. If the laws or regulations are changed to limit or eliminate the tax benefits available through these accounts, such a change would have a material adverse effect on our business.

We may require significant capital to fund our business, and our inability to generate and obtain such capital could harm our business, operating results, financial condition, and prospects.

To fund our expanding business, we must have sufficient working capital to continue to make significant investments in our service offerings, advertising, technology, and other activities. As a result, in addition to the revenue we generate from our business, we may need additional equity or debt financing to provide the funds required for these endeavors. If such financing is not available on satisfactory terms or at all, we may be unable to operate or expand our business in the manner and at the rate desired. Debt financing increases expenses, may contain covenants that restrict the operation of our business and must be repaid regardless of operating results. Equity financing, or debt financing that is convertible into equity, could result in additional dilution to our existing stockholders, and any new securities we issue could have rights, preferences and privileges superior to those associated with our common stock. Furthermore, the current economic environment may make it difficult for us to raise additional capital or obtain additional credit, when needed, on acceptable terms or at all.

Our inability to generate or obtain the financial resources needed to fund our business and growth strategies may require us to delay, scale back or eliminate some or all of our operations or the expansion of our business, which may have a material adverse effect on our business, operating results, financial condition and prospects.

We are subject to HIPAA and other privacy regulations regarding the access, use and disclosure of protected health information and personally identifiable information.

Numerous state and federal laws and regulations govern the collection, dissemination, access and use of personally identifiable information, including HIPAA, which governs the treatment of protected health information, a specific type of personally identifiable information. In the provision of services to our customers, we and our third-party vendors may collect, access, use, maintain and transmit protected health information in ways that are subject to many of these laws and regulations.

HIPAA applies to covered entities (*e.g.,* health plans, healthcare clearinghouses and healthcare providers). HIPAA also applies to “business associates” of covered entities, which include individuals and entities that provide services for or on behalf of covered entities pursuant to which the service provider may access protected health information. We are a business associate to our Health Plan Partners and to those other covered entities to which we provide services that involve our receipt, access, and/or creation of protected health information. Accordingly, we may be required to report security breaches and also makes covered entities liable for the acts of their business associates and business associates liable for the acts of their subcontractors. If we or any of our subcontractors experience a breach of protected health information, the liability for business associates could result in substantial financial and reputational harm.

The two rules under HIPAA that could most significantly affect our business are: (i) the Standards for Privacy of Individually Identifiable Health Information, or the Privacy Rule; and (ii) the Security Standards for the Protection of Electronic Protected Health Information, or the Security Rule. The Privacy Rule restricts the use and disclosure of protected health information and requires entities to safeguard that information and to provide certain rights to individuals with respect to that information. The Security Rule establishes requirements for safeguarding patient health information transmitted or stored electronically. The Privacy Rule and the Security Rule require the development and implementation of detailed policies, procedures, contracts and forms to assure compliance. We have implemented such compliance measures, but we may be required to make additional costly system purchases and modifications to comply with evolving HIPAA rules and to perform periodic audits and refinements as required by HIPAA.

Other federal and state laws restricting the use and protecting the privacy and security of protected health information and/or personally identifiable information also apply to us directly by law or indirectly through contractual obligations to our members that are directly subject to the laws. If we do not properly comply with existing or new laws and regulations related to protected health information and personally identifiable information, we could be subject to criminal or civil sanctions.

We are subject to various privacy related regulations promulgated under the Gramm-Leach-Bliley Act, which may include increased cost of compliance.

We are subject to various laws, rules and regulations related to privacy, information security and data protection promulgated under the Gramm-Leach-Bliley Act, and we could be negatively impacted by these laws, rules and regulations. The Gramm-Leach-Bliley Act guidelines require, among other things, that we develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to our size and complexity, the nature and scope of our activities and the sensitivity of any customer information at issue. Our management believes that we are currently operating in compliance with these regulations. However, continued compliance with these evolving laws, rules and regulations regarding the privacy, security and protection of our customers' data, or the implementation of any additional privacy rules and regulations, could result in higher compliance and technology costs for us.

Changes in laws and regulations relating to interchange fees on payment card transactions would adversely affect our revenue and results of operations.

Existing laws and regulations limit the fees or interchange rates that can be charged on payment card transactions. For example, the Federal Reserve Board has the power to regulate payment card interchange fees and has issued a rule setting a cap on the interchange fee an issuer can receive from a single payment card transaction. Our HSA-linked payment cards are exempt from the rule. However, to the extent that our payment cards lose their exempt status, the interchange rates applicable to transactions involving our payment cards could be impacted, which would decrease our revenue and profit and could have a material adverse effect on our financial condition and results of operations.

Our investment advisory and custodial services are subject to complex regulation, and any compliance failures or regulatory action could adversely affect our business.

Our subsidiary HealthEquity Advisors, LLC is an SEC-registered investment adviser that provides automated web-only investment advisory services. As such, it must comply with the requirements of the Advisers Act and related SEC regulations and is subject to periodic inspections by the SEC staff. Such requirements relate to, among other things, fiduciary duties to clients, disclosure obligations, recordkeeping and reporting requirements, marketing restrictions, limitations on agency cross and principal transactions between the adviser and its clients, and general anti-fraud prohibitions. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Our subsidiary HealthEquity Trust Company is a non-depository trust company and subject to regulation and supervision by the Wyoming Division of Banking. Compliance with regulatory requirements may divert internal resources and take significant time and effort. Any claim of non-compliance, regardless of merit or ultimate outcome, could subject us to investigation by the SEC, the Wyoming Division of Banking or other regulatory authorities. This in turn could result in additional claims or class action litigation brought on behalf of our members or Network Partners, any of which could result in substantial cost to us and divert management's attention and other resources away from our operations. Furthermore, investor perceptions of us may suffer, and this 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.

Our distribution model relies on the cooperation of our Network Partners. If our Network Partners choose to partner with other providers of technology-enabled services that empower healthcare consumers, including HSA services, our business could be materially and adversely affected.

Our business depends on our Network Partners' willingness to partner with us to offer their customers and/or employees our products and services. In particular, certain of our Health Plan Partners enjoy significant market share in various geographic regions. If these Health Plan Partners choose to partner with our competitors, our results of operations, business and prospects could be materially adversely affected.

A decline in interest rate levels may reduce our ability to generate income on our custodial cash assets and to attract HSA contributions, which would adversely affect our profitability.

As a non-bank custodian, we must partner with our FDIC-insured custodial depository bank partners to hold and invest our custodial cash assets. We generate a significant portion of our consolidated revenue from fees we earn from our FDIC-insured custodial depository bank partners. For example, during the years ended January 31, 2017, 2016 and 2015, we generated approximately 33%, 30% and 28%, respectively, of our total revenue from custodial revenue. A decline in prevailing interest rates may negatively affect our business by reducing the yield we realize on our custodial cash assets. In addition, if we do not offer competitive interest rates, our members may choose another HSA custodian. Any such scenario could materially and adversely affect our business and results of operations.

If our members do not continue to utilize our payment cards, our results of operations, business and prospects would be materially adversely affected.

We derived 23%, 22% and 20% of our total revenue during the years ended January 31, 2017, 2016 and 2015, respectively, from fees that are paid to us when our customers utilize our payment cards. These fees represent a percentage of the expenses transacted on each card. If our customers do not use these payment cards at the rate we expect, if they elect to withdraw funds using a non-revenue generating mechanism such as direct reimbursement, or if other alternatives to these payment cards develop, our results of operations, business and prospects would be materially adversely affected.

We rely on a single bank identification number sponsor for our payment cards, and a change in relationship with this sponsor or its failure to comply with certain banking regulations could materially and adversely affect our business.

We rely on a single bank identification number, or BIN, sponsor in relation to the payment cards we issue. A BIN sponsor is a bank or credit union that provides the BIN that allows a prepaid card program to run on one of the major card brand networks (*e.g.*, VISA, MasterCard, Discover or American Express). Our BIN sponsor enables us to link the payment cards that we offer our members to the VISA network, thereby allowing our members to use our payment cards to pay for healthcare-related expenses with a “swipe” of the card. If any material adverse event were to affect our BIN sponsor, including a significant decline in its financial condition, a decline in the quality of its service, its inability to comply with applicable banking and financial service regulatory requirements, systems failure or its inability to pay us fees, our business, financial condition and results of operations could be materially and adversely affected because we may be forced to reduce the availability of, or eliminate entirely, our payment card offering. In addition, we do not have a long-term contract with our BIN sponsor, and it may increase the fees it charges us or terminate its relationship with us. If we were required to change BIN sponsors, we could not accurately predict the success of such change or that the terms of our agreement with a new BIN sponsor would be as favorable to us, especially in light of the recent increased regulatory scrutiny of the payment card industry, which has rendered the market for BIN sponsor services less competitive.

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

As a non-bank custodian, we rely on our FDIC-insured custodial bank partners to hold and invest our custodial cash assets. If any material adverse event were to affect 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 its inability to pay us fees, 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 our current agreements, especially in light of the recent consolidation in the banking industry, which has rendered the market for FDIC-insured retail banking services less competitive.

We receive important services from third-party vendors. Replacing them would be difficult and disruptive to our business.

We have entered into contracts with third-party vendors to provide critical services relating to our business, including fraud management and other customer verification services, transaction processing and settlement, telephony services, and card production. In the event that these service providers fail to maintain adequate levels of support, do not provide high quality service, increase the fees they charge us, discontinue their lines of business, terminate our contractual arrangements or cease or reduce operations, we may suffer additional costs and be required to pursue new third-party relationships, which could materially disrupt our operations and our ability to provide our products and services, and could divert management's time and resources. If we are unable to complete a transition to a new provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could disrupt services to our customers and adversely affect our business, financial condition and results of operations. We may also be unable to establish comparable new third-party relationships on as favorable terms or at all, which could materially and adversely affect our business, financial condition and results of operations.

We rely on software licensed from third parties that may be difficult to replace or that could cause errors or failures of our online platform that could lead to lost customers or harm to our reputation.

We rely on certain cloud-based software licensed from third parties to run our business. This software may not continue to be available to us on commercially reasonable terms and any loss of the right to use any of this software could result in delays in the provisioning of our products and services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. In addition, we have certain service level agreements with certain of our employer clients for which the availability of this software is critical. Any decrease in the availability of our service as a result of errors, defects, a disruption or failure of our licensed software may require us to provide significant fee credits or refunds to our customers. Our software licensed from third parties is also subject to change or upgrade, which may result in our incurring significant costs to implement such changes or upgrades.

We must adequately protect our brand and the intellectual property rights related to our products and services and avoid infringing on the proprietary rights of others.

We believe that the HealthEquity brand is critical to the success of our business, and we utilize trademark registration and other means to protect it. Our business would be harmed if we were unable to protect our brand against infringement and its value was to decrease as a result.

We rely on a combination of trademark and copyright laws, trade secret protection and confidentiality and license agreements to protect the intellectual property rights related to our products and services such as our applications and the content on our website. We also rely on intellectual property licensed from third parties. We may unknowingly violate the intellectual property or other proprietary rights of others and, thus, may be subject to claims by third parties. If so, we may be required to devote significant time and resources to defending against these claims or to protecting and enforcing our own rights. As a result of any such dispute, we may have to:

- develop non-infringing technology;
- pay damages;
- enter into royalty or licensing agreements;
- cease providing certain products or services; or
- take other actions to resolve the claims.

Additionally, we have largely relied, and expect to continue to rely, on copyright, trade secret and trademark laws, as well as generally relying on confidentiality procedures and agreements with our team members, consultants, customers and vendors, to control access to, and distribution of, technology, software, documentation and other confidential information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain, use or distribute our technology without authorization, particularly in foreign jurisdictions where some of our intellectual property rights may not be protected by intellectual property laws. If this were to occur, we could lose revenue as a result of competition from products infringing or misappropriating our technology and intellectual property and we may be required to initiate litigation to protect our proprietary rights and market position. U.S. copyright, trademark and trade secret laws offer us only limited protection and the laws of some foreign countries do not protect proprietary rights to the same extent. Accordingly, defense of our trademarks and proprietary technology may become an increasingly important issue as we continue to expand our operations.

Policing unauthorized use of our trademarks and technology is difficult and the steps we take may not prevent misappropriation of the trademarks or technology on which we rely. If competitors are able to use our trademarks or technology without recourse, our ability to compete would be harmed and our business would be materially and adversely affected. We may elect to initiate litigation in the future to enforce or protect our proprietary rights or to determine the validity and scope of the rights of others.

The loss of our intellectual property or the inability to secure or enforce our intellectual property rights or to defend successfully against an infringement action could harm our business, results of operations, financial condition and prospects.

If we fail to develop further brand awareness cost-effectively, our business may suffer.

We believe that developing and maintaining awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our products and services and attracting new customers and strategic partners. Brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses, we may fail to attract or retain a sufficient number of customers and strategic partners necessary to realize a sufficient return on our brand-building efforts, or to achieve the widespread brand awareness that is critical for broad customer adoption of our products and services.

We have in the past completed acquisitions and may acquire or invest in other companies or technologies in the future, which could divert management's attention, fail to meet our expectations, result in additional dilution to our stockholders, increase expenses, disrupt our operations and harm our operating results.

We have in the past acquired, and we may in the future acquire or invest in, assets, businesses, products or technologies that we believe could complement or expand our products and services, enhance our technical capabilities or otherwise offer growth opportunities. We cannot assure you that we will realize the anticipated benefits of these or any future acquisitions. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses related to identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition, and our management may be distracted from operating our business. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including, without limitation:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs, which would be recognized as a current period expense;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- the inability to maintain relationships with customers and partners of the acquired business;
- the difficulty of incorporating acquired technology and rights into our platform and of maintaining quality and security standards consistent with our brand;
- the need to integrate or implement additional controls, procedures and policies;
- harm to our existing business relationships with customers and strategic partners as a result of the acquisition;
- the diversion of management's time and resources from our core business;
- the potential loss of key team members;
- use of resources that are needed in other parts of our business and diversion of management and employee resources;
- our ability to coordinate organizations that are geographically diverse and that have different business cultures;
- our inability to comply with the regulatory requirements applicable to the acquired business;
- the inability to recognize acquired revenue in accordance with our revenue recognition policies; and
- use of substantial portions of our available cash or the incurrence of debt to consummate the acquisition.

Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses which are not discovered by due diligence during the acquisition process. Generally, if an acquisition fails to meet our expectations, our operating results, business and financial condition may suffer. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our business, results of operations or financial condition. Even if we are successful in completing and integrating an acquisition, the acquisition may not perform as we expect or enhance the value of our business as a whole.

We have recorded a significant amount of intangible assets. We may need to record write-downs from future impairments of identified intangible assets and goodwill, which could adversely affect our costs and business operations.

Our consolidated balance sheet includes significant intangible assets, including approximately $4.7 million in goodwill and $65.0 million in intangible assets, together representing approximately 25% of our total assets as of January 31, 2017. The determination of related estimated useful lives and whether these assets are impaired involves significant judgments. We test our goodwill for impairment each fiscal year, but we also test goodwill and other intangible assets for impairment at any time when there is a change in circumstances that indicates that the carrying value of these assets may be impaired. Any future determination that these assets are carried at greater than their fair value could result in substantial non-cash impairment charges, which could significantly impact our reported operating results.

If we are unable to meet or exceed the net worth test required by the IRS, we could be unable to maintain our non-bank custodian status, which would have a material adverse impact on our ability to operate our business.

As a non-bank custodian, we are required to comply with Treasury Regulations Section 1.408-2(e), or the Treasury Regulations, including the net worth requirements set forth therein. If we should fail to comply with the Treasury Regulations' non-bank custodian requirements, including the net worth requirements, such failure would materially and adversely affect our ability to maintain our current custodial accounts and grow by adding additional custodial accounts, and it could result in the institution of procedures for the revocation of our authorization to operate as a non-bank custodian.

Failure to manage future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

The continued rapid expansion and development of our business may place a significant strain upon our management and administrative, operational and financial infrastructure. As of January 31, 2017, we had approximately 2.7 million HSA Members and $5.0 billion in custodial assets representing growth of 28% and 37%, respectively, from January 31, 2016. For the year ended January 31, 2017, our total revenue and Adjusted EBITDA were approximately $178.4 million and $62.8 million, respectively, which represents year-over-year annual growth rates of approximately 41% and 55%, respectively. See "Key financial and operating metrics" for the definition of Adjusted EBITDA and a reconciliation of net income, the most comparable GAAP measure, to Adjusted EBITDA. While to date we believe we have effectively managed the effect on our operations resulting from the rapid growth of our business, our growth strategy contemplates further increasing the number of our HSA Members and our custodial assets at relatively higher growth rates than industry averages. However, the rate at which we have been able to attract new HSA Members in the past may not be indicative of the rate at which we will be able to attract additional HSA Members in the future.

Our success depends in part upon the ability of our executive officers to manage growth effectively. Our ability to grow also depends upon our ability to successfully hire, train, supervise, and manage new team members, obtain financing for our capital needs, expand our systems effectively, control increasing costs, allocate our human resources optimally, maintain clear lines of communication between our operational functions and our finance and accounting functions, and manage the pressures on our management and administrative, operational and financial infrastructure. There can be no assurance that we will be able to accurately anticipate and respond to the changing demands we will face as we continue to expand our operations or that we will be able to manage growth effectively or to achieve further growth at all. If our business does not continue to grow or if we fail to effectively manage any future growth, our business, financial condition and results of operations could be materially and adversely affected.

We must be able to operate and scale our technology effectively to match our business growth.

Our ability to continue to provide our products and services to a growing number of customers, as well as to enhance our existing products and services, attract new customers and strategic partners, and offer new products and services, is dependent on our information technology systems. If we are unable to manage the technology associated with our business effectively, we could experience increased costs, reductions in system availability and customer loss. We are currently investing in significant upgrading of the capacity and performance of our proprietary technology platform and database design to ensure continued performance at scale, to reduce spending on maintenance activities and to enable us to execute technology innovation more quickly. If we are unsuccessful in implementing these upgrades to our platform, we may be unable to adequately meet the needs of our customers and/or implement technology-based innovation in response to a rapidly changing market, which could harm our reputation and adversely impact our business, financial condition and results of operations.

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, introducing and updating 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 customers and to enhance our platform's compatibilities. We may not be able to anticipate or manage new risks and obligations or legal, compliance or other requirements that may arise in these areas. The anticipated benefits of such new and improved products and services may not outweigh the costs and resources associated with their development. Some new services may be received negatively by our existing and/or potential customers and strategic partners and have to be put on hold or cancelled entirely.

Our ability to attract and retain new customer revenue from existing customers 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 member or network partner requirements, our results of operations, financial condition, business or prospects may be materially adversely affected.

Developing and implementing new and updated applications, features and services for our technology platform may be more difficult than expected, may take longer and cost more than expected, or may result in the platform not operating as expected, which may harm our operating results or may not result in sufficient increases in revenue to justify the costs.

Attracting and retaining new customers requires us to continue to improve the technology underlying our proprietary technology platform and requires our technology to operate as expected. Accordingly, we must continue to develop new and updated applications, features and services, and maintain existing applications, features and services. If we are unable to do so on a timely basis or if we are unable to implement new applications, features and services that enhance our customers' experience without disruption to our existing ones or if we encounter technical obstacles that result in the technology not operating properly, we may lose potential and existing customers. We rely on a combination of internal development, strategic relationships, licensing and acquisitions to develop our content offerings and healthcare saving and spending services. These efforts may:

- cost more than expected;
- take longer than originally expected;
- require more testing than originally anticipated;
- require significant cost to address or resolve technical defects or obstacles;
- require additional advertising and marketing costs; and
- require the acquisition of additional personnel and other resources.

The revenue opportunities generated from these efforts may fail to justify the amounts spent. In addition, material performance problems, defects or errors in our existing or new software may occur in the future, which may harm our operating results.

Any failure to offer high-quality customer support services could adversely affect our relationships with our customers and strategic partners and our operating results.

Our customers depend on our support and customer education organizations to educate them about, and resolve technical issues relating to, our products and services. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for education and support services. Increased customer demand for these services, without a corresponding increase in revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the reputation of our products, services and business and on positive recommendations from our existing customers. Any failure to maintain high-quality education and technical support, or a market perception that we do not maintain high-quality education support, could adversely affect our reputation, our ability to sell our products and services to existing and prospective customers and our business and operating results. We promote 24/7/365 education and support along with our proprietary technology platform. Interruptions or delays that inhibit our ability to meet that standard may hurt our reputation or ability to attract and retain customers.

We rely on our management team and key team members and our business could be harmed if we are unable to retain qualified personnel.

Our success depends, in part, on the skills, working relationships and continued services of our founder and senior management team and other key personnel. While we have entered into offer letters or employment agreements with certain of our executive officers, all of our team members are “at-will” employees, and their employment can be terminated by us or them at any time, for any reason and without notice, subject, in certain cases, to severance payment rights. In order to retain valuable team members, in addition to salary and cash incentives, we provide stock options that vest over time or based on performance. The value to team members of stock options that vest over time or based on performance will be significantly affected by movements in our stock price that are beyond our control and may at any time be insufficient to counteract offers from other organizations. The departure of key personnel could adversely affect the conduct of our business. In such event, we would be required to hire other personnel to manage and operate our business, and there can be no assurance that we would be able to employ a suitable replacement for the departing individual, or that a replacement could be hired on terms that are favorable to us. Volatility or lack of performance in our stock price may affect our ability to attract replacements should key personnel depart.

Our success also depends on our ability to attract, retain, and motivate additional skilled management personnel. Although we have not historically experienced unique difficulties attracting qualified team members, we could experience such problems in the future. For example, competition for qualified personnel in our field is intense due to the limited number of individuals who possess the skills and experience required by our industry. In addition, we have experienced employee turnover and expect to continue to experience employee turnover in the future. New hires require significant training and, in most cases, take significant time before they achieve full productivity. New team members may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If our retention efforts are not successful or our employee turnover rate increases in the future, our business will be harmed.

If we cannot maintain our corporate culture as we grow, we could lose the innovation, teamwork, passion and focus on execution that we believe contribute to our success, and our business may be harmed.

