HEALTHEQUITY INC
Form 10-Q
September 06, 2018

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

Form 10-Q

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

For the quarterly period ended July 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

HEALTHEQUITY, INC.

(Exact name of registrant 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
(Address of principal executive offices) (Zip code)

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

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 þ 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 þ No ¨

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	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth Company ¨			

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

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

As of August 31, 2018, there were 62,261,227 shares of the registrant's common stock outstanding.

Table of Contents

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

Table of contents

		Page
Part I. FINANCIAL INFORMATION		
Item 1.	Financial statements	
	Condensed consolidated balance sheets as of July 31, 2018 and January 31, 2018 (unaudited)	3
	Condensed consolidated statements of operations and comprehensive income for the three and six months ended July 31, 2018 and 2017 (unaudited)	4
	Condensed consolidated statements of cash flows for the six months ended July 31, 2018 and 2017 (unaudited)	5
	Notes to condensed consolidated financial statements (unaudited)	6
Item 2.	Management's discussion and analysis of financial condition and results of operations	18
Item 3.	Quantitative and qualitative disclosures about market risk	30
Item 4.	Controls and procedures	31
Part II. OTHER INFORMATION		
Item 1.	Legal proceedings	32
Item 1A.	Risk factors	32
Item 2.	Unregistered sales of equity securities and use of proceeds	32
Item 6.	Exhibits	33
	Signatures	34

Part I. Financial information
Item 1. Financial statements

HealthEquity, Inc. and subsidiaries
Condensed consolidated balance sheets (unaudited)

(in thousands, except par value)	July 31, 2018	January 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$261,808	$199,472
Marketable securities, at fair value	41,109	40,797
Total cash, cash equivalents and marketable securities	302,917	240,269
Accounts receivable, net of allowance for doubtful accounts as of July 31, 2018 and January 31, 2018 of $288 and $208, respectively	24,906	21,602
Inventories	163	215
Other current assets	11,727	3,310
Total current assets	339,713	265,396
Property and equipment, net	8,869	7,836
Intangible assets, net	82,277	83,635
Goodwill	4,651	4,651
Deferred tax asset	1,038	5,461
Other assets	18,054	2,180
Total assets	$454,602	$369,159
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$1,769	$2,420
Accrued compensation	9,723	12,549
Accrued liabilities	5,577	5,521
Total current liabilities	17,069	20,490
Long-term liabilities		
Other long-term liabilities	2,693	2,395
Deferred tax liability	2,221	—
Total long-term liabilities	4,914	2,395
Total liabilities	21,983	22,885
Commitments and contingencies (see note 6)		
Stockholders' equity		
Preferred stock, $0.0001 par value, 100,000 shares authorized, no shares issued and outstanding as of July 31, 2018 and January 31, 2018, respectively	—	—
Common stock, $0.0001 par value, 900,000 shares authorized, 62,251 and 60,825 shares issued and outstanding as of July 31, 2018 and January 31, 2018, respectively	6	6
Additional paid-in capital	289,568	261,237
Accumulated other comprehensive loss	—	(269)
Accumulated earnings	143,045	85,300
Total stockholders' equity	432,619	346,274
Total liabilities and stockholders' equity	$454,602	$369,159

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

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

(in thousands, except per share data)	Three months ended July 31,		Six months ended July 31,	
	2018	2017	2018	2017
Revenue:				
Service revenue	$24,935	$22,809	$49,756	$45,296
Custodial revenue	30,715	21,285	59,149	40,604
Interchange revenue	15,417	12,785	32,066	26,400
Total revenue	71,067	56,879	140,971	112,300
Cost of revenue:				
Service costs	17,199	14,998	35,246	30,573
Custodial costs	3,502	2,785	6,941	5,586
Interchange costs	3,791	3,294	7,853	6,598
Total cost of revenue	24,492	21,077	50,040	42,757
Gross profit	46,575	35,802	90,931	69,543
Operating expenses:				
Sales and marketing	7,243	5,194	14,103	9,815
Technology and development	8,398	6,797	16,377	13,039
General and administrative	7,893	6,234	15,400	12,102
Amortization of acquired intangible assets	1,478	1,082	2,948	2,165
Total operating expenses	25,012	19,307	48,828	37,121
Income from operations	21,563	16,495	42,103	32,422
Other expense:				
Other expense, net	(75)	(38)	(76)	(128)
Total other expense	(75)	(38)	(76)	(128)
Income before income taxes	21,488	16,457	42,027	32,294
Income tax provision (benefit)	(1,029)	(489)	(3,067)	1,319
Net income	$22,517	$16,946	$45,094	$30,975
Net income per share:				
Basic	$0.36	$0.28	$0.73	$0.52
Diluted	$0.36	$0.27	$0.72	$0.50
Weighted-average number of shares used in computing net income per share:				
Basic	61,880	60,173	61,531	59,955
Diluted	63,397	61,765	63,060	61,604
Comprehensive income:				
Net income	$22,517	$16,946	$45,094	$30,975
Other comprehensive loss:				
Unrealized loss on available-for-sale marketable securities, net of tax	—	(4)	—	(30)
Comprehensive income	$22,517	$16,942	$45,094	$30,945