We believe that a critical component to our success has been our corporate culture. We have invested substantial time and resources in building our team. As we continue to grow, we may find it difficult to maintain these important aspects of our corporate culture. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Covenants in our debt agreements could adversely affect our liquidity and financial condition.

Our revolving credit facility, or credit agreement, with JPMorgan Chase Bank, N.A., provides for a secured revolving credit facility for a term of five years. Our credit agreement is required to be guaranteed by our material domestic subsidiaries, and it is secured by substantially all of our assets as well as substantially all assets of any subsidiary that becomes a guarantor. The credit agreement contains restrictive financial and other covenants which affect, among other things, the manner in which we may structure or operate our business. A failure by us to comply with our contractual obligations under the credit agreement, including restrictive, financial and other covenants, could result in a variety of material adverse consequences, including the acceleration of our indebtedness under the credit agreement and the exercise of remedies by our creditors thereunder. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under the credit agreement, either upon maturity or if accelerated upon an event of default, or that we would be able to refinance or restructure the payments becoming due on the credit agreement. Also, the lenders under the credit agreement could foreclose upon all or substantially all of the assets securing our obligations thereunder.

Our ability to secure insurance may not be sufficient to cover potential liabilities.

We maintain various forms of liability insurance coverage, including coverage for errors and omissions, fiduciary and cybersecurity insurance. It is possible, however, that claims could exceed the amount of our applicable insurance coverage, if any, or that this coverage may not continue to be available on acceptable terms or in sufficient amounts. Even if these claims do not result in liability to us, investigating and defending against them could be expensive and time-consuming and could divert management's attention away from our operations. In addition, negative publicity caused by these events may delay market acceptance of our products and services, any of which could materially adversely affect our reputation and our business.

Confidentiality arrangements with team members and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We have devoted substantial resources to the development of our technology, business operations and business plans. In order to protect our trade secrets and proprietary information, we rely in significant part on confidentiality arrangements with our team members, independent contractors, advisers and customers. These arrangements may not be effective to prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we would not be able to assert trade secret rights against such parties. The loss of trade secret protection could make it easier for third parties to compete with our products and services by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

If we cannot protect our domain name, our ability to successfully promote our brand will be impaired.

We currently own the web domain name www.healthequity.com, which is critical to the operation of our business. The acquisition and maintenance of domain names, or Internet addresses, is generally regulated by governmental agencies and their designees. The regulation of domain names in the U.S. and in foreign countries is subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we conduct business. Furthermore, it is unclear whether laws protecting trademarks and similar proprietary rights will be extended to protect domain names. Therefore, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights. We may not be able to successfully implement our business strategy of establishing a strong brand for HealthEquity if we cannot prevent others from using similar domain names or trademarks. This failure could impair our ability to increase our market share and revenue.

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.

We do not collect sales and use taxes in all jurisdictions in which our customers are located, based on our belief that such taxes are not applicable. Sales and use tax laws and rates vary by jurisdiction and such laws are subject to interpretation. In those jurisdictions and in those cases where we do 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 the results of our operations.

Our online platform is hosted from two data centers. Any disruption of service at our facilities or our third-party hosting providers could interrupt or delay our customers' access to our products and services, which could harm our operating results.

The ability of our team members, members, Health Plan Partners and Employer Partners to access our technology platform is critical to our business. We currently serve our customers from data centers located in Draper, Utah, with a backup site in Austin, Texas. We cannot ensure that the measures we have taken will be effective to prevent or minimize interruptions to our operations. Our facilities are vulnerable to interruption or damage from a number of sources, many of which are beyond our control, including, without limitation:

- extended power loss;
- telecommunications failures from multiple telecommunications providers;
- natural disaster or an act of terrorism;
- software and hardware errors, or failures in our own systems or in other systems;
- network environment disruptions such as computer viruses, hacking and similar problems in our own systems and in other systems;
- theft and vandalism of equipment; and
- actions or events caused by or related to third parties.

We attempt to mitigate these risks through various business continuity efforts, including redundant infrastructure, 24/7/365 system activity monitoring, backup and recovery procedures, use of a secure storage facility for backup media, separate test systems and change management and system security measures, but our precautions may not protect against all potential problems. Our data recovery center is equipped with physical space, power, storage and networking infrastructure and Internet connectivity to support our online platform in the event of the interruption of services at our primary data center. Even with this data recovery center, however, our operations would be interrupted during the transition process should our primary data center experience a failure. Disruptions at our data centers could cause disruptions to our online platform and data loss or corruption. We have experienced interruptions and delays in service and availability for data centers, and bandwidth and other technology issues in the past. Any future errors, failure, interruptions or delays experienced in connection with these third-party technologies could delay our customers' access to our products, which would harm our business. This could damage our reputation, subject us to potential liability or costs related to defending against claims or cause our customers and strategic partners to cease doing business with us, any of which could negatively impact our revenue.

Interruption or failure of our information technology and communications systems could impair our ability to effectively deliver our products and services, which could cause us to lose customers and harm our operating results.

Our business depends on the continuing operation of our technology infrastructure and systems. Any damage to or failure of our systems could result in interruptions in our ability to deliver our products and services. Interruptions in our service could reduce our revenue and profits, and our reputation could be damaged if people believe our systems are unreliable. Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, break-ins, hardware or software failures, telecommunications failures, computer viruses or other attempts to harm our systems and similar events.

Any unscheduled interruption in our service would result in an immediate loss of revenue. Frequent or persistent system failures that result in the unavailability of our platform or slower response times could reduce our customers' ability to access our platform, impair our delivery of our products and services and harm the perception of our platform as reliable, trustworthy and consistent. Our insurance policies provide only limited coverage for service interruptions and may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems.

Acts of terrorism, acts of war and other unforeseen events may cause damage or disruption to us or our customers, which could materially and adversely affect our business, financial condition and operating results.

Natural disasters, acts of war, terrorist attacks and the escalation of military activity in response to such attacks or otherwise may have negative and significant effects, such as imposition of increased security measures, changes in applicable laws, market disruptions and job losses. Such events may have an adverse effect on the economy in general. Moreover, the potential for future terrorist attacks and the national and international responses to such threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have a material adverse effect on our business, financial condition and results of operations.

Risks relating to owning our common stock

If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. A material weakness is a deficiency, or a combination of deficiencies, in financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. Section 404 of the Sarbanes-Oxley Act, or Sarbanes-Oxley, requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on internal controls over financial reporting. Sarbanes-Oxley also requires that our management report on internal controls over financial reporting be attested to by our independent registered public accounting firm. Because we no longer qualify as an "emerging growth company," the increased cost and regulatory burdens related to our compliance with Section 404 of Sarbanes-Oxley may divert management's attention from other business concerns and will increase our annual expenditures. Consequently, our business and results of operations may be adversely affected, making it more difficult for us to maintain future annual profitability.

If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of Sarbanes-Oxley in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

Our quarterly operating results may fluctuate significantly from period to period, which could adversely impact the value of our common stock.

Our quarterly operating results, including our revenue, gross profit, net income and cash flows, may vary significantly in the future, which 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.

The market price of our common stock may be volatile.

The stock market in general has been highly volatile. As a result, the market price and trading volume for our common stock may also be highly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Factors that could cause the market price of our common stock to fluctuate significantly include:

- our operating and financial performance and prospects and the performance of other similar companies;
- our quarterly or annual earnings or those of other companies in our industry;
- conditions that impact demand for our products and services;
- the public's reaction to our press releases, financial guidance and other public announcements, and filings with the SEC;
- changes in earnings estimates or recommendations by securities or research analysts who track our common stock;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in government and other regulations;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival and departure of key personnel;
- sales of common stock by us, our investors or members of our Board and management team; and
- changes in general market, economic and political conditions in the U.S. and global economies or financial markets, including those resulting from natural disasters, telecommunications failure, cyber attack, civil unrest in various parts of the world, acts of war, terrorist attacks or other catastrophic events.

Any of these factors may result in large and sudden changes in the trading volume and market price of our common stock and may prevent you from being able to sell your shares at or above the price you paid for your shares of our common stock. Following periods of volatility in the market price of a company's securities, stockholders often file securities class-action lawsuits against such company. Our involvement in a class-action lawsuit could divert our senior management's attention and, if adversely determined, could have a material and adverse effect on our business, financial condition and results of operations.

Our principal stockholder owns a significant percentage of our shares and will be able to exert significant control over matters subject to stockholder approval.

As of January 31, 2017, our principal stockholder, Berkley Capital Investors, L.P., or Berkley, owned approximately 14.7% of our outstanding voting shares. Therefore, Berkley may have the ability to influence us through its ownership position. Berkley may be able to determine all matters requiring stockholder approval. For example, it may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common shares that other stockholders feel are not in their best interests. In addition, our certificate of incorporation and bylaws do not permit cumulative voting in the election of directors. The absence of cumulative voting makes it more difficult for a minority stockholder to gain a seat on our board of directors to influence our board's decision regarding a takeover.

We do not intend to pay regular cash dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have no current plans to declare and pay any cash dividends for the foreseeable future. We currently intend to retain all our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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. As of January 31, 2017, we had 59,537,816 shares of our common stock outstanding. In addition, as of January 31, 2017, there were outstanding options to purchase 4,715,505 shares of our common stock and 11,003 restricted stock units. Substantially all of our outstanding common stock is eligible for resale, subject to Rule 144 volume limitations for holders affected by such limitations, as are shares of common stock issuable under vested and exercisable options. Rule 144 allows public resale of restricted and control securities if certain conditions are met. In addition, certain of our stockholders have registration rights and shares registered under our shelf registration statement on Form S-3. If our existing stockholders sell a large number of shares 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.

Future offerings of debt or equity securities, which may rank senior to our common stock, may adversely affect the market price of our common stock.

If we decide to issue debt securities in the future, which would rank senior to shares of our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any equity securities or convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their shareholdings in us.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Certain provisions in our governing documents could make a merger, tender offer or proxy contest involving us difficult; even if such events would be beneficial to the interests of our stockholders. These provisions include the inability of our stockholders to act by written consent and certain advance notice procedures with respect to stockholder proposals and nominations for candidates for the election of directors. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. Accordingly, our board of directors could rely upon these or other provisions in our governing documents and Delaware law to prevent or delay a transaction involving a change in control of our company, even if doing so would benefit our stockholders.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or team members.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim for breach of a fiduciary duty owed by any of our directors and officers to us or our stockholders, any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other team members, which may discourage such lawsuits against us and our directors, officers and other team members. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

Item 1B. Unresolved staff comments

None.

Item 2. Properties

We do not currently own any of our facilities. Our principal executive offices are located in Draper, Utah, where we lease approximately 156,000 square feet of office space under a lease that expires in March 2027. We also lease approximately 3,000 square feet of office space in Overland Park, Kansas under a lease that expires in February 2019 and lease additional space at data centers located in Draper, Utah and Austin, Texas, pursuant to leases expiring in July 2020 and November 2020, respectively. We believe that our current facilities are sufficient to meet our current needs.

Item 3. Legal proceedings

From time-to-time, we may be subject to various legal proceedings and claims that arise in the normal course of our business activities. As of the date of this Annual Report on Form 10-K, we are not a party to any litigation whereby the outcome of such litigation, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations, prospects, cash flows, financial position or brand.

Item 4. Mine safety disclosures

Not applicable.

Part II.

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities

Market information

Our common stock began trading publicly on the NASDAQ Global Select Market under the symbol "HQY" on July 31, 2014. Prior to that time, there was no public market for our common stock.

Holders

As of February 28, 2017, there were approximately 32 holders of record of our common stock. This stockholder figure does not include a substantially greater number of holders whose shares are held of record by banks, brokers and other financial institutions.

Stock price

The following table sets forth the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market for the indicated periods:

				Price Range
Fiscal year ended January 31, 2017:		**High**		**Low**
Fourth Quarter	$	49.25	$	30.34
Third Quarter	$	38.80	$	28.12
Second Quarter	$	31.69	$	22.26
First Quarter	$	26.75	$	15.80

				Price Range
Fiscal year ended January 31, 2016:		**High**		**Low**
Fourth Quarter	$	35.78	$	19.77
Third Quarter	$	34.38	$	24.73
Second Quarter	$	34.56	$	24.52
First Quarter	$	27.89	$	18.88

Dividend policy

We have no current plans to pay dividends on our common stock. Any decision to declare and pay dividends in the future will be made at the sole discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

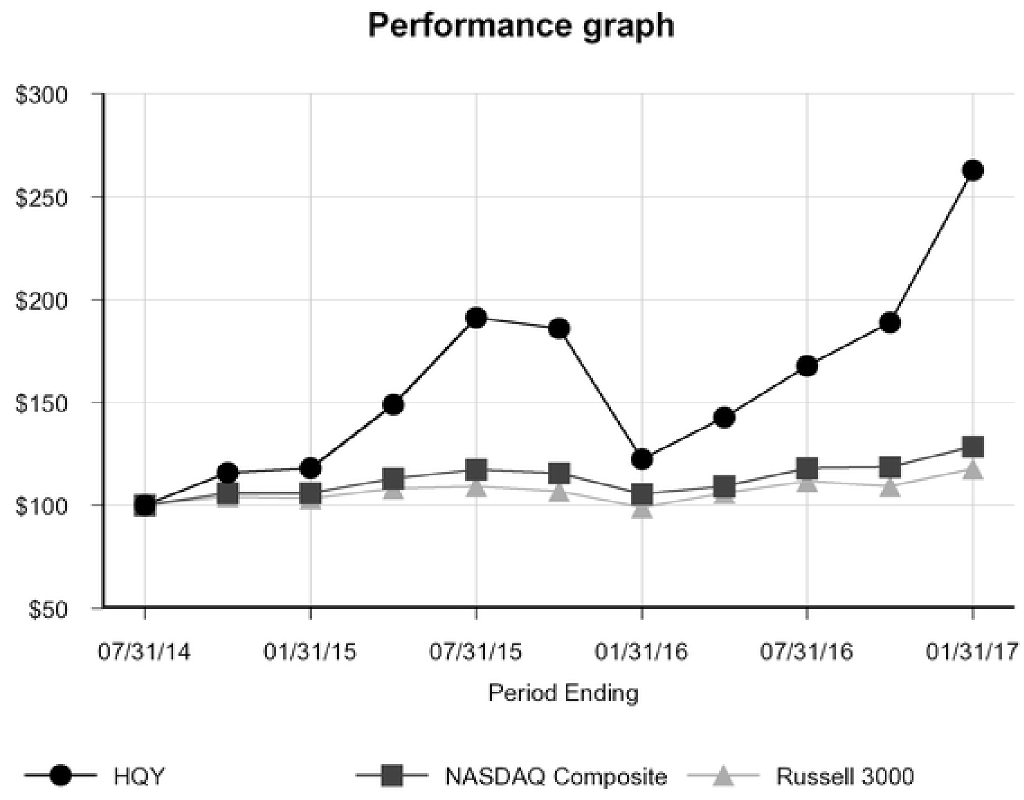
Securities authorized for issuance under equity compensation plans

For information regarding securities authorized for issuance under equity compensation plans, see Part III, Item 12 of this Annual Report on Form 10-K.

Performance graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph compares the cumulative total return of our common stock with the total return of the NASDAQ Composite Index (the "NASDAQ Composite"), and the Russell 3000 Index (the "Russell 3000") from July 31, 2014 (the date our common stock commenced trading on the NASDAQ Global Select Market) through January 31, 2017. The chart assumes $100 was invested on July 31, 2014 in the common stock of HealthEquity, Inc., the NASDAQ Composite and the Russell 3000, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Use of proceeds from sale of registered equity securities

On August 5, 2014, we closed our initial public offering of 10,465,000 shares of common stock sold by us. The offer and sale of all of the shares in the initial public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-196645), which was declared effective by the SEC on July 30, 2014. JP Morgan & Chase Co. and Wells Fargo acted as the lead underwriters. The public offering price of the shares sold in the offering was $14.00 per share. The total gross proceeds from the offering to us were approximately $146.5 million. After deducting underwriting discounts and commissions of approximately $10.2 million and offering expenses payable by us of approximately $3.7 million, we received approximately $132.6 million. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus (dated July 30, 2014) filed with the SEC on August 1, 2014 pursuant to Rule 424(b) of the Securities Act. In connection with the completion of our initial public offering, we paid a previously declared cash dividend of $50.0 million on shares of our common stock outstanding on August 4, 2014. In addition, we paid a cash dividend of $347,000 on shares of our outstanding series D-3 redeemable convertible preferred stock accrued through the date of conversion of such shares into common stock, which occurred on August 4, 2014.

On May 11, 2015, we closed our public offering of 972,500 shares of common stock sold by us. The offer and sale of all of the shares in the public offering were registered under the Securities Act pursuant to registration statements on Form S-1 (File Nos. 333-203190 and 333-203888), which became effective on May 5, 2015. Wells Fargo acted as the lead underwriter. The public offering price of the shares sold in the offering was $25.90 per share. Certain selling stockholders sold 3,455,000 shares of common stock in the offering, including 380,000 shares of common stock which were issued upon the exercise of outstanding options. The Company received net proceeds of approximately $23.5 million after deducting underwriting discounts and commissions of approximately $1.0 million and other offering expenses payable by the Company of approximately $688,000. The Company did not receive any proceeds from the sale of shares by the selling stockholders other than $222,000 representing the exercise price of the options that were exercised by certain selling stockholders in connection with the offering. We paid all of the expenses related to the registration and offering of the shares sold by the selling stockholders, other than underwriting discounts and commissions relating to those shares. Other than these expenses, we made no payments directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates. There has been no material change in the planned use of proceeds from our public offering as described in our final prospectus (dated May 5, 2015) filed with the SEC on May 6, 2015 pursuant to Rule 424(b) of the Securities Act.

During the year ended January 31, 2016, the Company used funds received from the offerings to acquire the rights to be the custodian of the Bancorp and M&T HSA portfolios for approximately $34.2 million and approximately $6.2 million, respectively. The remainder of the funds received have been invested in registered money market accounts and mutual funds.

Unregistered sales of equity securities

None.

Purchases of equity securities by the issuer and affiliated purchasers

None.

Item 6. Selected financial data

The following selected consolidated financial data is derived from our consolidated financial statements. As our operating results are not necessarily indicative of future operating results, this data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 7. Management's discussion and analysis of financial condition and results of operations.

									Year ended January 31,	
(in thousands, except for per share data)		**2017**		**2016**		**2015**		**2014**		**2013**
Consolidated statements of operations data:										
Revenue	$	178,370	$	126,786	$	87,855	$	62,015	$	46,088
Cost of revenue		72,015		54,188		39,882		29,213		21,968
Gross profit		106,355		72,598		47,973		32,802		24,120
Operating expenses		65,143		46,455		31,100		21,278		17,028
Income from operations		41,212		26,143		16,873		11,524		7,092
Other expense		(1,092)		(589)		(1,109)		(6,150)		(590)
Income before income taxes		40,120		25,554		15,764		5,374		6,502
Income tax provision (benefit)		13,744		8,941		5,598		4,141		(4,667)
Net income	$	26,376	$	16,613	$	10,166	$	1,233	$	11,169
Net income (loss) attributable to common stockholders:										
Basic	$	26,376	$	16,613	$	12,058	$	(7,132)	$	3,993
Diluted	$	26,376	$	16,613	$	10,901	$	(7,132)	$	9,562
Net income (loss) per share attributable to common stockholders:										
Basic	$	0.45	$	0.29	$	0.39	$	(1.26)	$	0.81
Diluted	$	0.44	$	0.28	$	0.21	$	(1.26)	$	0.25
Weighted-average number of shares used in computing net income per share attributable to common stockholders:										
Basic		58,615		56,719		31,181		5,651		4,924
Diluted		59,894		58,863		51,856		5,651		37,514
Consolidated balance sheet data:										
Cash, cash equivalents and marketable securities	$	180,359	$	123,775	$	111,005	$	13,917	$	5,905
Working capital		185,116		130,942		115,888		14,327		7,024
Total assets		279,136		219,795		158,769		55,090		46,301
Total liabilities		17,196		16,338		14,674		21,082		11,514
Total redeemable convertible preferred stock		—		—		—		46,714		41,186
Total stockholders' equity (deficit)	$	261,940	$	203,457	$	144,095	$	(12,706)	$	(6,399)

Item 7. Management’s discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those discussed in the section titled “Risk factors” included under Part I, Item 1A and elsewhere in this report. See “Special note regarding forward-looking statements.”

Overview

We are a leader and an innovator in the high-growth category of technology-enabled services platforms that empower consumers to make healthcare saving and spending decisions. Our platform provides an ecosystem where consumers can access their tax-advantaged healthcare savings, compare treatment options and pricing, evaluate and pay healthcare bills, receive personalized benefit and clinical information, earn wellness incentives, and make educated investment choices to grow their tax-advantaged healthcare savings.

The core of our ecosystem is the HSA, a financial account through which consumers spend and save long-term for healthcare on a tax-advantaged basis. We are the integrated HSA platform for 87 health plans, and over 34,000 employer clients. Through our Network Partners, we have the potential to reach more than a third of the under-age 65 privately insured population in the United States.

Since our inception in 2002, we have been committed to developing technology solutions that empower healthcare consumers. In 2003, we began offering live 24/7/365 consumer support from health saving and spending experts. In 2005, we integrated HSAs with our first Health Plan Partner, and in 2006, we were authorized to act as an HSA custodian by the U.S. Department of the Treasury. In 2009, we integrated HSAs with multiple health plans of a single large employer, began delivering integrated wellness incentives through an HSA, and partnered with a private health insurance exchange as its preferred HSA partner. In 2011, we integrated HSAs, RAs, and investment accounts on one website, and in 2013, our registered investment advisor subsidiary began delivering HSA-specific investment advice online. In 2015, we launched our HSA Optimizer, which helps HSA members optimize their accounts based on their individual preferences and goals. In 2016, we launched a new feature which provides account holders advance access to funds.