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

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

	Six months ended July 31,	
(in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$45,094	$30,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,916	7,136
Unrealized losses on marketable securities and other	86	27
Deferred taxes	2,351	4,699
Stock-based compensation	9,727	6,803
Changes in operating assets and liabilities:		
Accounts receivable	(3,304)	(3,873)
Inventories	52	253
Other assets	(6,973)	(4,073)
Accounts payable	(837)	(1,495)
Accrued compensation	(2,826)	(2,202)
Accrued liabilities	56	900
Other long-term liabilities	298	611
Net cash provided by operating activities	52,640	39,761
Cash flows from investing activities:		
Purchases of intangible member assets	(1,014)	(6,515)
Acquisition of a business	—	(3,000)
Purchases of marketable securities	(368)	(224)
Purchases of property and equipment	(2,690)	(2,161)
Purchases of software and capitalized software development costs	(4,701)	(5,166)
Net cash used in investing activities	(8,773)	(17,066)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	18,469	7,072
Net cash provided by financing activities	18,469	7,072
Increase in cash and cash equivalents	62,336	29,767
Beginning cash and cash equivalents	199,472	139,954
Ending cash and cash equivalents	$261,808	$169,721
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable or accrued liabilities at period end	$14	$53
Purchases of software and capitalized software development costs included in accounts payable or accrued liabilities at period end	175	69
Purchases of intangible member assets accrued during the period	181	270
Exercise of common stock options receivable	135	1,017

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

Table of Contents

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

Note 1. Summary of business and significant accounting policies

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

Principles of consolidation

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

The Company has a 22% ownership interest in a limited partnership for investment in and the management of early stage companies in the healthcare industry; this partnership interest is accounted for using the equity method of accounting. The investment was approximately $0.1 million as of July 31, 2018 and is included in other assets on the accompanying condensed consolidated balance sheet.

The Company has a 2% ownership interest in a limited partnership that engages in the development of technology-based financial healthcare products. The Company elected the measurement alternative for non-marketable investments previously accounted for under the cost method of accounting to account for the investment. The investment was $0.5 million as of July 31, 2018 and is included in other assets on the accompanying condensed consolidated balance sheet.

Acquisitions of businesses are accounted for as business combinations, and accordingly, the results of operations of acquired businesses are included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated.

Basis of presentation

The accompanying condensed consolidated financial statements as of July 31, 2018 and for the three and six months ended July 31, 2018 and 2017 are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2018. The fiscal year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Recent adopted accounting pronouncements

Adoption of ASC 606

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606"), 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 and related subsequent amendments replaces most existing revenue recognition guidance in GAAP. The standard permits the use of either the retrospective or cumulative effect transition method (modified retrospective method).

The Company adopted ASC 606 on February 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The Company recorded the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings. The comparative period information has not been restated and continues to be reported under the accounting standards in effect for that period. The adoption of the preceding

standard did not have a material impact on the Company's revenue for the three and six months ended July 31, 2018.

Table of Contents

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

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

Effective February 1, 2018, the Company capitalizes incremental contract acquisition costs, such as sales commissions, previously included in sales and marketing expenses in the condensed consolidated statement of operations, and amortizes these costs over the average economic life of an HSA Member. The Company's prior practice was to fully expense sales commissions when the HSA Member was added to the Company's platform.
The cumulative effect of the changes made to the Company's condensed consolidated balance sheet as of February 1, 2018 for the adoption of ASC 606 is as follows:

(in thousands)	January 31, 2018	Adjustments	February 1, 2018
Other current assets	$ 3,310	$ 1,366	$ 4,676
Deferred tax asset	5,461	(4,187)	1,274
Other assets	2,180	15,847	18,027
Deferred tax liability	—	18	18
Accumulated earnings	$ 85,300	$ 13,008	$ 98,308

The impact of adoption on the Company's condensed consolidated statement of operations for the three and six months ended July 31, 2018 is as follows:

	Three months ended July 31, 2018			Six months ended July 31, 2018		
(in thousands)	As reported	Without adoption of ASC 606	Effect of change higher (lower)	As reported	Without adoption of ASC 606	Effect of change higher (lower)
Sales and marketing	$7,243	$7,318	$ (75)	$14,103	$14,488	$ (385)
Income from operations	21,563	21,488	75	42,103	41,718	385
Income tax benefit	(1,029)	(1,069)	(40)	(3,067)	(3,204)	(137)
Net income	$22,517	$22,482	$ 35	$45,094	$44,846	$ 248

The impact of adoption on the Company's condensed consolidated balance sheet as of July 31, 2018 is as follows:

(in thousands)	As reported	Without adoption of ASC 606	Effect of change higher (lower)
Other current assets	$11,727	$10,329	$1,398
Deferred tax asset	1,038	3,117	(2,079)
Other assets	18,054	1,895	16,159
Deferred tax liability	2,221	—	2,221
Accumulated earnings	$143,045	$129,559	$13,486

Disaggregation of revenue. The Company's primary sources of revenue are service, custodial, and interchange revenue and are disclosed in the condensed consolidated statements of operations. All of the Company's sources of revenue are deemed to be revenue contracts with customers. Each revenue source is affected differently by economic factors as it relates to the nature, amount, timing and uncertainty.
Costs to obtain or fulfill a contract. ASC 606 requires capitalizing the costs of obtaining a contract when those costs are incremental and expected to be recovered. Since incremental commissions paid to sales team members as a result of obtaining contracts are recoverable, the Company recorded a $17.2 million cumulative catch-up capitalized asset on

February 1, 2018. As of July 31, 2018, the net amount capitalized as contract costs was $17.6 million, which is included in other current assets and other assets.

In order to determine the amortization period for sales commissions contract costs, the Company applied the portfolio approach. Accordingly, the amortization period of the assets has been determined to be the average economic life of an HSA Member and 401(k) customer relationship, which is estimated to be 15 years and 10 years, respectively. Amortization of capitalized sales commission contract costs is included in sales and marketing expenses in the condensed consolidated statement of operations.

Table of Contents

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

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

Performance obligations. ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as permitted by ASC 606, the Company has elected to exclude from this disclosure any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. Amounts excluded are not significant to the Company's condensed consolidated statements of operations.

Service revenue. The Company hosts its platform, prepares statements, provides a mechanism for spending funds, and provides customer support services. All of these services are consumed as they are received. The Company will continue to recognize service revenue on a monthly basis as it transfers control and satisfies its performance obligations.

Custodial revenue. The Company deposits custodial cash and investment assets at federally-insured custodial depository partners and with an investment partner. The deposit of funds represents a service that is simultaneously received and consumed by the custodial depository bank partners and investment partner. The Company will continue to recognize custodial revenue each month based on the amount received by its custodial bank partners and investment partners.

Interchange revenue. The Company satisfies its interchange performance obligation each time payments are made with our cards via payment networks. The Company will continue to recognize interchange revenue in the month the payment transaction occurs.

Contract balances. The Company does not recognize revenue in advance of invoicing its customers and therefore has no related contract assets. The Company records a receivable when revenue is recognized prior to payment and the Company has unconditional right to payment. Alternatively, when payment precedes the related services, the Company records a contract liability, or deferred revenue, until its performance obligations are satisfied. The Company's deferred revenue as of July 31, 2018 and January 31, 2018 was $0.5 million and $0.5 million, respectively. The balances related to cash received in advance for a certain interchange revenue arrangement. The Company expects to satisfy its remaining obligations for this arrangement.

Significant judgments. The Company makes no significant judgments in determining the amount or timing of revenue recognition. The Company has estimated the average economic life of an HSA Member and a 401(k) customer relationship to be 15 years and 10 years, respectively, and which has been determined to be the amortization period for the capitalized sales commissions contract costs.

Practical expedients. The Company has applied the practical expedient which allows an entity to account for incremental costs of obtaining a contract at a portfolio level. The Company has also applied the practical expedient to recognized incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less.

Adoption of ASU 2016-01

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies certain aspects of the guidance issued in ASU 2016-01. The amendments in these updates 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 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. The Company adopted these ASUs on February 1, 2018 using the modified retrospective method. The Company recorded the cumulative effect as an adjustment to the opening balance of retained earnings. The comparative period information has not been restated and continues to be reported under the accounting standards in effect for that period.The cumulative effect of the changes made to the Company's condensed consolidated balance sheet as of February 1, 2018 due to the adoption

of ASU 2016-01 were as follows:

Table of Contents

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

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

(in thousands)	January 31, 2018	Adjustments	February 1, 2018
Deferred tax asset	$ 5,461	$ (87)	$ 5,374
Accumulated other comprehensive loss	$ (269)	$ 269	$ —
Accumulated earnings	$ 85,300	$ (356)	$ 84,944

This ASU also eliminated the cost method of accounting for investments in equity securities that do not have readily determinable fair values and permits the election of a measurement alternative that allows such securities to be recorded at cost, less impairment, if any, plus or minus changes resulting from observable price changes in market-based transactions for an identical or similar investment of the same issuer. The Company adopted this provision on a prospective basis as it relates to its 2% ownership interest in a limited partnership and elected the measurement alternative for non-marketable investments previously accounted for under the cost method of accounting. Gains and losses resulting from observable price changes in market-based transactions for an identical or similar investment of the same issuer or impairment will be recorded through net income in the period incurred. The impact of the adoption on the Company's condensed consolidated financial statements as of and for the three and six months ended July 31, 2018 was not significant.

Adoption of ASU 2018-02

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which gives companies the option to reclassify between accumulated other comprehensive income ("AOCI") and retained earnings the income tax rate differential that has become stranded in AOCI as a result of the enactment of the Tax Cuts and Jobs Act and the revaluation of certain deferred tax assets and liabilities at the new federal income tax rate of 21%. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company elected to early adopt this ASU in the fourth quarter of fiscal year 2018. As a result of adopting this standard, the reclassification of the income tax effects of this tax reform during the year ended January 31, 2018 resulted in an increase to retained earnings and a decrease to AOCI in the amount of $45,000 related to the decrease in the federal corporate income tax rate. The Company's policy is to use the portfolio approach in releasing income tax effects from AOCI.

Adoption of ASU 2016-16

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. The Company adopted this ASU during the six months ended July 31, 2018. There was no impact on the Company's condensed consolidated financial statements as a result of the adoption.

Adoption of ASU 2016-15

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. The Company adopted this ASU during the six months ended July 31, 2018. There was no impact on the Company's condensed consolidated financial statements as a result of the adoption.

Adoption of ASU 2017-09

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about changes to the terms or conditions of a share-based payment award. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this ASU during the six months ended July 31, 2018, and prospectively applies this standard to awards modified on or after the adoption date. There was no impact on the Company's condensed consolidated

financial statements as a result of the adoption.

Table of Contents

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

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

Recent issued accounting pronouncements

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU allows the capitalization of implementation costs incurred in a hosting arrangement. This ASU is effective for fiscal years beginning after December 15, 2019. The Company 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. In July 2018, the FASB issued ASU 2018-11- Leases (Topic 842) – Targeted Improvements. This ASU provides transition relief on comparative reporting to the previously-issued ASU 2016-02 and related guidance. The Company will use the cumulative effect transition method and does not plan to early adopt. The Company is currently evaluating the potential effect of this ASU on the consolidated financial statements.

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 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. This ASU is effective for fiscal years beginning December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the timing of adoption; however, it does not believe this ASU will have a material impact on the Company's consolidated financial statements.