We generate revenue primarily from three sources: service revenue (previously referred to as account fees), custodial revenue (previously referred to as custodial fees) and interchange revenue (previously referred to card fees). We generate service revenue by providing monthly account services on our platform, primarily through multi-year contracts with our Network Partners that are typically three to five years in duration. We generate custodial revenue from custodial cash assets deposited with our FDIC-insured custodial depository bank partners and with our insurance company partner, and recordkeeping fees we earn in respect of mutual funds in which our members invest. We also generate interchange revenue from interchange fees that we earn on payments that our members make using our physical and virtual payment cards.

Key factors affecting our performance

We believe that our performance and future success are driven by a number of factors, including those identified below. Each of these factors presents both significant opportunities and significant risks to our future performance. See the section entitled “Risk factors” included in Part 1, Item 1A of this Annual Report on Form 10-K.

Structural change in U.S. private health insurance

Substantially all of our revenue is derived from healthcare-related saving and spending by consumers in the United States, which is impacted by changes affecting the broader healthcare industry in the U.S. The healthcare industry has changed significantly in recent years, and we expect that significant changes will continue to occur that will result in increased participation in HDHPs and other consumer-centric health plans. In particular, we believe that continued growth in healthcare costs, and related factors will spur HDHP and HSA growth; however, the timing and impact of these and other developments in the healthcare industry are difficult to predict.

Attracting and penetrating network partners

We created our business model to take advantage of the changing dynamics of the U.S. private health insurance market. Our model is based on a B2B2C distribution strategy, meaning that we rely on our Employer Partners and Health Plan Partners to reach potential members to increase the number of our HSA Members. Our success depends in large part on our ability to further penetrate our existing Network Partners by adding new HSA members from these partners and adding new Network Partners.

Our innovative technology platform

We believe that innovations incorporated in our technology that enable consumers to make healthcare saving and spending decisions differentiate us from our competitors and drive our growth in revenue, HSA Members, Network Partners and custodial assets. Similarly, these innovations underpin our ability to provide a differentiated consumer experience in a cost-effective manner. For example, we are currently undertaking a significant update of our proprietary platform’s architecture, which will allow us to improve our transaction processing capabilities and related platform infrastructure to support continued account and transaction growth. We intend to continue to invest in our technology development to enhance our platform’s capabilities and infrastructure.

Our “DEEP Purple” culture

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

Interest rates

As a non-bank custodian, we contract with FDIC-insured custodial depository bank partners and an insurance company partner to hold custodial cash assets on behalf of our members, and we generate a significant portion of our total revenue from interest rates offered to us by these partners. The contract terms range from three to five years and have either fixed or variable interest rates. As our custodial assets increase and existing agreements expire, we seek to enter into new contracts with FDIC-insured custodial depository bank partners, the terms of which are impacted by the then-prevailing interest rate environment. The diversification of deposits among bank partners and varied contract terms substantially reduces our exposure to short-term fluctuations in prevailing interest rates and mitigates the short-term impact of a sustained increase or decline in prevailing interest rates on our custodial revenue. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the interest rate yield, or yield, available to us and thus the amount of the custodial revenue we can realize. Conversely, a sustained increase in prevailing interest rates would present us with an opportunity to increase our yield. An increase in our yield would increase our custodial revenue as a percentage of total revenue. In addition, as our yield increases, we expect the spread to grow between the interest offered to us by our custodial depository bank partners and the interest we offer to our members, thus increasing our profitability. Changes in prevailing interest rates are driven by macroeconomic trends and government policies over which we have no control.

Our competition and industry

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

Regulatory environment

Federal law and regulations, including the Affordable Care Act, the Internal Revenue Code and IRS regulations, the Employment Retirement Income Security Act of 1974 and Department of Labor regulations, and public health regulations that govern the provision of health insurance, play a pivotal role in determining our market opportunity.

Privacy and data security-related laws such as the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Gramm-Leach-Bliley Act, laws governing the provision of investment advice to consumers, such as the Investment Advisers Act of 1940, or the Advisers Act, the USA PATRIOT Act, anti-money laundry laws, and the Federal Deposit Insurance Act, all play a similar role in determining our competitive landscape. In addition, state-level regulations also have significant implications for our business in some cases. For example, our newly formed subsidiary, HealthEquity Trust Company, is regulated by the Wyoming Division of Banking. Our ability to predict and react quickly to relevant legal and regulatory trends and to correctly interpret their market and competitive implications is important to our success.

Our acquisition strategy

We have a successful history of acquiring complementary assets and businesses that strengthen our platform. We seek to continue this growth strategy and are regularly engaged in evaluating different opportunities. We have developed an internal capability to source, evaluate and integrate acquisitions that have created value for shareholders. We believe the nature of our competitive landscape provides a significant acquisition opportunity. Many of our competitors view their HSA businesses as non-core functions. We believe they will look to divest these assets and, in certain cases, be limited from making acquisitions due to depository capital requirements. We intend to continue to pursue acquisitions of complementary assets and businesses that we believe will strengthen our platform.

Key financial and operating metrics

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

HSA members

The following table sets forth our HSA Members for the periods indicated:

	January 31, 2017	January 31, 2016	January 31, 2015	% change from 2016 to 2017	% change from 2015 to 2016
HSA Members	2,746,132	2,140,631	1,426,785	28%	50%
Average HSA Members - Year-to-date	2,339,091	1,600,327	1,087,962	46%	47%
Average HSA Members - Quarter-to-date	2,519,382	1,850,843	1,230,256	36%	50%
HSAs with investments	65,906	44,680	30,552	48%	46%

HSA Members is critical because our service revenue is driven by the amount we charge per HSA Member.

The number of our HSA Members increased by approximately 606,000, or 28%, from January 31, 2016 to January 31, 2017, and by approximately 714,000, or 50%, from January 31, 2015 to January 31, 2016.

The increase in the number of our HSA Members in these periods was primarily driven by the addition of new Network Partners and further penetration into existing Network Partners. In addition, during the year ended January 31, 2016, we acquired the rights to be the custodian of the Bancorp and M&T HSA portfolios consisting of approximately 160,000 and 35,000 HSA Members, respectively, the latter of which transitioned to our platform during the year ended January 31, 2017.

Custodial assets

The following table sets forth our custodial assets for the periods indicated:

(in thousands, except percentages)	January 31, 2017	January 31, 2016	January 31, 2015	% change from 2016 to 2017	% change from 2015 to 2016
Custodial cash	$ 4,380,487	$ 3,278,628	$ 2,075,741	34%	58%
Custodial investments	658,580	405,878	286,526	62%	42%
Total custodial assets	$ 5,039,067	$ 3,684,506	$ 2,362,267	37%	56%
Average daily custodial cash - Year-to-date	$ 3,661,058	$ 2,326,506	$ 1,553,845	57%	50%
Average daily custodial cash - Quarter-to-date	$ 3,854,518	$ 2,682,827	$ 1,698,402	44%	58%

Our custodial assets, which are our HSA Members' assets for which we are the custodian, consist of the following components: (1) custodial cash deposits, which are deposits with our FDIC-insured custodial depository bank partners, (2) custodial cash deposits invested in an annuity contract with our insurance company partner and (3) members' investments in mutual funds through our custodial investment fund partner. Measuring our custodial assets is important because our custodial revenue is determined by the applicable account yields and average daily custodial cash balances.

Our total custodial assets increased by $1.4 billion, or 37%, from January 31, 2016 to January 31, 2017. Our total custodial assets increased by $1.3 billion, or 56%, from January 31, 2015 to January 31, 2016. The increase in total custodial assets in these periods was driven by additional custodial assets from our existing HSA Members and new custodial assets from new HSA Members added during the fiscal year. In addition, during the year ended January 31, 2016, we acquired the rights to be the custodian of the Bancorp and M&T HSA portfolios consisting of approximately $390.0 million and $63.0 million of custodial assets, respectively, the latter of which transitioned to our platform during the year ended January 31, 2017.

Adjusted EBITDA

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

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

		Year ended January 31,	
(in thousands)	**2017**	**2016**	**2015**
Net income	$ 26,376	$ 16,613	$ 10,166
Interest income	(531)	(414)	(38)
Interest expense	275	91	—
Income tax provision	13,744	8,941	5,598
Depreciation and amortization	8,889	6,393	4,253
Amortization of acquired intangible assets	4,297	2,208	1,637
Loss on revaluation of redeemable convertible preferred stock derivative liability	—	—	735
Stock-based compensation expense	8,398	5,883	2,525
Other (1)	1,348	910	366
Adjusted EBITDA	$ 62,796	$ 40,625	$ 25,242

(1) For the years ended January 31, 2017, 2016 and 2015, Other consisted of non-income based taxes of $358, $334 and $366, acquisition-related costs of $631, $471 and $0, and other costs of $359, $105 and $0, respectively.

The following table sets forth our Adjusted EBITDA:

		Year ended January 31,		% change from	% change from
(in thousands, except percentages)	**2017**	**2016**	**2015**	**2016 to 2017**	**2015 to 2016**
Adjusted EBITDA	$ 62,796	$ 40,625	$ 25,242	55%	61%
As a percentage of revenue	35%	32%	29%		

Our Adjusted EBITDA increased by $22.2 million, or 55%, from $40.6 million for the year ended January 31, 2016 to $62.8 million for the year ended January 31, 2017. The increase in Adjusted EBITDA was driven by the overall growth of our business, including a $15.1 million, or 58%, increase in income from operations.

Our Adjusted EBITDA increased by $15.4 million, or 61%, from $25.2 million for the year ended January 31, 2015 to $40.6 million for the year ended January 31, 2016. The increase in Adjusted EBITDA was driven by the overall growth of our business, including a $9.3 million, or 55%, increase in income from operations.

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

Key components of our results of operations

Revenue

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

(in thousands, except percentages)	2017	Year ended January 31, 2016	2015	% change from 2016 to 2017	% change from 2015 to 2016
Service revenue	$ 77,254	$ 61,608	$ 45,735	25%	35%
Custodial revenue	59,593	37,755	24,374	58%	55%
Interchange revenue	41,523	27,423	17,746	51%	55%
Total revenue	$ 178,370	$ 126,786	$ 87,855	41%	44%

We generate revenue from three primary sources: service revenue (previously referred to as account fee revenue), custodial revenue (previously referred to as custodial fee revenue) and interchange revenue (previously referred to as card fee revenue).

Service revenue. We earn service revenue from the fees we charge our Network Partners, employer clients and individual members for the administration services we provide in connection with the HSAs and RAs we offer. With respect to our Network Partners, our fees are generally based on a fixed tiered structure for the duration of our agreement with the relevant Network Partner, which is typically three to five years, and are paid to us on a monthly basis. We recognize revenue on a monthly basis as services are rendered under our written service agreements.

Custodial revenue. We earn custodial revenue from our custodial cash assets deposited with our FDIC-insured custodial depository bank partners and with our insurance company partner, and recordkeeping fees we earn in respect of mutual funds in which our members invest. As a non-bank custodian, we deposit our custodial cash with our various bank partners pursuant to contracts that (i) have terms up to five years, (ii) provide for a fixed or variable interest rate payable on the average daily cash balances deposited with the relevant bank partner, and (iii) have minimum and maximum required deposit balances. We earn custodial revenue on our custodial cash that is based on the interest rates offered to us by these bank partners. In addition, once a member's HSA cash balance reaches a certain threshold, the member is able to invest his or her HSA assets in mutual funds through our custodial investment partner. We receive a recordkeeping fee related to such custodial investments.

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

Cost of revenue

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

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

Custodial costs. Custodial costs are comprised of interest paid to our HSA Members and fees we pay to banking consultants whom we use to help secure agreements with our FDIC-insured custodial depository banking partners. Interest is paid to HSA Members on a tiered basis. The interest rates paid to HSA Members can be changed at any time upon required notice, which is typically 30 days.

Interchange costs. Interchange costs (previously referred to as card costs) are comprised of costs we incur in connection with processing payment transactions initiated by our members. Due to the substantiation requirement on RA-linked payment card transactions, which is the requirement that we confirm each purchase involves a qualified medical expense as defined under applicable law, payment card costs are higher for RA card transactions. In addition to fixed per card fees, we are assessed additional transaction costs determined by the amount of the transaction.

Gross profit and gross margin

Our gross profit is our total revenue minus our total cost of revenue, and our gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin has been and will continue to be affected by a number of factors, including the amount we charge our partners and members, interest rates, how many services we deliver per account, and payment processing costs per account. We expect our annual gross margin to remain relatively steady over the near term, although our gross margin could fluctuate from period to period depending on the interplay of these factors.

Operating expenses

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

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

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

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

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

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

Amortization of acquired intangible assets. Amortization of acquired intangible assets results from our acquisition of intangible member assets. We acquired these intangible member assets from third-party custodians. We amortize these assets over the assets' estimated useful life of 15 years. We evaluate these assets for impairment at least each year, or at a triggering event. On an annual basis, we expect total amortization of acquired intangible assets to remain steady.

Other expense

Other expense primarily consists of interest expense associated with our credit facility, miscellaneous taxes, and acquisition-related expenses.

Income tax provision

We are subject to federal and state income taxes in the United States based on a calendar tax year which differs from our fiscal year-end for financial reporting purposes. We use the asset and liability method to account for income taxes, under which current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. As of January 31, 2017, we have recorded a net non-current deferred tax asset for federal and some state jurisdictions with a net non-current deferred tax liability recorded for other state jurisdictions. In accordance with FASB ASC 718-740-25-10, *Compensation-Stock Compensation*, a portion of deferred tax assets attributable to excess stock compensation benefits is tracked separately and is not included in the recorded deferred tax assets. As of January 31, 2017, deferred tax assets attributable to excess stock compensation benefits totaled $8.1 million. Such benefit will not be recorded until the deduction reduces cash taxes payable. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. Due to the positive evidence of historical profits coupled with forecasted profitability, no valuation allowance was required as of January 31, 2017.

Results of operations

Service revenue

The $15.6 million increase in service revenue from the year ended January 31, 2016 to the year ended January 31, 2017 was primarily due to an increase in the number of our HSA Members. The $15.9 million increase in service revenue from the year ended January 31, 2015 to the year ended January 31, 2016 was also primarily due to an increase in the number of our HSA Members. The number of our HSA Members increased by approximately 606,000, or 28%, from January 31, 2016 to January 31, 2017, and by approximately 714,000, or 50%, from January 31, 2015 to January 31, 2016.

The growth in the number of our HSA Members over the past two years was due to a combination of growth from our new and existing Network Partners and the acquisition of the right to be the custodian of the Bancorp and M&T HSA portfolios during the year ended January 31, 2016.

Service revenue per HSA Member decreased by approximately 14% from the year ended January 31, 2016 to the year ended January 31, 2017. Our service revenue tier structure incentivizes Network Partners to add HSA Members by charging a lower rate as additional HSA Members are added. Accordingly, as Network Partners add more HSA Members, the service revenue per HSA Member will continue to decrease. Additionally, as RAs grow less rapidly than HSAs, service revenue per HSA Member will decrease. The decrease in service revenue per HSA Member was partially offset by an increase in custodial revenue per HSA Member described below.

Custodial revenue

The $21.8 million increase in custodial revenue from the year ended January 31, 2016 to the year ended January 31, 2017 was primarily due to an increase in average daily custodial cash of $1.3 billion, or 57%, and an increase in the yield on average custodial cash from 1.57% in the year ended January 31, 2016 to 1.58% in the year ended January 31, 2017.

The $13.4 million increase in custodial revenue from the year ended January 31, 2015 to the year ended January 31, 2016 was primarily due to an increase in average daily custodial cash of $772.7 million, or 50%, and an increase in the yield on average custodial cash from 1.52% in the year ended January 31, 2015 to 1.57% in the year ended January 31, 2016.

Custodial revenue as a percentage of our total revenue continues to increase primarily due to our entry into new custodial depository agreements with higher interest rates payable on average cash balances deposited thereunder, and also due to average daily custodial cash assets growing at a faster rate than the number of HSA Members, which is evidenced by an increase in custodial cash per HSA from $1,532 as January 31, 2016 to $1,595 as of January 31, 2017.

Custodial revenue per HSA Member increased by approximately 8% from the year ended January 31, 2016 to the year ended January 31, 2017, primarily due to the higher yield and higher average custodial cash balances.

Interchange revenue

The $14.1 million increase in interchange revenue from the year ended January 31, 2016 to the year ended January 31, 2017 was due to an overall increase in the number of our HSA Members and payment activity. In addition, we continued to see a trend toward more HSA spending through payment card transaction swipes and less by checks and ACH or electronic reimbursements, which increased our interchange revenue.

The $9.7 million increase in interchange revenue from the year ended January 31, 2015 to the year ended January 31, 2016 was due to an overall increase in the number of our HSA Members and payment activity.

Our efforts to increase card spend on our platform has resulted in an increase in interchange revenue per HSA Member for the year ended January 31, 2017 by approximately 4%.

Cost of revenue

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

			Year ended January 31,	% change from	% change from
(in thousands, except percentages)	2017	2016	2015	2016 to 2017	2015 to 2016
Service costs	$ 51,868	$ 39,418	$ 29,842	32%	32%
Custodial costs	9,767	6,522	4,141	50%	57%
Interchange costs	10,380	8,248	5,899	26%	40%
Total cost	$ 72,015	$ 54,188	$ 39,882	33%	36%

Service costs

The $12.5 million increase in service costs from the year ended January 31, 2016 to the year ended January 31, 2017 was due to the higher volume of total accounts being serviced**.** The $12.5 million increase includes $6.1 million related to the hiring of additional personnel to implement and support our new Network Partners and HSA Members, increased activation and processing costs of $2.9 million related to account and card activation as well as monthly processing of statements and other communications, stock compensation of $692,000, depreciation and amortization of $495,000, common expense allocation of $1.6 million and $393,000 in other expenses.

The $9.6 million increase in account costs from the year ended January 31, 2015 to the year ended January 31, 2016 was due to the higher volume of total accounts being serviced**.** The $9.6 million increase includes $5.5 million related to the hiring of additional personnel to implement and support our new Network Partners and HSA Members, increased activation and processing costs of $2.1 million related to account and card activation as well as monthly processing of statements and other communications, stock compensation of $686,000, depreciation and amortization of $465,000, information technology expenses of $339,000 and $560,000 in other expenses.

Custodial costs

The $3.2 million increase in custodial costs from the year ended January 31, 2016 to the year ended January 31, 2017 was due to an increase in average daily custodial cash from $2.33 billion for the year ended January 31, 2016 to $3.64 billion during the year ended January 31, 2017, which was partially offset by a decrease in custodial costs on average custodial cash from 0.28% for the year ended January 31, 2016 to 0.27% for the year ended January 31, 2017.

The $2.4 million increase in custodial costs from the year ended January 31, 2015 to the year ended January 31, 2016 was due to an increase in custodial costs on average custodial cash from 0.27% for the year ended January 31, 2015 to 0.28% for the year ended January 31, 2016, and an increase in average daily custodial cash from $1.55 billion for the year ended January 31, 2015 to $2.33 billion during the year ended January 31, 2016.

Interchange costs

The $2.1 million and $2.3 million increase in interchange costs for the years ended January 31, 2017 and 2016, respectively, are a result of the overall increase in payment activity, which is attributable to the growth in HSA Members.

As we continue to add HSA Members, our cost of revenue will increase in dollar amount to support our Network Partners and members. Cost of revenue will continue to be affected by a number of different factors, including our ability to implement new technology in our Member Education Center as well as scaling our Network Partner implementation and account management functions.

Operating expenses

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

(in thousands, except percentages)	2017	Year ended January 31, 2016	2015	% change from 2016 to 2017	% change from 2015 to 2016
Sales and marketing	$ 18,320	$ 13,302	$ 10,619	38%	25%
Technology and development	22,375	16,832	10,501	33%	60%
General and administrative	20,151	14,113	8,343	43%	69%
Amortization of acquired intangible assets	4,297	2,208	1,637	95%	35%
Total operating expenses	$ 65,143	$ 46,455	$ 31,100	40%	49%

Sales and marketing

The $5.0 million increase in sales and marketing expenses from the year ended January 31, 2016 to the year ended January 31, 2017 primarily consisted of increased staffing and sales commissions of $2.3 million, increased partner commissions of $928,000, increased travel and marketing expenses of $862,000, increased promotion discounts of $418,000, and an increase in other expenses of $502,000.

The $2.7 million increase in sales and marketing expenses from the year ended January 31, 2015 to the year ended January 31, 2016 primarily consisted of increased staffing and sales commissions of $2.1 million, increased stock compensation expense of $399,000, and other expenses of $213,000.

We will continue to invest in sales and marketing by hiring additional personnel and promoting our brand through a variety of marketing and public relations activities. As a result, we expect our sales and marketing expense to increase in future periods.

Technology and development

The $5.5 million increase in technology and development expenses from the year ended January 31, 2016 to the year ended January 31, 2017 resulted primarily from the hiring of additional personnel of $3.4 million, increased amortization and depreciation of $1.9 million, information technology expenses of $1.1 million, stock compensation of $889,000, professional services of $726,000, and other expenses of $548,000, which were offset by an increase in capitalized engineering costs of $2.1 million associated with the development and enhancement of our proprietary technology platform, and redeployment of resources from technology and development to general and administrative of $855,000.

The $6.3 million increase in technology and development expenses for the year ended January 31, 2015 to the year ended January 31, 2016 resulted primarily from the hiring of additional personnel of $4.5 million, increased amortization and depreciation of $1.6 million, stock compensation of $750,000, information technology expenses of $653,000 and other expenses of $350,000, all of which were offset primarily by a decrease in professional fees of $1.1 million and an increase in capitalized engineering costs of $451,000 associated with the development and enhancement of our proprietary technology platform.

We will continue to invest in our proprietary technology platform. The timing of development and enhancement projects, including whether they are capitalized or expensed, will significantly affect our technology and development expenses both in dollar amount and as a percentage of revenue.

General and administrative

The $6.0 million increase in general and administrative expenses from the year ended January 31, 2016 to the year ended January 31, 2017 was primarily attributable to the hiring of additional personnel of $2.4 million, increased professional fees of $1.1 million, stock compensation of $922,000 and other expenses of $814,000, and redeployment of resources from technology and development to general and administrative of $855,000.