Note 2. Net income per share

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

(in thousands, except per share data)	Three months ended July 31,		Six months ended July 31,	
	2018	2017	2018	2017
Numerator (basic and diluted):				
Net income	$22,517	$16,946	$45,094	$30,975
Denominator (basic):				
Weighted-average common shares outstanding	61,880	60,173	61,531	59,955
Denominator (diluted):				
Weighted-average common shares outstanding	61,880	60,173	61,531	59,955
Weighted-average dilutive effect of stock options and restricted stock units	1,517	1,592	1,529	1,649
Diluted weighted-average common shares outstanding	63,397	61,765	63,060	61,604
Net income per share:				
Basic	$0.36	$0.28	$0.73	$0.52
Diluted	$0.36	$0.27	$0.72	$0.50

Table of Contents

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

Note 2. Net income per share (continued)

For the three months ended July 31, 2018 and 2017, approximately 0.1 million and 0.8 million shares, respectively, attributable to stock options, restricted stock units, and restricted stock awards were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

For the six months ended July 31, 2018 and 2017, approximately 0.1 million and 0.7 million shares, respectively, attributable to stock options, restricted stock units, and restricted stock awards were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

Note 3. Cash, cash equivalents and marketable securities

Cash, cash equivalents and marketable securities as of July 31, 2018 consisted of the following:

(in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$261,808	$ —	$ —	$261,808
Marketable securities:				
Mutual funds	41,521	335	(747)	41,109
Total cash, cash equivalents and marketable securities	$303,329	$ 335	$ (747)	$302,917

Cash, cash equivalents and marketable securities as of January 31, 2018 consisted of the following:

(in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$199,472	$ —	$ —	$199,472
Marketable securities:				
Mutual funds	41,153	270	(626)	40,797
Total cash, cash equivalents and marketable securities	$240,625	$ 270	$ (626)	$240,269

The following table summarizes the cost basis and fair value of the marketable securities by contractual maturity as of July 31, 2018:

(in thousands)	Cost basis	Fair value
One year or less	$25,890	$25,812
Over one year and less than five years	15,631	15,297
Total	$41,521	$41,109

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 July 31, 2018.

Unrealized gain and loss recognized during the three and six months ended July 31, 2018 for marketable securities held as of July 31, 2018 was a gain of $32,000 and a loss of $0.1 million, respectively.

Table of Contents

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

Note 4. Property and equipment

Property and equipment consisted of the following as of July 31, 2018 and January 31, 2018:

(in thousands)	July 31, 2018	January 31, 2018
Leasehold improvements	$3,733	$2,292
Furniture and fixtures	5,045	4,785
Computer equipment	8,594	8,174
Property and equipment, gross	17,372	15,251
Accumulated depreciation	(8,503)	(7,415)
Property and equipment, net	$8,869	$7,836

Depreciation expense for the three months ended July 31, 2018 and 2017 was $0.8 million and $0.6 million, respectively, and $1.7 million and $1.3 million for the six months ended July 31, 2018 and 2017, respectively.

Note 5. Intangible assets and goodwill

During the three months ended July 31, 2018, the Company acquired the rights to be the custodian of an HSA portfolio for $1.2 million, of which $1.0 million was paid in cash as of July 31, 2018.

During the three months ended July 31, 2018 and 2017, the Company capitalized software development costs of $2.1 million and $2.0 million, respectively, and $4.2 million and $4.2 million for the six months ended July 31, 2018 and 2017, respectively, related to significant enhancements and upgrades to its proprietary system.

The gross carrying amount and associated accumulated amortization of intangible assets were as follows as of July 31, 2018 and January 31, 2018:

(in thousands)	July 31, 2018	January 31, 2018
Amortized intangible assets:		
Capitalized software development costs	$36,171	$31,993
Software	4,124	8,863
Other intangible assets	2,882	2,882
Acquired intangible member assets	85,110	83,915
Intangible assets, gross	128,287	127,653
Accumulated amortization	(46,010)	(44,018)
Intangible assets, net	$82,277	$83,635

During the three months ended July 31, 2018 and 2017, the Company expensed a total of $3.4 million and $3.1 million, respectively, and $6.6 million and $5.9 million for the six months ended July 31, 2018 and 2017, respectively, in software development costs primarily related to the post-implementation and operation stages of its proprietary software.

Amortization expense for the three months ended July 31, 2018 and 2017 was $3.5 million and $3.0 million, respectively, and $7.2 million and $5.9 million for the six months ended July 31, 2018 and 2017, respectively.

There were no changes to the goodwill carrying value during the three and six months ended July 31, 2018 and 2017.

Note 6. Commitments and contingencies

The Company’s principal commitments and contingencies consist of a processing services agreement with a vendor, and obligations for office space, telephony services, data storage facilities, equipment and certain maintenance agreements under long-term, non-cancelable operating leases. These commitments as of January 31, 2018 are disclosed in the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the year ended January 31, 2018, and did not change materially during the three and six months ended July 31, 2018.

Table of Contents

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

Note 6. Commitments and contingencies (continued)

Lease expense for office space for the three months ended July 31, 2018 and 2017 was $1.3 million and $1.0 million, respectively, and $2.7 million and $2.1 million for the six months ended July 31, 2018 and 2017, respectively. Expense for other lease agreements for the three months ended July 31, 2018 and 2017 was $0.1 million and $0.1 million, respectively, and $0.3 million and $0.2 million for the six months ended July 31, 2018 and 2017, respectively.

Note 7. Indebtedness

On September 30, 2015, the Company entered into a new credit facility (the "Credit Agreement") that 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 July 31, 2018.

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 ranges 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 pays 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.

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 July 31, 2018.