The $5.8 million increase in general and administrative expenses from the year ended January 31, 2015 to the year ended January 31, 2016 was primarily attributable to the hiring of additional personnel of $1.3 million, increased professional fees of $2.2 million, stock compensation of $1.5 million and other expenses of $758,000 primarily related to public company costs.

As we continue to grow, we expect our general and administrative expenses to continue to increase in dollar amount as we expand general and administrative headcount to support our continued growth and the regulatory and compliance requirements of a public company.

Amortization of acquired intangible assets

The $2.1 million and $571,000 increase in amortization of acquired intangible assets for the years ended January 31, 2017 and 2016, respectively, was attributable to the approximately $34.2 and $6.2 million acquisition of the rights to be the custodian of the Bancorp and M&T HSA portfolios, respectively, that occurred during the year ended January 31, 2016.

Other expense

The change in other income and expense, net for the year ended January 31, 2017 is primarily attributable to an increase in ongoing acquisition-related activity costs and interest expense.

The change in other income and expense, net for the year ended January 31, 2016 is primarily attributable to the timing of miscellaneous taxes and interest income.

Loss on revaluation of redeemable convertible preferred stock derivative

The $735,000 loss during the year ended January 31, 2015 relates to the revaluation of our derivative liability associated with our series D-3 redeemable convertible preferred stock. Due to the modification of our series D-3 redeemable convertible preferred stock in March 2014, there were no further fair market value adjustments.

Income tax provision

Income tax provision for the years ended January 31, 2017, 2016, and 2015 was $13.7 million, $8.9 million, and $5.6 million, respectively. The increase in income tax provision during the year ended January 31, 2017 compared to the year ended January 31, 2016 was primarily the result of an increase in federal and state income taxes driven by an increase in income before income taxes netted with an increase in research and development credits claimed. The increase in income tax provision during the year ended January 31, 2016 compared to the year ended January 31, 2015 was primarily the result of an increase in federal and state income taxes driven by an increase in income before income taxes which was netted with a decrease in non-deductible expenses and the tax benefit on research and development credits claimed.

Our effective income tax rate for the years ended January 31, 2017, 2016 and 2015 was 34.3%, 35.0%, and 35.5%, respectively. The difference between the effective income tax rate and the U.S. federal statutory income tax rate each period is impacted by a number of factors, including the relative mix of earnings among state jurisdictions, credits, and other discrete items. The decrease in the effective tax rate for the years ended January 31, 2017 and 2016 was primarily the result of an increase in research and development credits.

We will adopt ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting,* on a prospective basis in the first quarter of fiscal year 2018, which is expected to have an impact on the recording of excess tax benefits in our consolidated balance sheet and consolidated statement of income, as well as the operating and financing cash flows on our consolidated statements of cash flows. The magnitude of such impact is dependent upon future grants, our future stock price in relation to the fair value of awards on the grant date and stock option exercise behavior.

Seasonality

Seasonal concentration of our growth combined with our recurring revenue model create seasonal variation in our results of operations. A significant number of new and existing Network Partners bring us new HSA Members beginning in January of each year concurrent with the start of many employers' benefit plan years. Before we realize any revenue from these new HSA Members, we incur costs related to implementing and supporting our new Network Partners and new HSA Members. These costs of services relate to activating accounts and hiring additional staff, including seasonal help to support our member support center. These expenses begin to ramp up during our third fiscal quarter with the majority of expenses incurred in our fourth fiscal quarter. We also experience higher operating expenses in our fourth fiscal quarter due to sales commissions for new accounts activated in January.

Liquidity and capital resources

Cash and marketable securities overview

As of January 31, 2017, our principal source of liquidity was our current cash and marketable securities balances, collections from our service, custodial and interchange revenue activities, and availability under our credit facility. We rely on cash provided by operating activities to meet our short-term liquidity requirements, which primarily relate to the payment of corporate payroll and other operating costs, and capital expenditures.

As of January 31, 2017 and 2016, cash, cash equivalents and marketable securities were $180.4 million and $123.8 million, respectively.

Capital resources

As a result of our follow-on offering, we received net proceeds of approximately $23.5 million in May 2015 from the sale of 972,500 shares of our common stock.

On September 9, 2015, we filed a shelf registration statement on Form S-3 with the SEC. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we would use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, including, but not limited to, working capital, sales and marketing activities, general and administrative matters and capital expenditures, and if opportunities arise, for the acquisition of, or investment in, assets, technologies, solutions or businesses that complement our business. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

On September 30, 2015, we entered into a new credit facility of $100.0 million. The credit facility has a term of five years. The new credit facility contains covenants and events of default customary for facilities of this type. There were no borrowings under the facility as of January 31, 2017. We were in compliance with all covenants as of January 31, 2017.

Use of cash

Capital expenditures for the years ended January 31, 2017, 2016, and 2015 were $12.7 million, $9.3 million, and $8.1 million, respectively. We expect to continue our increased capital expenditures during the year ending January 31, 2018 as we continue to devote a significant amount of our capital expenditures to improving the architecture and functionality of our proprietary system. Costs to improve the architecture of our proprietary system include software engineering services, computer hardware, and personnel and related costs for software engineering.

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

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

	Year ended January 31,		
(in thousands)	**2017**	**2016**	**2015**
Net cash provided by operating activities	$ 45,591	$ 26,541	$ 15,046
Net cash used in investing activities	(13,054)	(90,552)	(8,437)
Net cash provided by financing activities	23,776	36,647	90,479
Increase (decrease) in cash and cash equivalents	56,313	(27,364)	97,088
Beginning cash and cash equivalents	83,641	111,005	13,917
Ending cash and cash equivalents	$ 139,954	$ 83,641	$ 111,005

Cash flows provided by operating activities. Net cash provided by operating activities during the year ended January 31, 2017 resulted primarily from our net income of $26.4 million being adjusted for the following non-cash items: depreciation and amortization of $13.2 million and stock-based compensation of $8.4 million, and changes in accrued liabilities of $1.7 million, other long-term liabilities of $1.2 million, accrued compensation of $946,000, and accounts payable, amortization of deferred financing costs, bad debt expense, and inventories totaling of $698,000. These were offset by changes in deferred income taxes of $2.9 million, accounts receivable of $2.7 million and other assets of $1.3 million.

Net cash provided by operating activities during the year ended January 31, 2016 resulted primarily from our net income of $16.6 million being adjusted for the following non-cash items: depreciation and amortization of $8.6 million and stock-based compensation of $5.9 million, changes in accrued compensation of $2.5 million, and accounts payable of $1.0 million. These were offset by changes in accounts receivable of $5.2 million, deferred income taxes of $2.2 million, and accrued liabilities, other long-term liabilities and other assets of $742,000.

Net cash provided by operating activities during the year ended January 31, 2015 resulted primarily from our net income of $10.2 million being adjusted for the following non-cash items: depreciation and amortization of $5.9 million and stock-based compensation of $2.5 million, deferred income taxes of $1.6 million, changes in accrued compensation of $1.2 million and a revaluation of our derivative liability associated with our series D-3 redeemable convertible preferred stock of $735,000 and changes in other long-term liabilities of $95,000. These items were offset by changes in accounts receivable of $3.4 million, other assets of $1.6 million, accounts payable of $1.2 million, accrued liabilities and inventories of $1.0 million.

Cash flows used in investing activities. We continued to increase our purchases of software and capitalized software development costs due to continued growth. During the years ended January 31, 2017, 2016 and 2015, purchases of software and capitalized software development costs were $9.0 million, $6.9 million, and $6.4 million, respectively. We also increased our purchases of property and equipment to $3.6 million, $2.4 million and $1.7 million, respectively, due to our continued growth.

Net cash used in investing activities during the year ended January 31, 2016 was primarily the result of the acquisition of the right to be the custodian of the Bancorp and M&T HSA portfolios totaling $40.5 million, the purchases of marketable securities of $40.3 million, and a $500,000 investment in a limited partnership that engages in the development of technology-based financial healthcare products.

There were other investing activities of $305,000 during the year ended January 31, 2015.

Cash flows provided by financing activities. Cash flow provided by financing activities during the year ended January 31, 2017 resulted primarily from proceeds associated with the exercise of stock options of $7.1 million, and the associated tax benefits of $16.6 million.

Cash flow provided by financing activities during the year ended January 31, 2016 resulted primarily from our follow-on offering, from which we received net proceeds of $23.5 million from the sale of 972,500 shares of our common stock, proceeds associated with the exercise of stock options of $1.9 million, and the associated tax benefits of $11.6 million. These items were offset by deferred financing costs paid of $317,000 in conjunction with the credit agreement entered into during the year.

Cash flow used in financing activities during the year ended January 31, 2015 resulted primarily from $132.6 million of proceeds from our IPO, net of $3.7 million of offering costs, payment of a previously declared cash dividend of $50.0 million, proceeds associated with the exercise of stock options of $2.4 million, exercise of common stock warrants totaling $2.4 million and the associated tax benefits of $3.4 million.

Contractual obligations

We lease office space, data storage facilities, equipment and certain maintenance requirements under long-term non-cancelable operating leases. Future minimum lease payments required under non-cancelable obligations as of January 31, 2017 are as follows:

(in thousands)	Payment due by period Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Office Lease Obligations	$ 2,398	$ 6,615	$ 7,171	$ 18,165	$ 34,349
Data storage and equipment lease obligations	188	283	88	—	559
Processing services agreement	825	1,650	825	—	3,300
Telephony services	244	224	—	—	468
Total	$ 3,655	$ 8,772	$ 8,084	$ 18,165	$ 38,676

Office lease obligations—On May 15, 2015, the Company entered into a lease agreement to expand its headquarters in Draper, Utah. The lease provides for the new landlord to construct a building at its cost. The lease commenced upon the substantial completion and delivery of the building to the Company on July 1, 2016 and has an initial term of 129 months thereafter, with an option for the Company to extend the lease for two additional five-year periods. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $1.0 million, with 2.5% annual increases. In conjunction with the aforementioned lease, the Company entered into an amended and restated lease agreement for its existing office space at its headquarters in Draper, Utah. The lease commenced on July 1, 2015 and has an initial term of 129 months thereafter, with an option for the Company to extend the lease for two additional five-year periods. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $1.6 million, with 2.5% annual increases. As a result of the foregoing transaction, the deferred rent balance of approximately $470,000 was reversed during the year ended January 31, 2016.

On September 16, 2016, the Company amended its lease to expand its current office space. The term of the lease commenced on July 1, 2016 and will expire on March 31, 2027. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $569,000, with 2.5% annual increases.

Lease expense for office space for the years ended January 31, 2017, 2016 and 2015 totaled $3.3 million, $2.1 million and $1.6 million, respectively. The Company also leases office space in Overland Park, Kansas, which expires in February 2019.

Data storage and equipment lease obligations—The data storage and equipment leases relate to our offsite data storage facility and office equipment leases. All of these leases expire during the year ended January 31, 2020.

Telephony services—The telephony service agreement relates to our 24/7/365 member support center. The agreement expires in December of 2018.

Processing services agreement—During the year ended January 31, 2016, the Company amended its merchant processing services agreement with a vendor. The agreement expires December 31, 2020 and requires the Company to pay a minimum processing fee based on the processing year of the agreement. The Company may terminate the agreement beginning January 1, 2020 by providing 180 days' written notice.

If the processing agreement is terminated prior to December 31, 2020, the Company is required to pay the vendor a termination fee, equal to 75% of the aggregate value of the minimum processing fees for the remaining years of the agreement, plus a portion of the account-boarding incentive fee.

For each of the years ended January 31, 2017, 2016 and 2015, the Company exceeded the minimum amounts required under the agreement.

The Company also has agreements with several entities for access to technology and software. The agreements are based on usage, and there are no minimum required monthly payments.

Off-balance sheet arrangements

Except as disclosed in the notes to our financial statements, we do not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements.

Critical accounting policies and significant management estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, 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 revenue 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.

Revenue recognition

We earn revenue primarily from three sources: service revenue (previously referred to as account fees), custodial revenue (previously referred to as custodial fees) and interchange revenue (previously referred to as card fees). We recognize revenue when the following criteria are met: (1) collectability is reasonably assured; (2) delivery has occurred; (3) persuasive evidence of an arrangement exists; and (4) there is a fixed or determinable fee.

- *Service revenue*: We charge our Network Partners, employer clients or individual members a monthly service fee once a member account is set up on our system. We recognize revenue on the monthly service fees in the month during which we service each member account.
- *Custodial revenue:* We earn interest on custodial cash. This interest is earned from various FDIC-insured bank partners and from an annuity contract with our insurance company partner with whom we deposit our members' HSA cash assets. We also receive certain administrative and recordkeeping fees for custodial investments from our investment partners and customers. We recognize this revenue in the month in which it is earned.
- *Interchange revenue:* We earn interchange revenue from card transaction "swipes" by our members when our members use our payment cards to pay healthcare-related claims and expenses. We recognize this revenue in the month in which it is earned.

Marketable securities

Marketable securities consist primarily of mutual funds invested in corporate bonds, U.S. government agency securities, U.S. treasury bills, commercial paper, certificates of deposit, municipal notes, and bonds with original maturities beyond three months at the time of purchase. Marketable securities are classified as available-for-sale, held-to-maturity, or trading at the date of purchase. We classify marketable securities, including securities with maturities beyond twelve months, as current assets in the consolidated balance sheets. All marketable securities are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive income, net of the related tax effect. We evaluate marketable securities to assess whether those with unrealized loss positions are other-than-temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely it will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other expense, net in the consolidated statements of operations and comprehensive income.

Capitalized software development costs

We account for the costs of computer software developed or obtained for internal use in accordance with Accounting Standards Codification, or ASC, 350-40, "*Internal-Use Software*." Costs incurred during operation and post-implementation stages are charged to expense. Costs incurred that are directly attributable to developing or obtaining software for internal use incurred in the application development stage are capitalized. Management's judgment is required in determining the point when various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized.

Acquisitions

To determine whether an acquisition qualifies as a business combination or an asset acquisition, we make certain judgments, which include assessment of the inputs, processes, and outputs associated with the acquired group of assets. If we determine that the acquisition consists of inputs, as well as processes that when applied to those inputs have the ability to create outputs, the acquisition is determined to be a business combination. In instances where the acquired group of assets does not include sufficient inputs and processes to produce outputs, the acquisition is determined to be an asset acquisition. Under the asset acquisition method of accounting, the Company is required to fair value the assets transferred. The cost of the assets acquired is allocated to the individual assets acquired based on their relative fair values and does not give rise to goodwill.

If an acquisition qualifies as a business combination, the related transaction costs are recorded as an expense in the consolidated statements of operations and comprehensive income. If an acquisition qualifies as an asset acquisition, the related transaction costs are capitalized and subsequently amortized over the useful life of the acquired assets.

Goodwill and intangible assets

We apply ASC 805, ''*Business Combinations*,*" and ASC 350, "Intangibles—Goodwill and Other*'' to account for goodwill and intangible assets. In accordance with these standards, we amortize all finite lived intangible assets over their respective estimated useful lives, while goodwill has an indefinite life and is not amortized. We review finite lived intangible assets subject to amortization for impairment whenever events or circumstances indicate that the associated carrying amount may not be recoverable. Goodwill is not amortized but is tested for impairment at least annually or more frequently whenever a triggering event or change in circumstances occurs, at the reporting unit level. We are required to recognize an impairment charge if the carrying amount of the reporting unit exceeds its fair value.

Prior to our initial public offering, management used all available information to make this fair value determination, including the present values of expected future cash flows using discount rates commensurate with the risks involved in the assets and observed market multiples of operating cash flows and net income. After the consummation of our initial public offering, our stock price and associated market capitalization were also considered in the determination of reporting unit fair value. In addition, if the estimated fair value of the reporting unit is less than the book value (including the goodwill), further management judgment must be applied in determining the fair values of individual assets and liabilities. No impairments for goodwill or other intangible assets were recorded during the years ended January 31, 2017, 2016 and 2015. However, a lower fair value estimate in the future could result in impairment. A prolonged or significant decline in our stock price could provide evidence of a need to record a material impairment of goodwill.

Income taxes

We account for income taxes and the related accounts under the liability method as set forth in the authoritative guidance for accounting for income taxes. Under this method, current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, for net operating losses, and for tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for when it is more likely than not that some or all of the deferred tax assets may not be realized in future years.

We use the tax law ordering approach of intraperiod allocation in determining when excess tax benefits have been realized for provisions of the tax law that identify the sequence in which those amounts are utilized for tax purposes. We have also elected to exclude the indirect tax effects of share-based compensation deductions in computing the income tax provision recorded within the Consolidated Statement of Operations and Comprehensive Income.

We recognize the tax benefit from an uncertain tax position taken or expected to be taken in a tax return using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authorities, based on the technical merits of the position. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit in the financial statements as the largest benefit that has a greater than 50% likelihood of being sustained upon settlement. We recognize interest and penalties, if any, related to unrecognized tax benefits as a component of other income (expense) in the Statements of Operations and Comprehensive Income. Significant judgment is required to evaluate uncertain tax positions. Changes in facts and circumstances could have a material impact on our effective tax rate and results of operations.

Stock-based compensation

Stock options. We award time-based and performance-based stock options to team members, directors, and executive officers. Stock-based compensation costs related to stock options granted are measured at the date of grant based on the estimated fair value of the award, net of estimated forfeitures. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. With respect to time-based stock options, the grant date fair value of stock-based awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period of the award. Stock options we grant to team members generally vest over four years. With respect to performance-based stock options, stock compensation expense is recognized over the requisite service period using the graded-vesting attribution method when it is probable that the performance condition will be achieved. Each reporting period, we evaluate the probability of achieving the performance criteria and of the number of shares that are expected to vest; compensation expense is then adjusted to reflect the number of shares expected to vest. Accordingly, the expense recognized is an estimate that may change over time as key assumptions are updated. We expect to continue to grant stock options in the future, and to the extent that we do, our stock-based compensation expense recognized in future periods will likely increase.

The Black-Scholes option-pricing model requires the use of highly subjective assumptions to estimate the fair value of stock-based awards. If we had made different assumptions, our stock-based compensation expense, net income and net income per share of common stock could have been significantly different. These assumptions include:

- *Expected volatility:* As we do not have adequate length of trading history for our common stock, the expected stock price volatility for our common stock was estimated by taking the average historical price volatility for industry peers based on daily price observations. We did not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.
- *Expected term:* The expected term represents the period that our stock-based awards are expected to be outstanding. We use the "simplified" method to estimate the expected term as determined under Staff Accounting Bulletin No. 110 due to the lack of option exercise history as a public company.
- *Risk-free interest rate:* The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.
- *Expected dividend yield:* We have never declared or paid any cash dividends to our common stockholders and do not presently plan to pay any cash dividends in the foreseeable future, other than in connection with the special dividend described in Item 5- Market for registrant's common equity, related stockholders matters and issuer purchases of equity securities. Consequently, we used an expected dividend yield of zero.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted during the periods presented:

			Year ended January 31,
	2017	2016	2015
Expected dividend yield	—%	—%	—%
Expected stock price volatility	38.01% - 38.37%	38.29% - 40.29%	32.90% - 40.29%
Risk-free interest rate	1.18% - 2.18%	1.47% - 1.80%	1.12% - 2.24%
Expected life of options	4.50 - 6.25 years	5.43 - 6.25 years	5.6 - 7.3 years

We will continue to use judgment in evaluating the assumptions utilized for our stock-based compensation expense calculations on a prospective basis.

In addition to the assumptions used in the Black-Scholes option-pricing model, the amount of stock-based compensation expense we recognize in our financial statements includes an estimate of stock option forfeitures. We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors. Changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in our financial statements.

The estimated fair value of a stock option using the Black-Scholes option-pricing model is impacted significantly by changes in a company's stock price. For example, all other assumptions being equal, the estimated fair value of a stock option will increase as the closing price of a company's stock increases, and vice versa. Prior to the closing of the IPO, we were a private company and, as such, we were required to estimate the fair value of our common stock. In the absence of a public trading market, we determined a reasonable estimate of the then-current fair value of our common stock for purposes of granting stock-based compensation based on multiple criteria. We estimated the fair value of our common stock utilizing methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants Practice Aid, "*Valuation of Privately-Held-Company Equity Securities Issued as Compensation",* or the AICPA Practice Aid. After closing of the IPO, the fair value of our common stock is no longer an estimate as it is based upon the closing price of our stock on the NASDAQ Market on the date of grant.

Restricted stock units. Restricted stock units are valued based on the current value of the Company's closing stock price on the date of grant, less the present value of future expected dividends discounted at the risk-free interest rate. Expense for restricted stock units is recognized on a straight-line basis over the requisite service period.

Recent accounting pronouncements

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

Item 7A. Qualitative and quantitative disclosures about market risk

Concentration of market risk

We derive a substantial portion of our revenue from providing services to tax-advantaged healthcare account holders. A significant downturn in this market or changes in state and/or federal laws impacting the preferential tax treatment of healthcare accounts such as HSAs could have a material adverse effect on our results of operations. During the years ended January 31, 2017, 2016, and 2015, no one customer accounted for greater than 10% of our total revenue.

Concentration of credit risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash, cash equivalents and marketable securities. We maintain our cash, cash equivalents and marketable securities in bank and other depository accounts, which, at times, may exceed federally insured limits. Our cash, cash equivalents and marketable securities as of January 31, 2017 were $180.4 million, of which $750,000 was covered by federal depository insurance. We have not experienced any material losses in such accounts and believe we are not exposed to any significant credit risk with respect to our cash, cash equivalents, and marketable securities. Our accounts receivable balance as of January 31, 2017 was $17.0 million. We have not experienced any significant write-offs to our accounts receivable and believe that we are not exposed to significant credit risk with respect to our accounts receivable.

Interest rate risk

Custodial cash assets. Our custodial cash assets consists of custodial HSA funds we hold in trust on behalf of our members. As of January 31, 2017, we had custodial cash of approximately $4.4 billion. We have entered into depository agreements with financial institutions for our custodial cash. The contracted interest rates were negotiated at the time the depository agreements were executed. A significant reduction in prevailing interest rates may make it difficult for us to continue to place custodial deposits at the current contracted rates.

***Cash, cash equivalents and marketable securities**.* We consider all highly liquid investments purchased with an original maturity of three months or less to be unrestricted cash equivalents. Our unrestricted cash and cash equivalents are held in institutions in the U.S. and include deposits in a money market account that is unrestricted as to withdrawal or use. As of January 31, 2017, we had unrestricted cash and cash equivalents of $140.0 million. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates.

As of January 31, 2017, we had marketable securities of $40.4 million. Marketable securities are recorded at their estimated fair value. We do not enter into investments for trading or speculative purposes. Our marketable securities are exposed to market risk due to a fluctuation in interest rates, which may affect the fair market value of our marketable securities. However, because we classify our marketable securities as "available-for-sale," no gains or losses are recognized in net income due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

Item 8. Financial statements and Supplementary Data

HealthEquity, Inc. and subsidiaries
Index to consolidated financial statements

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of HealthEquity, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of redeemable convertible preferred stock and stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of HealthEquity, Inc. and its subsidiaries at January 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2017 , based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's report on internal control over financial reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2017 and 2016). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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 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/ PricewaterhouseCoopers LLP
Salt Lake City, Utah
March 30, 2017

HealthEquity, Inc. and subsidiaries
Consolidated balance sheets

(in thousands, except par value)	January 31, 2017	January 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 139,954	$ 83,641
Marketable securities, at fair value	40,405	40,134
Total cash, cash equivalents and marketable securities	180,359	123,775
Accounts receivable, net of allowance for doubtful accounts of $75 and $40 as of January 31, 2017 and 2016, respectively	17,001	14,308
Inventories	592	620
Current deferred tax asset	—	2,642
Other current assets	2,867	1,703
Total current assets	200,819	143,048
Property and equipment, net	5,170	3,506
Intangible assets, net	65,020	66,840
Goodwill	4,651	4,651
Deferred tax asset	1,615	—
Other assets	1,861	1,750
Total assets	$ 279,136	$ 219,795
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 3,221	$ 2,431
Accrued compensation	8,722	7,776
Accrued liabilities	3,760	1,899
Total current liabilities	15,703	12,106
Long-term liabilities		
Other long-term liabilities	1,456	236
Deferred tax liability	37	3,996
Total long-term liabilities	1,493	4,232
Total liabilities	17,196	16,338
Commitments and contingencies (see note 6)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 100,000 shares authorized, no shares issued and outstanding as of January 31, 2017 and 2016	—	—
Common stock, $0.0001 par value, 900,000 shares authorized, 59,538 and 57,726 shares issued and outstanding as of January 31, 2017 and 2016, respectively	6	6
Additional paid-in capital	232,114	199,940
Accumulated other comprehensive loss, net	(165)	(98)
Accumulated earnings	29,985	3,609
Total stockholders' equity	261,940	203,457
Total liabilities and stockholders' equity	$ 279,136	$ 219,795

The accompanying notes are an integral part of the consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Consolidated statements of operations and comprehensive income

(in thousands, except per share data)	2017	2016	Year ended January 31, 2015
Revenue			
Service revenue	$ 77,254	$ 61,608	$ 45,735
Custodial revenue	59,593	37,755	24,374
Interchange revenue	41,523	27,423	17,746
Total revenue	178,370	126,786	87,855
Cost of revenue			
Service costs	51,868	39,418	29,842
Custodial costs	9,767	6,522	4,141
Interchange costs	10,380	8,248	5,899
Total cost of revenue	72,015	54,188	39,882
Gross profit	106,355	72,598	47,973
Operating expenses			
Sales and marketing	18,320	13,302	10,619
Technology and development	22,375	16,832	10,501
General and administrative	20,151	14,113	8,343
Amortization of acquired intangible assets	4,297	2,208	1,637
Total operating expenses	65,143	46,455	31,100
Income from operations	41,212	26,143	16,873
Other expense			
Loss on revaluation of redeemable convertible preferred stock derivative	—	—	(735)
Other expense, net	(1,092)	(589)	(374)
Total other expense	(1,092)	(589)	(1,109)
Income before income taxes	40,120	25,554	15,764
Income tax provision	13,744	8,941	5,598
Net income	$ 26,376	$ 16,613	$ 10,166
Net income attributable to common stockholders:			
Basic	$ 26,376	$ 16,613	$ 12,058
Diluted	$ 26,376	$ 16,613	$ 10,901
Net income per share attributable to common stockholders:			
Basic	$ 0.45	$ 0.29	$ 0.39
Diluted	$ 0.44	$ 0.28	$ 0.21
Weighted-average number of shares used in computing net income per share attributable to common stockholders:			
Basic	58,615	56,719	31,181
Diluted	59,894	58,863	51,856
Comprehensive income:			
Net income	$ 26,376	$ 16,613	$ 10,166
Other comprehensive loss:			
Unrealized loss on available-for-sale marketable securities, net of tax	(67)	(98)	—
Comprehensive income	$ 26,309	$ 16,515	$ 10,166

The accompanying notes are an integral part of the consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Consolidated statements of redeemable convertible preferred stock and stockholders' equity (deficit)

	Redeemable convertible preferred stock		Stockholders' equity (deficit)								
			Convertible preferred stock		Common stock		Common stock warrants	Additional paid-in capital	Accumu-lated compre-hensive loss	Accumu-lated earnings (deficit)	Total stock-holders' equity (deficit)
(in thousands, except exercise prices)	Shares	Amount	Shares	Amount	Shares	Amount					
Balance as of January 31, 2014	17,349	$ 46,714	6,156	$ 8,129	7,038	$ 1	$ 2,334	$ —	$ —	$ (23,170)	$ (12,706)
Issuance of series D-3 redeemable convertible preferred stock cash dividend	—	—	—	—	—	—	—	(347)	—	—	(347)
Issuance of common stock cash dividend	—	—	—	—	—	—	—	(50,000)	—	—	(50,000)
Issuance of common stock:											—
Exercise of 2,972 warrants at $0.8008 per share	—	—	—	—	2,972	—	(2,334)	4,714	—	—	2,380
Exercise of 1,841 options at $1.3204 per share	—	—	—	—	1,841	—	—	2,430	—	—	2,430
Conversion of preferred stock to common stock upon initial public offering	(17,349)	(42,693)	(6,156)	(8,129)	32,486	3	—	50,819	—	—	42,693
Issuance of common stock	—	—	—	—	10,465	1	—	132,586	—	—	132,587
Stock-based compensation	—	—	—	—	—	—	—	2,525	—	—	2,525
Tax benefit on stock options exercised	—	—	—	—	—	—	—	3,429	—	—	3,429
Redeemable convertible preferred stock accretion	—	(4,021)	—	—	—	—	—	4,021	—	—	4,021
Reclassification of series D-3 redeemable convertible preferred stock derivative liability	—	—	—	—	—	—	—	6,917	—	—	6,917
Net income	—	—	—	—	—	—	—	—	—	10,166	10,166
Balance as of January 31, 2015	—	$ —	—	$ —	54,802	$ 5	$ —	$ 157,094	$ —	$ (13,004)	$ 144,095
Issuance of common stock:											
Exercise of 1,951 options at $0.98 per share	—	—	—	—	1,951	1	—	1,914	—	—	1,915
Issuance of common stock	—	—	—	—	973	—	—	23,492	—	—	23,492
Stock-based compensation	—	—	—	—	—	—	—	5,883	—	—	5,883
Tax benefit on stock options exercised	—	—	—	—	—	—	—	11,557	—	—	11,557
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(98)	—	(98)
Net income	—	—	—	—	—	—	—	—	—	16,613	16,613
Balance as of January 31, 2016	—	$ —	—	$ —	57,726	$ 6	$ —	$ 199,940	$ (98)	$ 3,609	$ 203,457
Issuance of common stock:											
Issuance of common stock upon exercise of options, and for restricted stock units	—	—	—	—	1,812	—	—	7,142	—	—	7,142
Stock-based compensation	—	—	—	—	—	—	—	8,398	—	—	8,398
Tax benefit on stock options exercised	—	—	—	—	—	—	—	16,634	—	—	16,634
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(67)	—	(67)
Net income	—	—	—	—	—	—	—	—	—	26,376	26,376
Balance as of January 31, 2017	—	$ —	—	$ —	59,538	$ 6	$ —	$ 232,114	$ (165)	$ 29,985	$ 261,940

The accompanying notes are an integral part of the consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Consolidated statements of cash flows

(in thousands)		Year ended January 31, 2017		2016		2015
Cash flows from operating activities:						
Net income	$	26,376	$	16,613	$	10,166
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		13,186		8,601		5,890
Deferred taxes		(2,891)		(2,178)		1,593
Stock-based compensation		8,398		5,883		2,525
Loss on revaluation of redeemable convertible preferred stock derivative		—		—		735
Loss on other investments		—		—		24
Bad debt expense		35		24		31
Amortization of deferred financing costs		68		23		—
Changes in operating assets and liabilities:						
Accounts receivable		(2,728)		(5,174)		(3,380)
Inventories		28		5		(234)
Other assets		(1,343)		(107)		(1,608)
Accounts payable		567		1,011		(1,156)
Accrued compensation		946		2,475		1,167
Accrued liabilities		1,729		(383)		(802)
Other long-term liabilities		1,220		(252)		95
Net cash provided by operating activities		45,591		26,541		15,046
Cash flows from investing activities:						
Purchase of marketable securities		(379)		(40,291)		—
Purchase of property and equipment		(3,645)		(2,376)		(1,712)
Purchase of software and capitalized software development costs		(9,030)		(6,896)		(6,420)
Purchase of other investments		—		(500)		(305)
Acquisition of intangible member assets		—		(40,489)		—
Net cash used in investing activities		(13,054)		(90,552)		(8,437)
Cash flows from financing activities:						
Dividend payments		—		—		(50,347)
Proceeds from initial public offering, net of payments for offering costs		—		—		132,587
Proceeds from follow-on offering, net of payments for offering costs		—		23,492		—
Proceeds from exercise of common stock options		7,142		1,915		2,430
Proceeds from exercise of common stock warrants		—		—		2,380
Tax benefit from exercise of common stock options		16,634		11,557		3,429
Deferred financing costs paid		—		(317)		—
Net cash provided by financing activities		23,776		36,647		90,479
Increase (decrease) in cash and cash equivalents		56,313		(27,364)		97,088
Beginning cash and cash equivalents		83,641		111,005		13,917
Ending cash and cash equivalents	$	139,954	$	83,641	$	111,005

The accompanying notes are an integral part of the consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Consolidated statements of cash flows (continued)

		Year ended January 31,	
(in thousands)	2017	2016	2015
Supplemental cash flow data:			
Interest expense paid in cash	$ (213)	$ (51)	$ —
Income taxes paid in cash, net of refunds received	863	1,356	(1,504)
Supplemental disclosures of non-cash investing and financing activities:			
Purchase price adjustment of acquired intangible members assets	—	104	—
Purchases of property and equipment included in accounts payable or accrued liabilities at period end	25	45	—
Purchases of software and capitalized software development costs included in accounts payable or accrued liabilities at period end	330	127	193
Conversion of preferred stock to common stock	—	—	50,822
Preferred stock accretion	—	—	4,021
Reclassification of series D-3 redeemable convertible preferred stock derivative liability	—	—	6,917
Conversion of common stock warrants to common stock	—	—	2,334

The accompanying notes are an integral part of the consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies

HealthEquity, Inc. was incorporated in the state of Delaware on September 18, 2002, and was organized to offer a full range of innovative solutions for managing health care accounts (Health Savings Accounts ("HSAs"), Health Reimbursement Arrangements ("HRAs"), and Flexible Spending Accounts ("FSAs")) for health plans, insurance companies, and third-party administrators.

In February 2006, HealthEquity, Inc. received designation by the U.S. Department of Treasury to act as a passive non-bank custodian, which allows HealthEquity, Inc. to hold custodial assets in trust for individual account holders. As of December 31, 2016, the Company's year-end for trust and tax purposes, custodial assets held in trust were $4.5 billion. The Company's operations consist primarily of servicing HSAs through the use of the Company's proprietary technology. HSAs are tax-deductible, custodial accounts owned by individuals for health care purchases. An HSA-based health plan has two fundamental components—a High Deductible Health Plan ("HDHP"), which is required to qualify for the tax-deductible contributions to a participant's HSA, and a custodial HSA. As a passive non-bank custodian, according to the Internal Revenue Code ("IRC") 1.408-2(e)(5)(ii)(B)(2), the Company must maintain net worth (assets minus liabilities) greater than 2% of custodial funds held in trust at each year-end in order to take on additional custodial assets. As of December 31, 2016, the Company's year-end for trust and tax purposes, the net worth of the Company as defined in Treasury Regulation §104-2(e)(5)(ii) by subtracting the Company's total liabilities from the total assets, resulted in a calculated net worth of $258,267,974. As of December 31, 2016, the Company's net worth exceeded the required 2% of custodial funds held in trust. In the event the Company is unable to comply with the aforementioned net worth requirement, IRC 1.408-2(e)(5)(ii)(C)(2) requires the Company, as a passive non-bank custodian, to take whatever lawful steps necessary, including the relinquishment of fiduciary accounts, to ensure that its net worth exceeds 1% of the custodial assets.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. This summary of significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

The Company has revised the names of certain financial statement line items to more accurately describe the Company's operations. Amounts previously referred to as account fee revenue are now referred to as service revenue. Amounts previously referred to as custodial fee revenue are now referred to as custodial revenue. Amounts previously referred to as card fee revenue are now referred to as Interchange revenue. Amounts previously referred to as account costs are now referred to as service costs.

The Company has reclassified certain financial statement line items to conform with the newly revised financial statement line items. Amounts previously referred to as other revenue are now included in the service revenue financial statement line item. Amounts previously referred to as other costs are now included in the service costs financial statement line item.

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

Principles of consolidation—The consolidated financial statements include the accounts of HealthEquity, Inc. and its wholly owned subsidiaries, HealthEquity Trust Company, HEQ Insurance Services, Inc., and HealthEquity Advisors, LLC (collectively referred to as the "Company").

During the year ended January 31, 2015, the Company and an unrelated company formed a limited partnership for investment in and the management of early stage companies in the healthcare industry. The Company has a 22% ownership interest in such partnership that is accounted for using the equity method of accounting. The investment was approximately $260,000 as of January 31, 2017 and is included in other assets on the accompanying consolidated balance sheets.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

During the year ended January 31, 2016, the Company purchased an approximate 2% ownership interest in a limited partnership that engages in the development of technology-based financial healthcare products. The Company determined there was no significant influence and therefore the investment was accounted for using the cost method of accounting. Under the cost method of accounting, the fair value of an investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. The investment was $500,000 as of January 31, 2017 and is included in other assets on the accompanying consolidated balance sheet.

During the year ended January 31, 2017, the Company formed HealthEquity Trust Company, a Wyoming corporation and non-depository trust company, to act as the master custodian of all investment assets held in HSAs administered by the Company.

All significant intercompany balances and transactions have been eliminated.

Segments—The Company operates in one segment. Management uses one measurement of profitability and does not segregate its business for internal reporting. All long-lived assets are maintained in the United States of America.

Cash, cash equivalents and restricted cash—The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents were held in institutions in the U.S. and include deposits in a money market account that was unrestricted as to withdrawal or use.

Marketable securities—Marketable securities consist primarily of mutual funds invested in corporate bonds, U.S. government agency securities, U.S. treasury bills, commercial paper, certificates of deposit, municipal notes, and bonds with original maturities beyond three months at the time of purchase. Marketable securities are classified as available-for-sale, held-to-maturity, or trading at the date of purchase. As of January 31, 2017, all marketable securities have been classified as available-for-sale. The Company may sell these securities at any time for use in current operations or for other purposes even if they have not yet reached maturity. As a result, the Company classifies its marketable securities, including securities with maturities beyond twelve months, as current assets in the accompanying consolidated balance sheets. All marketable securities are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive income, net of the related tax effect. The Company evaluates its marketable securities to assess whether those with unrealized loss positions are other-than-temporarily impaired. The Company considers impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely it will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other-than-temporary are determined based on the specific identification method and are reported in other expense, net in the consolidated statements of operations and comprehensive income.

Accounts receivable—Accounts receivable represent monies due to the Company for monthly service revenue, custodial revenue and interchange revenue. As of January 31, 2017, accounts receivable consisted of $7.7 million of service revenue, $5.7 million of custodial revenue, and $3.7 million of interchange revenue. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivable amounts. In evaluating the Company's ability to collect outstanding receivable balances, the Company considers various factors including the age of the balance, the creditworthiness of the customer, which is assessed based on ongoing credit evaluations and payment history, and the customer's current financial condition. As of January 31, 2017 and 2016, the Company had allowance for doubtful accounts of $75,000 and $40,000, respectively.

Inventories—Inventories consist of new member and participant supplies and are recorded at the lower of cost or market using an average cost basis.

Other assets—Other assets consist primarily of prepaid expenditures, income tax receivables, and various other assets. Amounts expected to be recouped or recognized over a period of twelve months or less have been classified as current in the accompanying consolidated balance sheets.

Property and equipment—Property and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

of individual assets. The useful life for leasehold improvements is the shorter of the estimated useful life or the term of the lease ranging from 3-5 years. The useful life used for computing depreciation for all other asset classes is described below:

Computer Equipment	3-5 years
Furniture and Fixtures	5 years

Maintenance and repairs are expensed when incurred, and improvements that extend the economic useful life of an asset are capitalized. Gains and losses on the disposal of property and equipment are reflected in operating expenses.

Capitalized software development costs—We account for the costs of computer software developed or obtained for internal use in accordance with Accounting Standards Codification (“ASC”) 350-40, “Internal-Use Software.” Costs incurred during operation and post-implementation stages are charged to expense. Costs incurred that are directly attributable to developing or obtaining software for internal use incurred in the application development stage are capitalized. Management’s judgment is required in determining the point when various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. See Note 5—Intangible Assets and Goodwill for additional information.

Intangible assets, net—Intangible assets are carried at cost and amortized, typically, on a straight-line basis over their estimated useful lives, which is 3-5 years for capitalized software development costs and acquired technology rights, and 15 years for certain acquired intangible member assets. The acquired intangible member assets are the result of various acquisitions of HSA portfolios. A significant portion of the purchase price from each acquisition has been allocated to the acquired HSA assets, which consists of the contractual rights to administer the activities related to the individual health savings accounts acquired. The Company analyzed the historical attrition and depletion rates of member accounts and determined that an average useful life of 15 years and the use of a straight-line amortization method are appropriate to reflect the pattern over which the economic benefits of existing member assets are realized. The Company reviews identifiable amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. There have been no impairment charges recorded in any of the periods presented in the accompanying consolidated financial statements. See Note 5—Intangible Assets and Goodwill for additional information.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment annually on January 31 or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company’s impairment tests are based on a single operating segment and reporting unit structure. The goodwill impairment test involves a two-step process. The first step involves comparing the Company's market capitalization to the carrying value of the reporting unit, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

The Company’s annual goodwill impairment test resulted in no impairment charges in any of the periods presented in the accompanying consolidated financial statements.

Self insurance—The Company is self-insured for medical insurance up to certain annual stop-loss limits. The Company establishes a liability as of the balance sheet date for claims, both reported and incurred but not reported, using currently available information as well as historical claims experience, and as determined by an independent third party.

Other long-term liabilities—The Company recognizes rental expense for its office lease on a straight-line basis over the lease term. Other long-term liabilities includes deferred rent, which represents the difference between actual

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

operating lease payments due and straight-line rent expense. The excess is recorded as a deferred credit in the early periods of the lease, when cash payments are generally lower than straight-line rent expense, and is reduced in the later periods of the lease when payments begin to exceed the straight-line expense.

Initial public offering—On August 5, 2014, the Company consummated its initial public offering ("IPO") and issued and sold 10,465,000 shares of its common stock at a public offering price of $14.00 per share, less the underwriters' discount. The Company received net proceeds of approximately $132.6 million after deducting underwriters' discounts and commissions of approximately $10.2 million and other offering expenses payable by the Company of approximately $3.7 million. The underwriting discounts and commissions and other offering expenses were recorded as an offset against the IPO proceeds in additional paid-in capital upon the closing of the IPO on August 5, 2014.

Follow-on offering—On May 11, 2015, the Company closed its follow-on public offering and sold 972,500 shares of common stock at a public offering price of $25.90 per share, less the underwriters' discount. Certain selling stockholders sold 3,455,000 shares of common stock in the offering, including 380,000 shares of common stock which were issued upon the exercise of outstanding options. The Company received net proceeds of approximately $23.5 million after deducting underwriting discounts and commissions of approximately $1.0 million and other offering expenses payable by the Company of approximately $688,000. The Company did not receive any proceeds from the sale of shares by the selling stockholders other than $222,000 representing the exercise price of the options that were exercised in connection with the offering.

Capital structure—On July 14, 2014, the Company's board of directors approved an amended and restated certificate of incorporation, pursuant to which the total number of shares of all classes of capital stock that the Company is authorized to issue is 1,000,000,000 shares, including 900,000,000 shares of common stock and 100,000,000 shares of preferred stock, par value $0.0001 per share. The amended and restated certificate of incorporation was filed with the Secretary of State of the State of Delaware and became effective on August 5, 2014 in connection with the completion of the IPO.

On July 14, 2014, the Company's board of directors declared a cash dividend in an aggregate amount of $50.0 million on shares of the Company's common stock outstanding on August 4, 2014 (after giving effect to the conversion of all outstanding convertible preferred stock and redeemable convertible preferred stock into shares of common stock). The terms of each of the Company's stock plans, including the 2003 Director Stock Plan, 2003 Stock Plan, 2005 Stock Plan, 2006 Stock Plan, 2009 Stock Plan and the 2014 Equity Incentive Plan requires an adjustment to outstanding stock options to prevent dilution of the holders' interests as a result of the foregoing special dividend. Accordingly, the Company's board of directors approved an adjustment to reduce the exercise price by $1.00 of each of the stock options outstanding as of the record date, August 4, 2014, excluding those options granted on July 30, 2014 in connection with the IPO. The reduction of the exercise price to stock options outstanding as of the record date, August 4, 2014, resulted in no incremental compensation expense.