Note 8. Income taxes

The Company follows FASB Accounting Standards Codification 740-270, Income Taxes - Interim Reporting, for the computation and presentation of its interim period tax provision. Accordingly, management estimated the effective annual tax rate and applied this rate to the year-to-date pre-tax book income to determine the interim provision for income taxes. For the three and six months ended July 31, 2018, the Company recorded an income tax benefit of $1.0 million and $3.1 million, respectively. The resulting effective income tax rate was a benefit of 4.8% and 7.3% for the the three and six months ended July 31, 2018, compared with an effective income tax benefit rate of 3.0% and an effective income tax expense rate of 4.1% for the three and six months ended July 31, 2017. For the three and six months ended July 31, 2018 and July 31, 2017, the net impact of discrete tax items caused a 27.4 and 29.7 percentage point decrease and a 38.8 and 31.7 percentage point decrease, respectively, to the effective income tax rate primarily due to the excess tax benefit on stock-based compensation expense recognized in the provision for income taxes in the condensed consolidated statements of income. The decrease in the effective income tax rate from the same periods last year is primarily due to the reduction in the US federal corporate income tax rate from 35% to 21% as a result of legislative changes effective January 1, 2018 and an increase in federal and state research and development tax credits.

The Tax Cuts and Jobs Act, which was enacted on December 22, 2017, reduced the federal corporate income tax rate from 35% to 21%, among other provisions. In accordance with ASU 2018-05 and Staff Accounting Bulletin No. 118

("SAB 118"), registrants were able to record provisional amounts during a one-year "measurement period" from the enactment date of the Tax Cuts and Jobs Act. The measurement period is deemed to have ended earlier when

Table of Contents

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

Note 8. Income taxes (continued)

the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Cuts and Jobs Act.

The Company remeasured certain deferred tax assets and liabilities as of December 31, 2017 based on rates at which they are expected to reverse in the future, which is generally the new corporate income tax rate of 21% as enacted by the Tax Cuts and Jobs Act. However, the Company's analysis is incomplete as it is still analyzing certain aspects of the Act and refining its calculations, including state conformity and the impact of state tax rates on deferred tax balances, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. Based on the best information available, the provisional amount recorded related to the remeasurement of the Company's deferred tax balances resulted in a decrease in net deferred tax assets of $0.5 million during the year ended January 31, 2018. As of July 31, 2018, the Company has not made any additional measurement period adjustments to the provisional amount recorded as of January 31, 2018. The Company will continue to make and refine its calculations as additional analysis is completed. In addition, the Company's estimates may also be affected as it gains a more thorough understanding of the enacted tax law changes and as additional future guidance on the effects of the Tax Cuts and Jobs Act is made available. The Company expects to complete its accounting within the prescribed measurement period.

Other significant provisions of the Tax Cuts and Jobs Act were effective as of January 1, 2018, including, but not limited to: the limitation on the current deductibility of net interest expense in excess of 30% of adjusted taxable income, changes in the deductibility of certain meals and entertainment business expenses, and changes in the deductibility of certain excessive employee remuneration. The Company has applied these provisions to its current income tax provision as it relates to its tax return period beginning January 1, 2018 using reasonable interpretations and available guidance. Further guidance or technical corrections may affect the Company's estimates and the application of these provisions on its income tax provision.

As of July 31, 2018 and January 31, 2018, the Company’s total gross unrecognized tax benefit was $1.3 million and $0.9 million, respectively. Certain unrecognized tax benefits have been netted against their related deferred tax assets; therefore, no unrecognized tax benefit has been recorded as of July 31, 2018 and January 31, 2018. If recognized, $1.2 million of the total gross unrecognized tax benefits would affect the Company's effective tax rate as of July 31, 2018.

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 2003.

Table of Contents

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

Note 9. Stock-based compensation

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

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2018	2017	2018	2017
Cost of revenue	$807	$692	$1,220	$1,183
Sales and marketing	891	526	1,596	842
Technology and development	1,300	862	2,291	1,534
General and administrative	2,490	1,714	4,620	3,244
Total stock-based compensation expense	$5,488	$3,794	$9,727	$6,803

The following table shows stock-based compensation by award type:

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2018	2017	2018	2017
Stock options	$1,983	$2,050	$3,747	$3,898
Performance stock options	172	354	325	686
Restricted stock units	2,045	780	3,587	1,411
Performance restricted stock units	536	610	1,050	808
Restricted stock awards	171	—	226	—
Performance restricted stock awards	581	—	792	—
Total stock-based compensation expense	$5,488	$3,794	$9,727	$6,803

Stock options

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

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

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 options. 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

Table of Contents

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

Note 9. Stock-based compensation (continued)

common stock over the term of the award estimated by averaging the Company's historical volatility in addition to published volatilities of a relative peer group, 3) risk-free interest rate, and 4) expected dividends.

The key input assumptions that were utilized in the valuation of the stock options granted during the periods presented:

	Three months ended July 31,		Six months ended July 31,	
	2018	2017	2018	2017
Expected dividend yield	*	— %	— %	— %
Expected stock price volatility	*	37.79 %	37.84 %	37.79% - 38.01%
Risk-free interest rate	*	1.89 %	2.52% - 2.68%	1.89% - 2.07%
Expected life of options	*	6.25 years	5.17 - 6.25 years	5.17 - 6.25 years

* No stock options were granted during the three months ended July 31, 2018.