As of the close of business on August 4, 2014, all of the Company's redeemable convertible preferred stock and convertible preferred stock converted into 32,486,588 shares of common stock.

Revenue recognition—The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, the price of services is fixed or determinable, and collection is reasonably assured. The Company generates revenue primarily from service revenue (previously referred to as account fee revenue), custodial revenue (previously referred to as custodial fee revenue), interchange revenue (previously referred as card fee revenue).

The Company earns service revenue from the fees paid by health plan partners, employer partners or individual members for administration services provided in connection with the tax-advantaged HSAs, HRAs and FSAs the Company administers. These fees are generally based on a tiered structure fixed for the duration of the contract agreement with health plan or employer partners, which is typically three to five years. The fees are paid on a monthly basis and revenue is recognized monthly as services are rendered under the Company's written service agreements.

The Company earns custodial revenue from HSA custodial assets held in trust. As a non-bank custodian, the Company deposits HSA cash with various custodial financial institutions having contract terms from three to five

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

years and either a fixed or variable interest rate. These deposits are FDIC insured for each individual HSA. The Company also invests HSA cash in an annuity contract with a insurance company partner. HSA investment balances are deposited with the custodial investment partner from whom the Company receives an administrative and recordkeeping fee. The Company recognizes this revenue in the month in which it is earned.

The Company earns interchange revenue from card transactions when members are paying their healthcare claims using a card issued by the Company. The Company recognizes this revenue in the month in which it is earned. Amounts collected in excess of revenue recognized for the period are recorded as deferred revenue and reported as accrued liabilities and other long-term liabilities on the consolidated balance sheet.

Cost of revenue—The Company incurs cost of revenue related to servicing member accounts, managing customer and partner relationships, and processing reimbursement claims. Expenditures include personnel-related costs, depreciation, amortization, stock-based compensation, common expense allocations, new member and participant supplies and other operating costs of the Company's related member account servicing departments. Other components of the Company's cost of revenue sold include interest paid to members on custodial assets held in trust and interchange costs incurred in connection with processing card transactions initiated by members.

Stock-based compensation—For stock options granted to team members, the Company recognizes compensation expense for all stock-based awards based on the grant date estimated fair value. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The fair value of stock options is determined using the Black-Scholes option pricing model. The determination of fair value for stock-based awards on the date of grant using an option pricing model requires management to make certain assumptions regarding a number of complex and subjective variables.

Stock-based compensation expense related to stock options granted to non-team members is recognized based on the fair value of the stock options, determined using the Black-Scholes option pricing model, as they are earned. The awards generally vest over the time period the Company expects to receive services from the non-employee.

For awards with performance conditions, we evaluate the probability of achieving the performance criteria and of the number of shares that are expected to vest, and compensation expense is then adjusted to reflect the number of shares expected to vest and the requisite service period. For awards with performance conditions, compensation expense is recognized using the graded-vesting attribution method in accordance with the provisions of FASB ASC Topic 718, *Compensation—Stock Compensation ("Topic 718")*.

Upon the exercise of a stock option, common shares are issued from authorized, but not outstanding, common stock.

Stock-based compensation expense related to restricted stock units is recognized based on the current value of the Company's closing stock price on the date of grant less the present value of future expected dividends discounted at the risk-free interest rate. Expense for restricted stock units is recognized on a straight-line basis over the requisite service period.

Income tax provision (benefit)—The Company accounts for income taxes and the related accounts under the liability method as set forth in the authoritative guidance for accounting for income taxes. Under this method, current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, for net operating losses, and for tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided for when it is more likely than not that some or all of the deferred tax assets may not be realized in future years. After weighing both the positive and negative evidence, the Company believes that it is more likely than not that all deferred tax assets will be realized as of January 31, 2017.

The Company uses the tax law ordering approach of intraperiod allocation in determining when excess tax benefits have been realized for provisions of the tax law that identify the sequence in which those amounts are utilized for

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

tax purposes.The Company has also elected to exclude the indirect tax effects of share-based compensation deductions in computing the income tax provision recorded within the Consolidated Statement of Operations and Comprehensive Income.

The Company recognizes the tax benefit from an uncertain tax position taken or expected to be taken in a tax return using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authorities, based on the technical merits of the position. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit in the financial statements as the largest benefit that has a greater than 50% likelihood of being sustained upon settlement. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income. Significant judgment is required to evaluate uncertain tax positions. Changes in facts and circumstances could have a material impact on the Company's effective tax rate and results of operations.

Comprehensive income—Comprehensive income is defined as a change in equity of a business enterprise during a period, resulting from transactions from non-owner sources, including unrealized gains and losses on marketable securities.

Asset acquisitions—During the year ended January 31, 2016, the Company acquired the rights to be the custodian of the The Bancorp Bank ("Bancorp") and M&T Bank ("M&T") HSA portfolios. The Company paid $34.2 million and $6.2 million in cash, respectively, which was funded by cash on hand. The purchased group of assets did not include workforce or any processes and therefore did not constitute a business. Accordingly, the acquisitions were accounted for under the asset acquisition method of accounting in accordance with ASC 805-50, Business Combinations—Related Issues. Under the asset acquisition method of accounting, the Company is required to fair value the assets transferred. The cost of the assets acquired is allocated to the individual assets acquired based on their relative fair values and does not give rise to goodwill. The purchase prices of approximately $34.2 million and $6.2 million, respectively, were allocated to acquired intangible member assets. Furthermore, transaction costs that are incurred in conjunction with an asset acquisition are allocated to the acquired intangible member assets.

Business combinations—Acquisition-related expenses incurred in conjunction with the acquisition of a business as defined by ASC 805-10 are recognized in earnings in the period in which they are incurred and are included in other expense, net on the consolidated statement of operations. During the years ended January 31, 2017 and 2016, the Company incurred an expense of $631,000 and $471,000, respectively, for acquisition-related activity. There were no such business combinations during the years ended January 31, 2017, 2016 and 2015.

Concentration of market risk—The Company derives a substantial portion of its revenue from providing services for healthcare accounts. A significant downturn in this market or changes in state and/or federal laws impacting the preferential tax treatment of healthcare accounts could have a material adverse effect on the Company's results of operations. For the years ended January 31, 2017, 2016 and 2015, no one customer accounted for greater than 10% of revenue or accounts receivable.

Concentration of credit risk—Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash. The Company maintains its cash and cash equivalents in bank and other depository accounts, which, at times, may exceed federally insured limits. The Company's cash and cash equivalents held in banks as of January 31, 2017 was $140.0 million, of which $750,000 was covered by federal depository insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. The Company's accounts receivable balance as of January 31, 2017 was $17.0 million. The Company has not experienced any significant write-offs to accounts receivable and believes that it is not exposed to significant credit risk with respect to accounts receivable.

Interest rate risk—The Company has entered into depository agreements with financial institutions for its custodial cash deposits. The contracted interest rates were negotiated at the time the depository agreements were executed. A significant reduction in prevailing interest rates may make it difficult for the Company to continue to place custodial deposits at the current contracted rates.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

Use of estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made estimates for the allowance for doubtful accounts, capitalized software development costs, evaluating goodwill and long-lived assets for impairment, useful lives of property and equipment and intangible assets, accrued compensation, accrued liabilities, grant date fair value of stock options and income taxes. Actual results could differ from those estimates.

Recent accounting pronouncements—On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB voted to defer the effective date to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption beginning for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients,* which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. Finally, the FASB issued ASU 2016-20, which makes minor corrections or minor improvements to the Codification that are not expected to have a significant impact. The foregoing amendments are effective for annual reporting periods beginning after December 15, 2017 and for interim reporting periods within such annual periods. The adoption of this guidance is not expected to have a material impact on the Company's revenue. The Company is still evaluating the impact of this guidance on sales commissions. The Company does not plan to early adopt and has not yet selected a transition method.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which simplifies balance sheet classifications of deferred taxes by requiring all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Effective April 30, 2016, the Company early adopted ASU No. 2015-17 on a prospective basis, which resulted in the reclassification of the Company's current deferred tax asset between both non-current deferred tax asset and non-current deferred tax liability on its consolidated balance sheet. No prior periods were retrospectively adjusted.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. The amendments in this ASU revise an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. This ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for the presentation of certain fair value changes for financial liabilities measured at fair value. The Company does not plan to early adopt and is currently evaluating the potential effect of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure for both parties to a contract (i.e. lessees and lessors). ASC 842 supersedes the previous leases standard, ASC 840 leases. This ASU is effective for financial statements issued for reporting periods beginning after December 15, 2018 and requires a modified retrospective transition, and provides for certain practical expedients; early adoption is permitted. The Company does not plan to early adopt and is currently evaluating the potential effect of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends ASC Topic 718, *Compensation - Stock Compensation*. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including; the income tax consequences,

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 1. Summary of business and significant accounting policies (continued)

classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year of adoption. The Company will adopt this ASU on a prospective basis in the first quarter of fiscal year 2018 which is expected to have an impact on the recording of excess tax benefits in the consolidated balance sheet and consolidated statement of income, as well as the operating and financing cash flows on the consolidated statements of cash flows. The magnitude of such impact is dependent upon future grants, the Company's future stock price in relation to the fair value of awards on the grant date and the stock option exercise behavior.

In June 2016, The FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments,* which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company does not plan to early adopt this ASU. The Company believes the adoption of this ASU will have an immaterial impact on its consolidated financial statements.

In August 2016, The FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230), which provides guidance on the classification of certain cash receipts and cash payments. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not plan to early adopt this ASU. The Company believes the adoption of this ASU will have an immaterial impact on its consolidated financial statements.

In October 2016, The FASB issued ASU 2016-16, *Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory*, which updates the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the potential effect of this ASU on the consolidated financial statements.

In January 2017, The FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides a more robust framework to use in determining when a set of assets and activities is a business. This ASU is effective for fiscal years beginning December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The new guidance is required to be applied on a prospective basis. The Company is currently evaluating the timing of adoption. The effect of the implementation will depend upon the nature of the Company's future acquisitions, if any.

In January 2017, The FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment,* which removes step two from the goodwill impairment test. As a result, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units' fair value. Early adoption is permitted. The Company is currently evaluating the timing of adoption; however it does not believe this ASU will have material impact on the Company's consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 2. Net income per share attributable to common stockholders

The Company computed net income per share of common stock in conformity with the two-class method required for participating securities for the year ended January 31, 2015. Prior to their conversion to common stock, the Company considered its series D-3 redeemable convertible preferred stock to be participating securities as the holders of the preferred stock were entitled to receive a dividend in the event that a dividend was paid on common stock. The following table sets forth the computation of basic and diluted net income per share attributable to common stockholders:

		Year ended January 31,	
(in thousands, except per share data)	**2017**	**2016**	**2015**
Numerator (basic and diluted):			
Net income	$ 26,376	$ 16,613	$ 10,166
Add back (deduction): accretion of redeemable convertible preferred stock	—	—	4,021
Less: dividend on redeemable convertible preferred stock and dividend on convertible preferred stock	—	—	(1,286)
Less: undistributed income attributed to redeemable convertible preferred stockholders	—	—	(843)
Net income attributable to common stockholders for basic earnings per share	$ 26,376	$ 16,613	$ 12,058
Add back: dividend of redeemable convertible preferred stock	—	—	1,286
Add back (deduction): accretion on redeemable convertible preferred stock and dividend on convertible preferred stock	—	—	(4,021)
Add back: series D-3 derivative liability revaluations	—	—	735
Add back: adjustment to undistributed income attributed to redeemable convertible preferred stockholders	—	—	843
Net income attributable to common stockholders for diluted earnings per share	$ 26,376	$ 16,613	$ 10,901
Denominator (basic):			
Weighted-average common shares outstanding	58,615	56,719	31,181
Denominator (diluted):			
Weighted-average common shares outstanding	58,615	56,719	31,181
Effect of potential dilutive securities:			
Weighted-average dilutive effect of stock options	1,279	2,144	3,071
Weighted-average dilutive effect of common shares from stock warrants	—	—	1,227
Dilutive effect from preferred stock assuming conversion	—	—	16,377
Weighted-average common shares outstanding	59,894	58,863	51,856
Net income per share attributable to common stockholders:			
Basic	$ 0.45	$ 0.29	$ 0.39
Diluted	$ 0.44	$ 0.28	$ 0.21

For the years ended January 31, 2017 and 2016, approximately 1.4 million and 791,000 shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. For the year ended January 31, 2015, approximately 745,000 shares attributable to outstanding series A and series B convertible preferred stock, series C, D-1, D-2 and D-3 redeemable convertible preferred stock, common stock warrants, and stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 3. Cash, cash equivalents and marketable securities

Cash, cash equivalents and marketable securities as of January 31, 2017 consisted of the following:

(in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 139,954	$ —	$ —	$ 139,954
Marketable securities:				
Mutual funds	40,670	207	(472)	40,405
Total cash, cash equivalents and marketable securities	$ 180,624	$ 207	$ (472)	$ 180,359

Cash, cash equivalents and marketable securities as of January 31, 2016 consisted of the following:

(in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$ 83,641	$ —	$ —	$ 83,641
Marketable securities:				
Mutual funds	40,292	78	(236)	40,134
Total cash, cash equivalents and marketable securities	$ 123,933	$ 78	$ (236)	$ 123,775

The following table summarizes the cost basis and fair value of the marketable securities by contractual maturity as of January 31, 2017:

(in thousands)	Cost basis	Fair value
One year or less	$ 25,350	$ 25,266
Over one year and less than five years	15,320	15,139
Total	$ 40,670	$ 40,405

Unrealized losses from marketable securities are primarily attributable to change in interest rates. The Company does not believe any remaining unrealized losses represent other-than-temporary impairments based on the Company's evaluation of available evidence as of January 31, 2017. As of January 31, 2017, marketable securities with an unrealized loss position for more than twelve consecutive months were as follows:

	Less than one year		Greater than one year	
(in thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses
Mutual funds	$ 25,266	$ (290)	$ 15,139	$ (182)

Note 4. Property and equipment

Property and equipment consisted of the following as of January 31, 2017 and January 31, 2016:

(in thousands)	January 31, 2017	January 31, 2016
Leasehold improvements	$ 860	$ 700
Furniture and fixtures	3,129	1,592
Computer equipment	7,194	5,825
Property and equipment, gross	11,183	8,117
Accumulated depreciation	(6,013)	(4,611)
Property and equipment, net	$ 5,170	$ 3,506

Depreciation expense for the years ended January 31, 2017, 2016 and 2015 was $2.0 million, $1.5 million and $1.1 million, respectively.

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

Note 5. Intangible assets and goodwill

During the year ended January 31, 2016, the Company acquired the rights to be custodian of the Bancorp and M&T HSA portfolios for $34.2 million and $6.2 million, respectively. The costs, including transaction costs, were allocated to acquired intangible member assets as of January 31, 2016. The Company has determined the acquired intangible member assets to have a useful life of 15 years. The assets will be amortized using the straight-line amortization method, which has been determined appropriate to reflect the pattern over which the economic benefits of existing member assets are realized.

During the years ended January 31, 2017, 2016 and 2015, the Company capitalized software development costs of $7.7 million, $5.6 million and $5.2 million, respectively, related to significant enhancements and upgrades to its proprietary system.

The gross carrying amount and associated accumulated amortization of intangible assets is as follows as of January 31, 2017 and January 31, 2016:

(in thousands)	January 31, 2017	January 31, 2016
Amortized intangible assets:		
Capitalized software development costs	$ 23,925	$ 16,104
Software	7,041	5,994
Acquired intangible member assets	64,962	64,948
Intangible assets, gross	95,928	87,046
Accumulated amortization	(30,908)	(20,206)
Intangible assets, net	$ 65,020	$ 66,840

During the years ended January 31, 2017, 2016 and 2015, the Company incurred and expensed a total of $10.0 million, $7.6 million and $4.6 million, respectively, in software development costs primarily related to the post-implementation and operation stages of its proprietary software.

Amortization expense for the years ended January 31, 2017, 2016 and 2015 was $11.2 million, $7.1 million and $4.8 million, respectively. Estimated amortization expense for the years ending January 31 is as follows:

Year ending January 31, (in thousands)	
2018	$ 10,462
2019	8,711
2020	6,359
2021	4,450
2021	4,331
Thereafter	30,707
Total	$ 65,020

All of the Company's goodwill was generated from the acquisition of First Horizon MSaver, Inc. on August 11, 2011. There have been no changes to the goodwill carrying value during the years ended January 31, 2017 and 2016.

Note 6. Commitments and contingencies

Property, colocation, equipment, and license agreements—The Company leases office space, data storage facilities, equipment and certain maintenance agreements under long-term, non-cancelable operating leases. Future minimum lease payments required under non-cancelable obligations as of January 31, 2017 are as follows:

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Note 6. Commitments and contingencies (continued)

Year ending January 31, (in thousands)	Office lease	Other agreements	Total
2018	$ 2,398	$ 1,257	$ 3,655
2019	3,297	1,218	4,515
2020	3,318	939	4,257
2021	3,541	883	4,424
2022	3,630	30	3,660
Thereafter	18,165	—	18,165
Total	$ 34,349	$ 4,327	$ 38,676

Office lease obligations—On May 15, 2015, the Company entered into a lease agreement to expand its headquarters in Draper, Utah. The lease provided for the new landlord to construct a building at their cost. The lease commenced upon the substantial completion and delivery of the building to the Company on July 1, 2016 and has an initial term of 129 months thereafter, with an option for the Company to extend the lease for two additional five-year periods. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $1.0 million, with 2.5% annual increases. In conjunction with the aforementioned lease, the Company entered into an amended and restated lease agreement for its existing office space at its headquarters in Draper, Utah. The lease commenced on July 1, 2015 and has an initial term of 129 months thereafter, with an option for the Company to extend the lease for two additional five-year periods. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $1.6 million, with 2.5% annual increases. As a result of the foregoing transaction, the deferred rent balance of approximately $470,000 was reversed during the year ended January 31, 2016.

On September 16, 2016, the Company entered into an amendment to its lease agreement, dated May 15, 2015, by and between the Company and its landlord to expand its current office space. The term of the lease commenced on July 1, 2016 and will expire on March 31, 2027. The Company is responsible for payment of taxes and operating expenses for its portion of the building, in addition to an annual base rent in the initial amount of approximately $569,000, with 2.5% annual increases.

Lease expense for office space for the years ended January 31, 2017, 2016 and 2015 totaled $3.3 million, $2.1 million and $1.6 million, respectively. Expense for other agreements for the years ended January 31, 2017, 2016 and 2015 totaled $307,000, $249,000 and $148,000, respectively.

Data storage and equipment lease obligations—The data storage and equipment leases relate to our offsite data storage facility and office equipment leases. All of these leases expire during the year ended January 31, 2020.

Telephony services—The telephony service agreement relates to our 24/7/365 member support center. The agreement expires in December of 2018.

Processing services agreement—During the year ended January 31, 2016, the Company amended its merchant processing services agreement with a vendor. The agreement expires December 31, 2020 and requires the Company to pay a dollar minimum processing fee based on the processing year of the agreement. The Company may terminate the agreement beginning January 1, 2020 by providing 180 days' written notice.

If the processing agreement is terminated prior to December 31, 2020, the Company is required to pay the vendor a termination fee, equal to 75% of the aggregate value of the minimum processing fees for the remaining years of the agreement, plus a portion of the account boarding incentive fee.

For each of the years ended January 31, 2017, 2016 and 2015, the Company exceeded the minimum amounts required under the agreement.

The Company also has agreements with several entities for access to technology and software. The agreements are based on usage, and there are no minimum required monthly payments.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 6. Commitments and contingencies (continued)

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

Indemnification—In accordance with the Company's amended and restated Certificate of Incorporation and amended and restated bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving at the Company's request in such capacity. There have been no claims to date and the Company has a director and officer insurance policy that may enable it to recover a portion of any amounts paid for future claims.

Litigation—The Company may from time to time be involved in legal proceedings arising from the normal course of business. There are no material pending or threatened legal proceedings as of January 31, 2017 and 2016.

Note 7. Indebtedness

On September 30, 2015, the Company entered into a new credit facility (the "Credit Agreement"). The Credit Agreement provides for a secured revolving credit facility in the aggregate principal amount of $100.0 million for a term of five years. The proceeds of borrowings under the Credit Agreement may be used for general corporate purposes. No amounts have been drawn under the Credit Agreement as of January 31, 2017.

Borrowings under the Credit Agreement bear interest equal to, at the Company's option, a) an adjusted LIBOR rate or b) a customary base rate, in each case with an applicable spread to be determined based on the Company's leverage ratio as of the most recent fiscal quarter. The applicable spread for borrowing under the Credit Agreement will range from 1.50% to 2.00% with respect to adjusted LIBOR rate borrowings and 0.50% to 1.00% with respect to customary base rate borrowings. Additionally, the Company will pay a commitment fee ranging from 0.20% to 0.30% on the daily amount of the unused commitments under the Credit Agreement payable in arrears at the end of each fiscal quarter. During the years ended January 31, 2017 and 2016, the Company incurred $275,000 and $91,000, respectively, of interest expense associated to the Credit Agreement.

The Company's material subsidiaries are required to guarantee the obligations of the Company under the Credit Agreement. The obligations of the Company and the guarantors under the Credit Agreement and the guarantees are secured by substantially all assets of the Company and the guarantors, subject to customary exclusions and exceptions.

The Credit Agreement requires the Company to maintain a total leverage ratio of not more than 3.00 to 1.00 as of the end of each fiscal quarter and a minimum interest coverage ratio of at least 3.00 to 1.00 as of the end of each fiscal quarter. In addition, the Credit Agreement includes customary representations and warranties, affirmative and negative covenants, and events of default. The restrictive covenants include customary restrictions on the Company's ability to incur additional indebtedness; make investments, loans or advances; grant or incur liens on assets; engage in mergers, consolidations, liquidations or dissolutions; engage in transactions with affiliates; and make dividend payments. The Company was in compliance with these covenants as of January 31, 2017.