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. During the three and six months ended July 31, 2018, the Company began 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, 2018	3,699	$0.10 - 51.44	$ 22.83	7.26	$102,796
Granted	89	$50.41 - 61.72	$ 60.07		
Exercised	(1,103)	$0.10 - 44.53	$ 16.86		
Forfeited	(109)	$14.00 - 44.53	$ 30.57		
Outstanding as of July 31, 2018	2,576	$0.10 - 61.72	$ 26.36	7.16	$126,579
Vested and expected to vest as of July 31, 2018	2,576		$ 26.36	7.16	$126,579
Exercisable as of July 31, 2018	814		$ 21.00	6.57	$44,374

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

As of July 31, 2018, the weighted-average vesting period of non-vested awards expected to vest is approximately 1.6 years; the amount of compensation expense the Company expects to recognize for stock options vesting in future periods is approximately $14.4 million.

Performance options. The Company recorded compensation expense 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.

Restricted stock units and restricted stock awards

Table of Contents

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

Note 9. Stock-based compensation (continued)

The Company grants restricted stock units ("RSUs") and restricted stock awards ("RSAs") to certain team members, officers, and directors under the Incentive Plan. RSUs and RSAs vest upon service-based criteria and performance-based criteria. Generally, service-based RSUs and RSAs vest over a four-year period in equal annual installments commencing upon the first anniversary of the grant date. RSUs and RSAs 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.

Performance restricted stock units. In March 2017, the Company awarded 146,964 performance-based RSUs ("PRSUs"). Vesting of the PRSUs is dependent upon the achievement of certain financial criteria and cliff vest on January 31, 2020. The Company records stock-based compensation related to PRSUs when it is considered probable that the performance conditions will be met. Issuance of the underlying shares occurs at vesting. The Company believes it is probable that the PRSUs will vest at least in part. The vesting of PRSUs will ultimately range from 0% to 150% of the number of shares underlying the PRSU grant based on the level of achievement of the performance goals.

Performance restricted stock awards. In March 2018, the Company awarded 227,760 performance-based RSAs ("PRSAs"). Vesting of the PRSAs is dependent upon the achievement of certain financial criteria and cliff vest on January 31, 2021. The Company records stock-based compensation related to PRSAs when it is considered probable that the performance conditions will be met. Issuance of the underlying shares occurs at the grant date. The Company believes it is probable that the PRSAs will vest at least in part. The vesting of PRSAs will ultimately range from 0% to 200% based on the level of achievement of the performance goals. The PRSAs were issued at the 200% level of achievement subject to clawback based on actual Company performance.

A summary of the RSU and RSA activity is as follows:

	RSUs and PRSUs		RSAs and PRSAs	
(in thousands, except weighted-average grant date fair value)	Shares	Weighted-average grant date fair value	Shares	Weighted-average grant date fair value
Outstanding as of January 31, 2018	451	$ 44.10	—	$ —
Granted	243	62.86	275	61.92
Vested	(66)	45.18	—	—
Forfeited	(20)	43.30	(19)	61.72
Outstanding as of July 31, 2018	608	$ 51.51	256	$ 61.93

Total unrecorded stock-based compensation expense as of July 31, 2018 associated with RSUs and PRSUs was $25.4 million, which is expected to be recognized over a weighted-average period of 2.9 years. Total unrecorded stock-based compensation expense as of July 31, 2018 associated with RSAs and PRSAs was $8.3 million, which is expected to be recognized over a weighted-average period of 2.9 years.

Note 10. Fair Value

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

- Level 1—quoted prices in active markets for identical assets or liabilities;
- Level 2—inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Table of Contents

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

Note 10. Fair value (continued)

- 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 summarize 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:

	July 31, 2018		
(in thousands)	Level 1	Level 2	Level 3
Marketable securities:			
Mutual funds	$41,109	$ —	$ —

	January 31, 2018		
(in thousands)	Level 1	Level 2	Level 3
Marketable securities:			
Mutual funds	$40,797	$ —	$ —

The Company has classified cash and cash equivalents as Level 1 and certain non-trade receivables as Level 2 in the fair value hierarchy.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," and similar expressions or variations intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning market opportunity, our future financial and operating results, investment and acquisition strategy, sales and marketing strategy, management's plans, beliefs and objectives for future operations, technology and development, economic and industry trends or trend analysis, expectations about seasonality, opportunity for portfolio purchases and other acquisitions, use of non-GAAP financial measures, operating expenses, anticipated income tax rates, capital expenditures, cash flows and liquidity. These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk factors" included in our Annual Report on Form 10-K for the year ended January 31, 2018 and in our other reports filed with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking

statements to reflect events or circumstances after the date of such events.

Table of Contents

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 health savings account, or HSA, a financial account through which consumers spend and save long-term for healthcare on a tax-advantaged basis. As of January 31, 2018, we were the integrated HSA platform for 124 Health Plan and Administrator Partners and over 40,000 Employer Partners. Our Health Plan and Administrator Partners and Employer Partners constitute our Network Partners.

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, reimbursement arrangements, or 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 HSA account holders advance access to planned contributions. In 2017, we began to offer ERISA plan administration and investment services (with partnered advisors and record keepers) that can help reduce the cost, risk, and work of managing a 401(k) or similar retirement plan.

We earn revenue primarily from three sources: service revenue, custodial revenue and interchange revenue. We earn service revenue by providing monthly account services on our platform, primarily through contracts with our Network Partners, and custodial agreements with individual members. We earn custodial revenue, an increasing component of our overall revenue, from custodial cash assets deposited with our federally-insured custodial depository partners and with our insurance company partner, and recordkeeping fees we earn in respect of mutual funds in which our members invest. We also earn interchange revenue from interchange fees 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 our 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 high deductible healthcare plans, or 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, and changes in U.S. healthcare policy could adversely affect our business.

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 and Administrator 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.