In connection with the Credit Agreement, the Company incurred $317,000 in financing costs, which are deferred and are being amortized using the straight-line method, which approximates the effective interest method, over the life of the agreement.

HealthEquity, Inc. and subsidiaries
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Note 8. Income taxes

The Income tax provision consisted of the following:

(in thousands)	2017	2016	2015
			Year ended January 31,
Current:			
Federal	$ 14,848	$ 9,876	$ 3,574
State	1,823	1,226	451
Total current tax provision	$ 16,671	$ 11,102	$ 4,025
Deferred:			
Federal	$ (2,308)	$ (1,772)	$ 1,703
State	(619)	(389)	(130)
Total deferred tax (benefit) provision	$ (2,927)	$ (2,161)	$ 1,573
Total income tax provision	$ 13,744	$ 8,941	$ 5,598

Total income tax provision differed from the amounts computed by applying the U.S. federal statutory income tax rate of 34% to income before income tax provision as a result of the following:

(in thousands)	2017	2016	2015
			Year ended January 31,
Federal income tax provision at the statutory rate	$ 13,641	$ 8,688	$ 5,360
State income tax provision, net of federal tax benefit	742	541	297
Non-deductible or non-taxable items	87	56	313
Federal research and development credit	(907)	(371)	(421)
Change in uncertain tax position reserves, net of indirect benefits	246	96	54
Other items, net	(65)	(69)	(5)
Total income tax provision	$ 13,744	$ 8,941	$ 5,598

Our effective income tax rate for the years ended January 31, 2017, 2016 and 2015 was 34.3%, 35.0%, and 35.5%, respectively. The difference between the effective income tax rate and the U.S. federal statutory income tax rate each period is impacted by a number of factors, including the relative mix of earnings among state jurisdictions, credits, and other discrete items. The decrease in the effective tax rate for the years ended January 31, 2017 and 2016 was primarily the result of an increase in research and development credits.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 8. Income taxes (continued)

Deferred tax assets and liabilities consisted of the following:

(in thousands)	January 31, 2017	January 31, 2016
Deferred tax assets:		
Current:		
Accrued bonuses	$ —	$ 646
Net operating loss carryforward	—	55
Research and development credits	—	1,120
AMT credits	—	548
Other, net	—	273
Net current deferred tax asset	$ —	$ 2,642
Non-current:		
Accrued bonuses	$ 499	$ —
Other accrued liabilities	559	—
Deferred rent	364	89
Stock compensation	5,061	3,018
Net operating loss carryforward	84	32
Research and development credits	2,225	120
AMT credits	548	—
Other, net	449	28
Net non-current deferred tax asset	9,789	3,287
Total gross deferred tax assets	$ 9,789	$ 5,929
Deferred tax liabilities:		
Non-current:		
Fixed assets: depreciation and gain/loss	$ (902)	$ (762)
Intangibles: amortization	(7,252)	(6,521)
Other, net	(57)	—
Total gross non-current deferred tax liability	(8,211)	(7,283)
Net non-current deferred tax asset (liability)	$ 1,578	$ (3,996)
Net deferred tax asset (liability)	$ 1,578	$ (1,354)

Effective April 30, 2016, the Company early adopted ASU No. 2015-17 on a prospective basis, which resulted in the reclassification of the Company's current deferred tax asset between both non-current deferred tax asset and non-current deferred tax liability on its consolidated balance sheet. No prior periods were retrospectively adjusted.

In assessing whether deferred tax assets would be realized, management considered whether it is more likely than not that some portion or all of the deferred tax assets would be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment and determined that based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that the Company will be able to realize its deferred tax assets. Therefore, no valuation allowance was required as of January 31, 2017.

As of January 31, 2017, the Company had recorded gross federal and state net operating loss carryforwards of $55,000 and $1.4 million, respectively, which begin to expire at various intervals between tax years ending December 31, 2023 and December 31, 2029. As of January 31, 2017, the Company also had federal and state research and development carryforwards of $2.1 million and $1.1 million, respectively, which expire beginning with the tax year ending December 31, 2024 and 2018, respectively, and federal and state alternative minimum tax credit carryforwards of $547,000 and $1,000, respectively, which do not expire.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 8. Income taxes (continued)

The Company’s current income taxes payable has been reduced by tax benefits from employee and director equity plan awards. The Company receives an income tax benefit calculated as the tax effect of the difference between the fair market value of the stock issued at the time of exercise or release and the exercise price. In accordance with FASB ASC 718-740-25-10, *Compensation-Stock Compensation*, a portion of deferred tax assets attributable to excess stock option benefits is tracked separately and is not included in the recorded deferred tax asset. The Company uses the tax law ordering approach of intraperiod allocation in determining when excess tax benefits have been realized for provisions of the tax law that identify the sequence in which those amounts are utilized for tax purposes. The Company has also elected to exclude the indirect tax effects of share-based compensation deductions in computing the income tax provision recorded within the consolidated statement of operations and comprehensive income. As of January 31, 2017, the federal and state deferred tax asset attributable to excess stock option benefits totaled $8.1 million. Such benefit will not be recorded until the deduction reduces cash taxes payable and is comprised of gross federal and state net operating loss carryforwards of $21.5 million and $15.3 million, respectively.

As of January 31, 2017 and 2016, the gross unrecognized tax benefit was $674,000 and $393,000, respectively. If recognized, $572,000 and $325,000 of the total unrecognized tax benefits would affect the Company's effective tax rate as of January 31, 2017 and 2016, respectively. Total gross unrecognized tax benefits increased by $281,000 in the period from January 31, 2016 to January 31, 2017. A tabular reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

(in thousands)		January 31, 2017		January 31, 2016
Gross unrecognized tax benefits at beginning of year	$	393	$	300
Gross amounts of increases and decreases:				
Increases as a result of tax positions taken during a prior period		—		—
Decreases as a result of tax positions taken during a prior period		—		—
Increases as a result of tax positions taken during the current period		281		115
Decreases as a result of tax positions taken during the current period		—		—
Decreases resulting from the lapse of the applicable statute of limitations		—		(22)
Gross unrecognized tax benefits at end of year	$	674	$	393

Certain unrecognized tax benefits are required to be netted against their related deferred tax assets as a result of Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The resulting unrecognized tax benefit recorded within the Company's consolidated balance sheet excludes the following amounts that have been netted against the related deferred tax assets accordingly:

(in thousands)		January 31, 2017		January 31, 2016
Total gross unrecognized tax benefits	$	674	$	393
Amounts netted against related deferred tax assets		(674)		(393)
Unrecognized tax benefits recorded on the consolidated balance sheet	$	—	$	—

The Company’s policy is to recognize interest and penalties related to unrecognized tax benefits as a component of other expense in the statement of operations. During the years ended January 31, 2017, 2016, and 2015, respectively, the Company recorded a decrease of $0, $8,000 and $6,000 in interest and penalties related to unrecognized tax benefits. As of January 31, 2017 and 2016, no accrued interest and penalties were recorded.

The Company files income tax returns with U.S. federal and state taxing jurisdictions and is not currently under examination with any jurisdiction. The Company remains subject to examination by federal and various state taxing jurisdictions for tax years after 2005.

HealthEquity, Inc. and subsidiaries
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Note 9. Redeemable convertible preferred stock and convertible preferred stock

In connection with the Company's IPO, all outstanding shares of the Company's convertible preferred stock and redeemable convertible preferred stock converted into 32,486,588 shares of common stock. In accordance with their respective terms, shares of the series A and series B convertible preferred stock and D-3 redeemable convertible preferred stock converted into shares of common stock on a 1:1 basis, shares of series C redeemable and convertible preferred stock converted into shares of common stock on a 1:1.38 basis, shares of the series D-1 redeemable convertible preferred stock converted into shares of common stock on a 1:2 basis, and shares of the series D-2 redeemable convertible preferred stock converted into shares of common stock on a 1:2.27 basis. As a result, as of August 4, 2014, amounts associated with the convertible preferred stock and redeemable convertible preferred stock were reclassified to additional paid-in capital, and no amounts were outstanding as of January 31, 2017 and 2016.

Series A convertible preferred stock—The Company issued a total of 2.0 million shares of series A convertible preferred stock at a price of $1.00 per share, convertible into 2.0 million shares of common stock of the Company.

Each share of series A convertible preferred stock was entitled to accrue dividends at the rate of 6% per annum from the date of issuance; however, accrued dividends were payable only in connection with a liquidation event. Upon the occurrence of any liquidation, dissolution or winding up of the Company, the liquidation preference was to be paid first to series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders in preference to the shares of series A and B convertible preferred stock. Had funds been unavailable to return an amount equal to the issue price plus all unpaid dividends, all legally available assets for distribution would be distributed to the stockholders of the series C, D-1, D-2 and D-3 redeemable convertible preferred shares, and then to the stockholders of the series A and B convertible preferred shares on par with each other on a pro-rata basis.

Series A convertible preferred stock had no redemption rights.

Series B convertible preferred stock—The Company issued 4.7 million shares of series B convertible preferred stock at $1.50 per share, convertible into 4.7 million shares of common stock of the Company.

On January 30, 2014, the Company's Board of Directors approved a stock repurchase of 582,000 shares of series B convertible preferred stock at $5.00 per share. The repurchased shares were immediately retired by the Company. As of January 31, 2014, 4.2 million shares of series B convertible preferred stock were issued and outstanding, convertible into 4.2 million shares of common stock of the Company.

Each share of series B convertible preferred stock was entitled to accrue dividends at 6% per annum from the date of issuance; however, accrued dividends were payable only in connection with a liquidation event. Upon the occurrence of any liquidation, dissolution or winding up of the Company, an amount equal to the purchase price per share plus accrued and unpaid dividends were to be paid first to series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders in preference to the shares of series A and B convertible preferred stock. Had funds been unavailable to return an amount equal to the issue price plus all unpaid dividends, all legally available assets for distribution would be first distributed to the stockholders of the series C, D-1, D-2 and D-3 redeemable convertible preferred shares, and then to the stockholders of Series A and B Convertible Preferred shares on par with each other on a pro-rata basis.

Series B convertible preferred stock had no redemption rights.

Series C redeemable convertible preferred stock—The Company issued 6.8 million shares of its series C redeemable convertible preferred stock at $2.32 per share, convertible into 9.4 million shares of common stock of the Company.

On January 30, 2014, the Company's Board of Directors approved a stock repurchase of 22,000 shares of series C redeemable convertible preferred stock (or 31,000 common stock equivalent shares) at $5.00 per common stock equivalent share. The repurchased shares were immediately retired by the Company.

Each share of series C redeemable convertible preferred stock was entitled to accrue dividends at 6% per annum from the date of issuance; however, accrued dividends were payable only in connection with a liquidation event. Upon occurrence of any liquidation, dissolution, or winding up of the Company, stockholders of series C, D-1, D-2

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 9. Redeemable convertible preferred stock and convertible preferred stock (continued)

and D-3 redeemable convertible preferred shares were entitled to receive an amount equal to the purchase price plus all accrued and unpaid dividends in preference to the stockholders of series A and B convertible preferred shares. Had there been insufficient funds to pay the series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders their liquidation preference, the entire assets and funds of the Company legally available for distribution would have been distributed to the stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred shares in proportion to the number of shares held by each stockholder and then to the stockholders of the series A and B convertible preferred shares on par with each other on a pro-rata basis.

Stockholders of series C redeemable convertible preferred stock had special voting rights. Until such date as (i) stockholders of series C redeemable convertible preferred stock held less than 5% of the outstanding common stock of the Company, on an as-converted basis or (ii) the Company completed a qualified public offering, as defined in the Company's amended and restated Certificate of Incorporation, the series C redeemable convertible preferred stockholders were entitled to vote separately as a single class to the exclusion of all other classes of the Company's capital stock on certain corporate matters. The approval of a majority of the series C redeemable convertible preferred stock, with each share entitled to one vote, was required for the Company to engage in any of the specified corporate actions set forth in the Company's amended and restated Certificate of Incorporation. In addition, the majority of series C redeemable convertible preferred stockholders were entitled to elect three Directors and one observer to the Company's Board of Directors.

Stockholders of series C preferred stock also had redemption rights (see below).

Series D-1 redeemable convertible preferred stock—The Company issued 5.8 million shares of its series D-1 redeemable convertible preferred stock at $1.10 per share, convertible into 11.7 million shares of common stock of the Company.

Each share of the series D-1 redeemable convertible preferred stock was entitled to accrue dividends at 6% per annum from the date of issuance; however, accrued dividends were payable only in connection with a liquidation event. Upon occurrence of any liquidation, dissolution, or winding up of the Company, stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred stock was entitled to receive an amount equal to the purchase price plus all accrued and unpaid dividends in preference to the stockholders of series A and B convertible preferred stock. Had there been insufficient funds to pay the series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders their liquidation preference, the entire assets and funds of the Company legally available for distribution would have been distributed to the stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred shares in proportion to the number of shares held by each stockholder and then to the stockholders of the series A and B convertible preferred shares on par with each other on a pro-rata basis.

Stockholders of series D-1 redeemable convertible preferred stock also had redemption rights (see below).

Series D-2 redeemable convertible preferred stock—The Company issued 440,000 shares of its series D-2 redeemable convertible preferred stock at $1.25 per share, convertible into 1.0 million shares of common stock of the Company.

Each share of the series D-2 redeemable convertible preferred stock was entitled to accrue dividends at 6% per annum from the date of issuance; however, accrued dividends were payable only in connection with a liquidation event. Upon occurrence of any liquidation, dissolution, or winding up of the Company, stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred stock were entitled to receive an amount equal to the purchase price plus all accrued and unpaid dividends in preference to the stockholders of series A and B convertible preferred stock. Had there been insufficient funds to pay the series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders their liquidation preference, the entire assets and funds of the Company legally available for distribution would have been distributed to the stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred shares in proportion to the number of shares held by each stockholder and then to the stockholders of the series A and B convertible preferred shares on par with each other on a pro-rata basis.

Stockholders of series D-2 redeemable convertible preferred stock also had redemption rights (see below).

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Note 9. Redeemable convertible preferred stock and convertible preferred stock (continued)

Series D-3 redeemable convertible preferred stock—The Company issued 4.4 million shares of series D-3 redeemable convertible preferred stock at $2.64 per share, convertible into 4.4 million shares of common stock of the Company.

On January 30, 2014, the Company's Board of Directors approved a stock repurchase of 61,743 shares of series D-3 redeemable convertible preferred stock at $5.00 per share. The repurchased shares were immediately retired by the Company. As of January 31, 2014, 4.3 million total shares of series D-3 redeemable convertible preferred stock were issued and outstanding, convertible into 4.3 million shares of common stock of the Company, respectively.

Each share of series D-3 redeemable convertible preferred stock accrued dividends from the date of issuance of such share at the annual rate of six percent (6%) of the Purchase Price per Share for such share of series D-3 redeemable convertible preferred stock. Such dividends accrued with respect to each share of preferred stock and were payable in cash within 30 days after the end of each fiscal year of the Company; provided, dividends on shares of series D-3 redeemable convertible preferred stock for the Company's year ended January 31, 2014 were not payable in cash and instead were payable by issuance of additional shares of series D-3 redeemable convertible preferred stock.

On January 31, 2013, an additional 248,000 shares of series D-3 redeemable convertible preferred stock valued at $655,000 were issued to the series D-3 redeemable convertible preferred stockholders as payment of series D-3 dividends through such date. Such shares were convertible into 248,000 shares of common stock of the Company.

On January 31, 2014, the Company paid a cash dividend of $694,000, or $0.16 per share, to the series D-3 redeemable convertible preferred stockholders in payment of series D-3 dividends through such date. In addition, the Company paid a cash dividend of $347,000 on shares of outstanding series D-3 redeemable convertible preferred stock accrued through the date of conversion of such shares into common stock, which occurred on August 4, 2014.

Upon occurrence of any liquidation, dissolution, or winding up of the Company, stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred stock were entitled to receive an amount equal to the purchase price plus all accrued and unpaid dividends in preference to the stockholders of series A and B convertible preferred stock. Had there been insufficient funds to pay the series C, D-1, D-2 and D-3 redeemable convertible preferred stockholders their liquidation preference, the entire assets and funds of the Company legally available for distribution would have been distributed to the stockholders of series C, D-1, D-2 and D-3 redeemable convertible preferred shares in proportion to the number of shares held by each stockholder and then to the stockholders of the series A and B convertible preferred shares on par with each other on a pro rata basis.

Series D-3 redeemable convertible preferred stockholders had no voting rights unless required by law.

Stockholders of series D-3 redeemable convertible preferred stock also had redemption rights (see below).

Redemption rights—Stockholders of the Company's series C, series D-1, series D-2 and series D-3 redeemable convertible preferred stock had certain redemption rights. At any time following October 5, 2013, the stockholders of a majority of the issued and outstanding shares of the series C redeemable convertible preferred stock could have, by written notice, elected to require the Company to redeem all of the issued and outstanding series C, series D-1, series D-2, and series D-3 redeemable convertible preferred stock, for an amount equal to the aggregate of the liquidation preference for each issued and outstanding share; provided, however, that any holder of series D-3 could have, by written notice elected to not have such holder's shares of series D-3 redeemed. The holders of a majority of the issued and outstanding shares of series D-3 could have elected to require the Corporation to redeem all, but not less than all, of the issued and outstanding series D-3 preferred stock at any time following August 11, 2018, for a per share amount equal to the greater of: (a) the fair market value of a share of series D-3 as determined in good faith by the Board without taking into account to any discount for minority interest, illiquidity or other similar considerations, or any premium for change in control or liquidity; or (b) the Liquidation preference of a share of series D-3.

HealthEquity, Inc. and subsidiaries
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Note 9. Redeemable convertible preferred stock and convertible preferred stock (continued)

This fair value redemption feature resulted in a requirement to separately account for the conversion feature as derivative liability that is adjusted to fair value as of the end of each reporting period. The value of the derivative liability associated with the series D-3 redeemable convertible preferred stock totaled $6.2 million as of January 31, 2014. As discussed in Note 12. Fair Value, the series D-3 redeemable convertible preferred stock terms were modified and as a result, the aggregate fair value of the derivative liability was reclassified to additional paid-in capital.

The Company recorded accretion related to the redemption features of their redeemable convertible preferred stock as an increase or decrease to the respective instrument's carrying value with a corresponding decrease or increase to additional paid in capital or accumulated deficit based upon the respective redemption value of each class of redeemable convertible preferred stock in accordance with the Company's Articles of Incorporation.

Note 10. Common stock warrants

In conjunction with a rights equalization agreement, the Company issued warrants to series A convertible preferred stockholders to purchase 150,000 shares of its common stock for $1.00 per share. The warrants were exercisable through November 2015, of which 26,000 were exercised with 124,000 outstanding as of January 31, 2014. The 124,000 warrants outstanding as January 31, 2014 were all exercised during the year ended January 31, 2015. The warrants had a fair market value of $51,000 at the date of issuance.

In conjunction with the issuance of the series B convertible preferred stock, warrants to purchase 400,000 shares of common stock with an exercise price of $1.00 per share were granted to series B convertible preferred stockholders. The warrants were exercisable through February 2014, of which 50,000 were exercised with 350,000 outstanding as of January 31, 2014. Of the 350,000 warrants outstanding as of January 31, 2014, 340,000 were exercised, and 10,000 were forfeited during the year ended January 31, 2015. The warrants had a fair market value of $44,000 at the date of issuance.

The Company issued warrants to purchase an additional 200,000 shares of common stock to series B convertible preferred stockholders with an exercise price of $1.00 per share. The warrants were exercisable through September 2015, of which 5,000 were exercised with 195,000 outstanding as of January 31, 2014. The 195,000 warrants outstanding as of January 31, 2014 were all exercised during the year ended January 31, 2015. The warrants had a fair market value of $66,000 at the date of issuance.

In conjunction with the issuance of the series C redeemable convertible preferred stock, the Company issued detachable warrants to purchase 600,000 shares of common stock with an exercise price of $1.50 per share to series C redeemable convertible preferred stockholders. The warrants were exercisable through August 2016, of which 10,000 were exercised with 590,000 outstanding as of January 31, 2014. The 590,000 warrants outstanding as of January 31, 2014 were all exercised during the year ended January 31, 2015. The warrants had a fair market value of $339,000 at the date of issuance. The Company issued warrants to purchase an additional 1.0 million shares of common stock to series C redeemable convertible preferred stockholders with an exercise price of $0.01 per share. The warrants were exercisable through May 2017, of which 4,000 were exercised with 1.0 million outstanding as of January 31, 2014. The 1.0 million warrants outstanding as of January 31, 2014 were all exercised during the year ended January 31, 2015. The warrants had a fair market value of $1.6 million at the date of issuance.

In conjunction with the issuance of the series D-1 redeemable convertible preferred stock, the Company issued detachable warrants to purchase 400,000 shares of common stock with an exercise price of $2.00 per share. The warrants were exercisable upon the option of the stockholder through August 2018, of which 400,000 were outstanding as of January 31, 2014. The 400,000 warrants outstanding as of January 31, 2014 were all exercised during the year ended January 31, 2015.

In conjunction with the issuance of the series D-3 redeemable convertible preferred stock, warrants to purchase 966,000 shares of common stock with an exercise price of $0.01 per share were granted to series D-3 redeemable convertible preferred stockholders. The warrants were exercisable through August 2021, of which 767,000 were

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 10. Common stock warrants (continued)

exercised with 199,000 outstanding as of January 31, 2014. The warrants outstanding as of January 31, 2014 were all exercised during the year ended January 31, 2015. The warrants had a value of $1.7 million at the date of issuance.

As a result of the foregoing, as of January 31, 2017 and 2016, there were no warrants outstanding.

Note 11. Stock-based compensation

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

	Year ended January 31,		
(in thousands)	**2017**	**2016**	**2015**
Cost of revenue	$ 1,780	$ 1,088	$ 403
Sales and marketing	914	903	504
Technology and development	1,903	1,014	263
General and administrative	3,801	2,878	1,355
Total stock-based compensation expense	$ 8,398	$ 5,883	$ 2,525

Stock options

The Company currently grants stock options under the 2014 Equity Incentive Plan. On January 30, 2014, the Company's board of directors approved, and the Company adopted, the 2014 Equity Incentive Plan (as amended and restated, the "Incentive Plan") providing for the issuance of stock options to the directors and team members of the Company to purchase up to an aggregate of 600,000 shares of common stock.