Table of Contents

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

Interest rates

As a non-bank custodian, we contract with federally-insured custodial depository partners and an insurance company partner to hold custodial cash assets on behalf of our members, and we earn 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. We have recently developed capabilities and entered into an agreement to begin holding custodial cash assets with credit unions that are federally insured by the National Credit Union Administration, or NCUA, share insurance fund. As our custodial assets increase and existing agreements expire, we seek to enter into new contracts with federally-insured custodial depository partners, the terms of which are impacted by the then-prevailing interest rate environment. The diversification of deposits among federally-insured custodial depository partners and varied contract terms substantially reduces our exposure to short-term fluctuations in prevailing interest rates and mitigates the short-term impact of a sustained increase or decline in prevailing interest rates on our custodial revenue. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the interest rate yield, or yield, available to us and thus the amount of the custodial revenue we can realize. Conversely, a sustained increase in prevailing interest rates can increase our yield over time. 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 federally-insured custodial depository partners and the interest retained by our members, thus increasing our profitability. However, we may be required to increase the interest retained by our members in a rising prevailing interest rate environment and we do not currently intend to allow the spread to exceed the net interest margin for all U.S. banks. 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. Many of these are state or federally chartered banks and other financial institutions for which we believe technology-based healthcare services are not a core business. Certain of our direct competitors have chosen to exit the market despite increased demand for these services. This has created, and we believe will continue to create, opportunities for us to leverage our technology 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 and Administrator 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 Employee Retirement Income Security Act 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, or HIPAA, and the

Gramm-Leach-Bliley Act, laws governing the provision of investment advice to consumers, such as the Investment Advisers Act of 1940, or the Advisers Act, the USA PATRIOT Act, anti-money laundering laws, and the Federal Deposit Insurance Act, all play a similar role in determining our competitive landscape. In addition, state-level regulations also have significant implications for our business in some cases. For example, our subsidiary HealthEquity Trust

Table of Contents

Company is regulated by the Wyoming Division of Banking, and several states are considering, or have already passed, new fiduciary rules that can affect our business. 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 more of them 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:

(in thousands, except percentages)	July 31, 2018	July 31, 2017	% Change	January 31, 2018
HSA Members	3,574	2,900	23 %	3,403
Average HSA Members - Year-to-date	3,488	2,820	24 %	2,952
Average HSA Members - Quarter-to-date	3,533	2,858	24 %	3,189
New HSA Members - Year-to-date	219	196	12 %	723
New HSA Members - Quarter-to-date	121	119	2 %	404
Active HSA Members	2,933	2,461	19 %	2,863
HSA Members with investments	143	87	64 %	122

The number of our HSA Members is critical because our revenue is driven by the amount we earn from HSA Member's accounts, balances and spend. The number of our HSA Members increased by approximately 675,000, or 23%, from July 31, 2017 to July 31, 2018, primarily driven by the addition of new Network Partners and further penetration into existing Network Partners, and our acquisition during the year ended January 31, 2018 of the rights to be custodian of First Interstate Bancsystem and Alliant Credit Union, and during the three months ended July 31, 2018, of Mountain America Credit Union portfolios consisting of approximately 14,000, 40,000, and 5,000 HSA Members, respectively.

HSAs are individually owned portable healthcare accounts. As HSA Members transition between employers or health plans, they may no longer be enrolled in an HDHP that qualifies them to continue to make contributions to their HSA. If these HSA Members deplete their custodial balance, we may consider them no longer an Active HSA Member. We define an Active HSA Member as an HSA Member that (i) is associated with a Health Plan and Administrator Partner or an Employer Partner, in each case as of the end of the applicable period; or (ii) has held a custodial balance at any point during the previous twelve month period. Active HSA Members increased 19% from 2.5 million as of July 31, 2017 to 2.9 million as of July 31, 2018.

Table of Contents

Custodial assets

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

(in millions, except percentages)	July 31, 2018	July 31, 2017	% Change	January 31, 2018
Custodial cash	$5,537	$4,503	23 %	$5,489
Custodial investments	1,494	871	72 %	1,289
Total custodial assets	$7,031	$5,374	31 %	$6,778
Average daily custodial cash - Year-to-date	$5,478	$4,429	24 %	$4,571
Average daily custodial cash - Quarter-to-date	$5,489	$4,448	23 %	$4,876

Our custodial assets, which are our HSA Members' assets for which we are the custodian, consist of the following components: (i) custodial cash deposits, which are deposits with our federally-insured custodial depository partners, (ii) custodial cash deposits invested in an annuity contract with our insurance company partner, and (iii) members' investments in mutual funds through our custodial investment fund partner. Measuring our custodial assets is important because our custodial revenue is directly affected by average daily custodial balances.

Our total custodial assets increased by $1.7 billion, or 31%, from July 31, 2017 to July 31, 2018, primarily driven by additional custodial assets from our existing HSA Members and new custodial assets from our new HSA Members, and our acquisition during the year ended January 31, 2018 of the rights to be custodian of First Interstate Bancsystem and Alliant Credit Union, and during the three months ended July 31, 2018, of Mountain America Credit Credit Union portfolios consisting of approximately $55.0 million, $109.0 million, and $12.0 million of custodial assets, respectively.

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-operating items. We believe that Adjusted EBITDA provides useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and our board of directors because it reflects operating profitability before consideration of non-operating expenses and non-cash expenses, and serves as a basis for comparison against other companies in our industry.