In July 2014, the Company's board of directors approved an increase to the shares of common stock reserved under the Incentive Plan by 2.0 million shares from 600,000 shares of common stock to 2.6 million shares of common stock. In addition, the board of directors approved an amendment to the Incentive Plan providing that the number of shares of common stock reserved for issuance under the Incentive Plan will automatically increase on February 1 of each year, beginning as of February 1, 2015 and continuing through and including February 1, 2024, by 3% of the total number of shares of the Company's capital stock outstanding on January 31 of the preceding fiscal year, or a lesser number of shares determined by the board of directors. As of January 31, 2017, 1.8 million shares were available for grant under the Incentive Plan.

Under the terms of the Incentive Plan, the Company has the ability to grant incentive and nonqualified stock options. Incentive stock options may be granted only to Company team members. Nonqualified stock options may be granted to Company team members, directors and consultants. Such options are to be exercisable at prices, as determined by the board of directors, which must be equal to no less than the fair value of the Company's common stock at the date of the grant. Stock options granted under the Incentive Plan generally expire 10 years from the date of issuance, or are forfeited 90 days after termination of employment. Shares of common stock underlying stock options that are forfeited or that expire are returned to the Incentive Plan.

Valuation assumptions. The Company has adopted the provisions of Topic 718, which requires the measurement and recognition of compensation for all stock-based awards made to team members and directors, based on estimated fair values.

Under Topic 718, the Company uses the Black-Scholes option pricing model as the method of valuation for stock-based awards. The determination of the fair value of stock-based awards on the date of grant is affected by the fair value of the stock as well as assumptions regarding a number of complex and subjective variables. The variables include, but are not limited to, 1) the expected life of the option, 2) the expected volatility of the fair value of the Company's common stock over the term of the award estimated by averaging the published volatilities of a relative peer group, 3) actual and projected exercise and forfeiture behaviors, and 4) expected dividends.

The key input assumptions that were utilized in the valuation of the stock options granted during the years ended January 31, 2017, 2016 and 2015 are as follows:

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 11. Stock-based compensation (continued)

			Year ended January 31,
	2017	2016	2015
Expected dividend yield	—%	—%	—%
Expected stock price volatility	38.01% - 38.37%	38.29% - 40.29%	32.90% - 40.29%
Risk-free interest rate	1.18% - 2.18%	1.47% - 1.80%	1.12% - 2.24%
Expected life of options	4.50 - 6.25 years	5.43 - 6.25 years	5.6 - 7.3 years

The determination of the fair value of stock options on the date of grant using the Black-Scholes 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 publicly traded peer companies. The Company expects that it will begin using its own historical volatility in addition to the volatility of publicly traded peer companies, as its share price 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. The Company uses the "simplified" method to estimate expected term as determined under Staff Accounting Bulletin No. 110 due to the lack of option exercise history as a public company.

A summary of stock option activity is as follows:

					Outstanding stock options
(in thousands, except for exercise prices and term)	Number of options	Range of exercise prices	Weighted-average exercise price	Weighted-average contractual term (in years)	Aggregate intrinsic value
Outstanding as of January 31, 2016	5,418	$0.10 - 33.47	$ 10.88	7.03	$ 63,965
Granted	1,399	$21.27 - 44.53	$ 28.85		
Exercised	(1,811)	$0.10 - 33.47	$ 3.94		
Forfeited	(290)	$1.50 - 33.47	$ 19.30		
Outstanding as of January 31, 2017	4,716	$0.10 - 44.53	$ 18.36	7.60	$ 131,529
Vested and expected to vest as of January 31, 2017	4,532		$ 18.10	7.57	$ 127,593
Exercisable as of January 31, 2017	1,471		$ 8.78	6.09	$ 55,111

The aggregate intrinsic value in the tables above represents the difference between the estimated fair value of common stock and the exercise price of outstanding, in-the-money stock options.

A summary of stock options granted and exercised is as follows:

			Year ended January 31,
(in thousands, except weighted-average fair value)	2017	2016	2015
Stock options granted	1,399	1,093	2,117
Weighted-average fair value at date of grant	$ 28.85	$ 27.34	$ 14.88
Total intrinsic value of stock options exercised	$ 50,094	$ 51,773	$ 9,519

As of January 31, 2017 and 2016, 1.5 million and 2.5 million of all outstanding options were exercisable, respectively. The options are valued at their estimated fair market value as of the date of the grant.

As of January 31, 2017, the weighted-average vesting period of non-vested stock-options expected to vest approximates 2.5 years; the amount of compensation expense the Company expects to recognize for stock options vesting in future periods approximates $13.9 million.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 11. Stock-based compensation (continued)

Performance options. During the year ended January 31, 2015, the Company granted 1.5 million performance-based stock options, respectively, to certain key team members under the Incentive Plan, which vest upon the achievement of certain performance criteria. The performance-based stock options vest upon the attainment of the following performance criteria: (a) 10% of the stock options vest upon attainment of at least $34.5 million in Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for the year ended January 31, 2016, (b) 20% of the stock options vest upon the attainment of an annual growth rate of Adjusted EBITDA per share of common stock of 30% for the year ended January 31, 2017, (c) 30% of the stock options vest upon the attainment of an annual growth rate of Adjusted EBITDA per share of common stock of 30% for the year ended January 31, 2018, and (d) 40% of the stock options vest upon the attainment of an annual growth rate of Adjusted EBITDA per share of common stock of 25% for the year ended January 31, 2019. During the year ended January 31, 2016, the Company achieved the $34.5 million Adjusted EBITDA performance criteria and as such, 10% of the performance-based stock options outstanding as of January 31, 2016 became vested. During the year ended January 31, 2017, the Company achieved the annual growth rate of Adjusted EBITDA per share of common stock of 30% and as such 20% of the performance-based stock options outstanding as January 31, 2017 became vested. Subsequent to January 31, 2017, the two remaining vesting criteria were amended to vest based upon the attainment of a compound annual growth rate of Adjusted EBITDA per share of common stock of 35% as compared to the year ended January 31, 2016 Adjusted EBTIDA target of $34.5 million, or $0.61 per common share.

During the years ended January 31, 2017 and 2016, the Company recorded compensation expense of $1.7 million and $2.5 million, respectively, related to the performance-based options based on the Company's probability assessment of attaining its Adjusted EBITDA targets, and Adjusted EBITDA per common share growth rates.

During the year ended January 31, 2015, the Company recorded compensation expense of $1.7 million related to the performance-based options based on the Company's probability assessment of attaining its Adjusted EBITDA targets, Adjusted EBITDA per common share growth rates and consummation of the IPO.

Restricted stock units

Pursuant to the amended and restated director compensation policy, each non-employee director may elect to receive restricted stock units (with quarterly vesting) in lieu of a cash retainer. The number of restricted stock units is determined by dividing the value of the cash retainer by the closing price of our common stock on the date of grant. In addition, each non-employee director may elect to receive his or her equity awards in the form of restricted stock units or stock options. Restricted stock units are valued based on the current value of the Company's closing stock price on the date of grant less the present value of future expected dividends discounted at the risk-free interest rate.

A summary of the restricted stock unit activity is as follows:

(in thousands, except weight-average grant date fair value)	Shares	Weighted-average grant date fair value
Unvested at January 31, 2016	—	$ —
Granted	11	27.19
Vested	(8)	25.60
Forfeitures	—	—
Unvested at January 31, 2017	3	$ 32.50

Stock-based compensation expense related to restricted stock units was $233,000 for the year ended January 31, 2017. Total unrecorded stock-based compensation expense as of January 31, 2017 associated with restricted stock units was $71,000, which is expected to be recognized over a weighted-average period of 2.6 years.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 12. Fair value

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

- Level 1—quoted prices in active markets for identical assets or liabilities;
- Level 2—inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
- Level 3—unobservable inputs based on the Company's own assumptions.

Level 1 instruments are valued based on publicly available daily net asset values. Level 1 instruments consist primarily of highly liquid mutual funds.

The following tables summarizes the assets measured at fair value on a recurring basis and indicates the level within the fair value hierarchy reflecting the valuation techniques utilized to determine fair value:

			January 31, 2017
(in thousands)	Level 1	Level 2	Level 3
Marketable securities:			
Mutual funds	$ 40,405	$ —	$ —

			January 31, 2016
(in thousands)	Level 1	Level 2	Level 3
Marketable securities:			
Mutual funds	$ 40,134	$ —	$ —

Series D-3 redeemable convertible preferred stock derivative liability

A derivative liability was recorded related to the Company's series D-3 redeemable convertible preferred stock due to stated features allowing for redemption equal to the greater of the fair value per share of series D-3 redeemable convertible preferred stock, or the liquidation preference per share of series D-3 redeemable convertible preferred stock. The derivative instrument was recorded at its fair value, using an option pricing model, and was adjusted to fair value as of the end of each reporting period. Changes in the fair value of derivative instruments were recognized in the consolidated financial statements. The Company classified this derivative financial instrument as Level 3 in the fair value hierarchy. The Company continued to record adjustments to the fair value of the derivative liability until March 31, 2014, at which time the Company modified the terms of the series D-3 redeemable convertible preferred stock. As a result of the modifications, the Company reclassified the aggregate fair value of the liability to additional paid-in capital.

There are no financial instruments that are considered Level 2 or Level 3 as of January 31, 2017 and 2016.

Note 13. Related party transactions

The Company had entered into a consulting agreement with a company owned by the President and Chief Executive Officer of the Company. For the year ended January 31, 2015, amounts paid to this company under the terms of the consulting agreement were $162,000. In connection with the consummation of the Company's IPO, this consulting agreement was terminated.

HealthEquity, Inc. and subsidiaries
Notes to consolidated financial statements

Note 14. Employee benefits

The Company has established a 401(k) plan that qualifies as a deferred compensation arrangement under Section 401 of the IRS Code. All team members over the age of 21 are eligible to participate in the plan. The Company contributed 50% of an employee's elective deferral up to 4% of eligible earnings through May 2014. In May 2014, the Company amended its 401(k) plan to increase the employer contribution. Effective May 2014, the Company contributes 50% of an employee's elective deferral up to 6% of eligible earnings. Employer contributions vest 25% each year of employment. 401(k) plan administrative expense was $15,000, $16,000 and $8,000 for the years ended January 31, 2017, 2016 and 2015, respectively. Employer matching contribution expense was $916,000, $626,000 and $375,000 for the years ended January 31, 2017, 2016 and 2015, respectively.

Beginning on January 1, 2017, The Company is self-insured for medical and dental benefits for all qualifying employees. The medical plan carries a stop-loss policy which will protect from individual claims during the plan year exceeding $110,000. The Company records estimates of costs of claims incurred based on an analysis of historical data and independent estimates. The Company's liability for self-insured medical claims is included in accrued compensation in its consolidated balance sheet and was $500,000 as of January 31, 2017.

Note 15. Supplementary quarterly financial data (unaudited)

				Three months ended
(in thousands, except for per share amounts)	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016
Total revenue	$ 46,814	$ 43,358	$ 44,185	$ 44,013
Total cost of revenue	22,585	17,467	15,631	16,332
Gross profit	24,229	25,891	28,554	27,681
Total operating expenses	18,048	16,849	15,815	14,431
Total other expense	(158)	(256)	(37)	(641)
Income tax provision	1,961	2,778	4,469	4,536
Net income	$ 4,062	$ 6,008	$ 8,233	$ 8,073
Net income per share attributable to common stockholders:				
Basic	$ 0.07	$ 0.10	$ 0.14	$ 0.14
Diluted (1)	$ 0.07	$ 0.10	$ 0.14	$ 0.14

				Three months ended
(in thousands, except for per share amounts)	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015
Total revenue	$ 35,886	$ 30,556	$ 30,494	$ 29,850
Total cost of revenue	17,455	12,880	11,909	11,944
Gross profit	18,431	17,676	18,585	17,906
Total operating expenses	14,072	11,372	11,087	9,924
Total other (expense) income	(63)	121	(542)	(105)
Income tax provision	1,168	2,338	2,535	2,900
Net income	$ 3,128	$ 4,087	$ 4,421	$ 4,977
Net income per share attributable to common stockholders:				
Basic (1)	$ 0.05	$ 0.07	$ 0.08	$ 0.09
Diluted	$ 0.05	$ 0.07	$ 0.08	$ 0.09

(1) Net income per share amounts do not sum to equal full year total due to changes in the number of shares outstanding during the periods and rounding.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of January 31, 2017, the end of the period covered by this Annual Report on Form 10-K. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. 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 the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2017. In making this assessment, we used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework* (2013).

Based on this evaluation under the framework in *Internal Control - Integrated Framework* (2013) issued by the COSO, management concluded the Company’s internal control over financial reporting was effective as of January 31, 2017.

The Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP has also audited the effectiveness of the Company’s internal control over financial reporting as of January 31, 2017. Its report appears in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended January 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information

None.

PART III.

Item 10. Directors, executive officers and corporate governance

The information required by this Item 10 of Form 10-K is found in our 2017 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for the Company's 2017 Annual Meeting of Stockholders is incorporated by reference to our 2017 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates.

Code of business conduct and ethics

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our team members, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our Code of Business Conduct and Ethics is posted on our website at www.healthequity.com in the Corporate Governance section of our Investor Relations webpage. We intend to post any amendments to our Code of Business Conduct and Ethics, and any waivers of our Code of Business Conduct and Ethics for directors and executive officers, on the same website.

Item 11. Executive compensation

The information required by this Item 11 of Form 10-K is incorporated by reference in our 2017 Proxy Statement.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters

The information required by this Item 12 of Form 10-K is incorporated by reference in our 2017 Proxy Statement.

Item 13. Certain relationships and related transactions, and director independence

The information required by this Item 13 of Form 10-K is incorporated by reference in our 2017 Proxy Statement.

Item 14. Principal accounting fees and services

The information required by this Item 14 of Form 10-K is incorporated by reference in our 2017 Proxy Statement.

Part IV.

Item 15. Exhibits, financial statement schedules

(a) Documents filed as part of this report

(1) All financial statements

(2) Financial statement schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

(3) Exhibits required by Item 601 of Regulation S-K

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index that follows the Signatures page of this Annual Report on Form 10-K.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Draper, State of Utah on this 30th day of March, 2017.

	HEALTHEQUITY, INC.	
Date: March 30, 2017	By:	/s/ Jon Kessler
	Name:	Jon Kessler
	Title:	President and Chief Executive Officer

Power of attorney

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below hereby constitutes and appoints Jon Kessler and Darcy Mott, and each of them acting individually, as his or her true and lawful attorneys-in-fact and agents, with full power of each to act alone, with full powers of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or her or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 30, 2017	By:	/s/ Robert W. Selander
	Name:	Robert W. Selander
	Title:	Chairman of the Board, Director
Date: March 30, 2017	By:	/s/ Jon Kessler
	Name:	Jon Kessler
	Title:	President and Chief Executive Officer (Principal Executive Officer)
Date: March 30, 2017	By:	/s/ Darcy Mott
	Name:	Darcy Mott
	Title:	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Date: March 30, 2017	By:	/s/ Frank A. Corvino
	Name:	Frank A. Corvino
	Title:	Director
Date: March 30, 2017	By:	/s/ Adrian T. Dillon
	Name:	Adrian T. Dillon
	Title:	Director
Date: March 30, 2017	By:	/s/ Evelyn Dilsaver
	Name:	Evelyn Dilsaver
	Title:	Director
Date: March 30, 2017	By:	/s/ Michael O. Leavitt
	Name:	Michael O. Leavitt
	Title:	Director
Date: March 30, 2017	By:	/s/ Frank T. Medici
	Name:	Frank T. Medici
	Title:	Director
Date: March 30, 2017	By:	/s/ Stephen D. Neeleman, M.D.
	Name:	Stephen D. Neeleman, M.D.
	Title:	Director
Date: March 30, 2017	By:	/s/ Manu Rana
	Name:	Manu Rana
	Title:	Director
Date: March 30, 2017	By:	/s/ Ian Sacks
	Name:	Ian Sacks
	Title:	Director

Exhibit Index

Exhibit no.	Description	Form	File No.	Exhibit	Filing Date
		Incorporate by reference			
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1/A	333-196645	3.2	July 16, 2014
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	333-196645	3.4	July 16, 2014
4.1	Form of Common Stock Certificate.	S-1/A	333-196645	4.1	July 16, 2014
4.2	Amended and Restated Registration Rights Agreement, dated August 11, 2011, by and among the Registrant and certain of its stockholders.	S-1	333-196645	4.2	June 10, 2014
10.1	Form of Indemnification Agreement by and between the Registrant and its directors and officers.	S-1/A	333-196645	10.1	July 16, 2014
10.2†	HealthEquity, Inc. 2014 Equity Incentive Plan and Form of Award Agreement.	S-1	333-196645	10.2	June 10, 2014
10.3†	HealthEquity, Inc. 2014 Amended and Restated Equity Incentive Plan and Form of Award Agreement.	S-1/A	333-196645	10.3	July 16, 2014
10.4†	HealthEquity, Inc. 2009 Stock Plan and Form of Stock Option Agreement.	S-1	333-196645	10.4	June 10, 2014
10.5†	HealthEquity, Inc. 2006 Stock Plan and Form of Stock Option Agreement.	S-1	333-196645	10.5	June 10, 2014
10.6†	HealthEquity, Inc. 2005 Stock Plan and Form of Stock Option Agreement.	S-1	333-196645	10.6	June 10, 2014
10.7†	HealthEquity, Inc. 2003 Director Stock Plan and Form of Stock Option Agreement.	S-1	333-196645	10.7	June 10, 2014
10.8†	HealthEquity, Inc. 2003 Stock Plan and Form of Stock Option Agreement.	S-1	333-196645	10.8	June 10, 2014
10.9†	HealthEquity, Inc. Executive Bonus Plan for the year ended January 31, 2014.	S-1	333-196645	10.12	June 10, 2014
10.11†	HealthEquity, Inc. Executive Bonus Plan for the year ended January 31, 2015.	S-1	333-196645	10.13	June 10, 2014
10.12†	HealthEquity, Inc. Section 409A Specified Employee Policy.	S-1	333-196645	10.23	June 10, 2014
10.13†	Employment Agreement, dated June 10, 2014, by and between the Registrant and Jon Kessler.	S-1	333-196645	10.24	June 10, 2014
10.14†	Employment Agreement, dated June 10, 2014, by and between the Registrant and Stephen D. Neeleman, M.D.	S-1	333-196645	10.25	June 10, 2014
10.15†	Employment Agreement, dated June 10, 2014, by and between the Registrant and Darcy Mott.	S-1	333-196645	10.26	June 10, 2014
10.16†	Employment Agreement, dated July 30, 2014, by and between the Registrant and Frode Jensen.	10-Q	001-36568	10.1	September 12, 2014
10.17†	Offer letter to Matthew Sydney, dated October 25, 2014.	8-K	001-36568	10.2	October 27, 2014
10.18†	Separation and Release Agreement, dated October 21, 2014, by and between the Registrant and E. Craig Keohan.	8-K	001-36568	10.1	October 27, 2014
10.19†	Non-Employee Director Compensation Policy.	S-1	333-196645	10.27	July 16, 2014
10.20	Lease Agreement, dated May 15, 2015, by and between the Registrant and BG Scenic Point Office 2, L.C.	10-Q	001-36568	10.1	June 11, 2015
10.21	Amended and Restated Lease Agreement, dated May 15, 2015, by and between the Registrant and BG Scenic Point Office 1, L.C.	10-Q	001-36568	10.2	June 11, 2015

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				Incorporate by reference	
Exhibit no.	Description	Form	File No.	Exhibit	Filing Date
10.22†	Employment Agreement, dated July 1, 2015, by and between the Registrant and Jon Soldan.	10-Q	001-36568	10.1	September 10, 2015
10.23†	Offer letter to Robert W. Selander, dated September 28, 2015.	8-K	001-36568	10.1	September 30, 2015
10.24	Credit Agreement, dated as of September 30, 2015, by HealthEquity, Inc. and JPMorgan Chase Bank, N.A., as administrative agent.	8-K	001-36568	10.1	October 6, 2015
10.25	Asset Purchase Agreement, dated as of October 23, 2015, by and between The Bancorp Bank and HealthEquity, Inc.	8-K	001-36568	10.1	October 26, 2015
10.26†	Second Amended and Restated Non-Employee Director Compensation Policy	10-Q	001-36568	10.1	December 9, 2015
21.1+	List of Subsidiaries.				
23.1+	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.				
24.1+	Power of Attorney (included in the signature page to this Annual Report).				
31.1+	Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2+	Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1*#	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2*#	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS††	XBRL Instance document				
101.SCH††	XBRL Taxonomy schema linkbase document				
101.CAL††	XBRL Taxonomy calculation linkbase document				
101.DEF††	XBRL Taxonomy definition linkbase document				
101.LAB††	XBRL Taxonomy labels linkbase document				
101.PRE††	XBRL Taxonomy presentation linkbase document				

\+ Filed herewith

* Furnished herewith

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

† Indicates management contract or compensatory plan.

†† In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.

List of Subsidiaries of HealthEquity, Inc.

HEQ INSURANCE SERVICES, INC., a Utah corporation

HEALTHEQUITY ADVISORS, LLC, a Utah limited liability company

HEALTHEQUITY TRUST COMPANY, a Wyoming corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-206850) and S-8 (No. 333-197778, No. 333-204421 and No. 333-210867) of HealthEquity, Inc. of our report dated March 30, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Salt Lake City, UT
March 30, 2017

Exhibit 31.1

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

I, Jon Kessler, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 30, 2017

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

Exhibit 31.2

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

I, Darcy Mott, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 30, 2017

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

Exhibit 32.1

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

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

1. Our Annual Report on Form 10-K for the year ended January 31, 2017 (the “Report”), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: March 30, 2017

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

Exhibit 32.2

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

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

1. Our Annual Report on Form 10-K for the year ended January 31, 2017 (the "Report"), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: March 30, 2017

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