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

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2018	2017	2018	2017
Net income	$22,517	$16,946	$45,094	$30,975
Interest income	(303)	(179)	(561)	(336)
Interest expense	69	69	136	136
Income tax provision (benefit)	(1,029)	(489)	(3,067)	1,319
Depreciation and amortization	2,918	2,573	5,968	4,971
Amortization of acquired intangible assets	1,478	1,082	2,948	2,165
Stock-based compensation expense	5,488	3,793	9,727	6,803
Other (1)	663	148	1,183	328
Adjusted EBITDA	$31,801	$23,943	$61,428	$46,361

(1) For the three months ended July 31, 2018 and 2017, Other consisted of non-income-based taxes of $116 and $102, other costs of $(32) and $0, acquisition-related costs of $224 and $46, and amortization of incremental costs to obtain a contract of $355 and $0, respectively. For the six months ended July 31, 2018 and 2017, Other consisted of non-income-based taxes of $220 and $190, other costs of $56 and $54, acquisition-related costs of $225 and $84, and amortization of incremental costs to obtain a contract of $682 and $0, respectively.

The following table further sets forth our Adjusted EBITDA:

(in thousands, except percentages)	Three months ended July 31,				Six months ended July 31,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Adjusted EBITDA	$31,801	$23,943	$ 7,858	33 %	$61,428	$46,361	$ 15,067	32 %
As a percentage of revenue	45 %	42 %			44 %	41 %		

Table of Contents

Our Adjusted EBITDA increased by $7.9 million, or 33%, from $23.9 million for the three months ended July 31, 2017 to $31.8 million for the three months ended July 31, 2018. The increase in Adjusted EBITDA was driven by the overall growth of our business, including a $5.1 million, or 31%, increase in income from operations.

Our Adjusted EBITDA increased by $15.1 million, or 32%, from $46.4 million for the six months ended July 31, 2017 to $61.4 million for the six months ended July 31, 2018. The increase in Adjusted EBITDA was driven by the overall growth of our business, including a $9.7 million, or 30%, 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

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

Service revenue. We earn service revenue from the fees we charge our Network Partners, 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 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, an increasing component of our overall 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 retained by members on custodial cash and interchange costs incurred in connection with processing card transactions for our members.

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

Custodial costs. Custodial costs are comprised of interest retained by our HSA Members and fees we pay to banking consultants whom we use to help secure agreements with our federally-insured custodial depository partners. Interest retained by HSA Members is calculated on a tiered basis. The interest rates retained by HSA Members can change based on a formula or upon required notice.

Interchange costs. Interchange costs are comprised of costs we incur in connection with processing payment transactions initiated by our members. Due to the substantiation requirement on RA-linked payment card transactions, 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.

Table of Contents

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 increase somewhat over the near term as our custodial revenue increases as a percentage of total revenue, 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.

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.

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.

Amortization of acquired intangible assets. Amortization of acquired intangible assets results primarily 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 also acquired other intangible assets, which are 401(k) customer relationships, in connection with an acquisition of a business. We amortize these assets over the assets' estimated useful life of 10 years. We evaluate our acquired intangible assets for impairment at least each year, or at a triggering event.

Other expense, net

Other expense primarily consists of interest expense associated with our credit agreement, non-income-based taxes and acquisition-related expenses, offset by interest income on corporate cash and marketable securities.

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 July 31, 2018, we recorded a net deferred tax liability in most jurisdictions except Utah and four other states for which a net deferred tax asset has been recorded. 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 current taxable income coupled with forecasted profitability, no valuation allowance was required as of July 31, 2018 for most of our deferred tax assets. However, we have recorded a valuation allowance of $0.1 million as of July 31, 2018 with respect to unrealized capital losses for which we do not expect to generate taxable capital gains in order to utilize the capital losses in the future. This valuation allowance was reflected as an adjustment to retained earnings as a result of the adoption of ASU 2016-01. No valuation allowance was recorded as of January 31, 2018.

Table of Contents

Comparison of the three and six months ended July 31, 2018 and 2017

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

(in thousands, except percentages)	Three months ended July 31,				Six months ended July 31,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Service revenue	$24,935	$22,809	$2,126	9 %	$49,756	$45,296	$4,460	10 %
Custodial revenue	30,715	21,285	9,430	44 %	59,149	40,604	18,545	46 %
Interchange revenue	15,417	12,785	2,632	21 %	32,066	26,400	5,666	21 %
Total revenue	$71,067	$56,879	$14,188	25 %	$140,971	$112,300	$28,671	26 %

Service revenue

The $2.1 million, or 9%, increase in service revenue from the three months ended July 31, 2017 to the three months ended July 31, 2018 was primarily due to an increase in the number of our HSA Members, offset by lower service revenue per HSA Member. The $4.5 million, or 10%, increase in service revenue from the six months ended July 31, 2017 to the six months ended July 31, 2018 was primarily due to an increase in the number of our HSA Members, offset by lower service revenue per HSA Member. The number of our HSA Members increased by approximately 675,000, or 23%, from July 31, 2017 to July 31, 2018. The growth in the number of our HSA Members was due to growth from our new and existing Network Partners and our acquisition of the First Interstate Bancsystem, Alliant Credit Union, and Mountain America Credit Union portfolios.

Service revenue per HSA Member decreased by approximately 12% and 11% from the three and six months ended July 31, 2017 to the three and six months ended July 31, 2018. Our service fee tier structure incentivizes our Network Partners to add HSA Members by charging a lower rate for more HSA Members. As Network Partners add more HSA Members, the account fee per HSA Member will continue to decrease.

Custodial revenue

The $9.4 million, or 44%, increase in custodial revenue from the three months ended July 31, 2017 to the three months ended July 31, 2018 was primarily due to an increase in the yield on average custodial cash assets from 1.83% for the three months ended July 31, 2017 to 2.11% and an increase in average daily custodial cash assets of $1.0 billion, or 23%.

The $18.5 million, or 46%, increase in custodial revenue from the six months ended July 31, 2017 to the six months ended July 31, 2018 was primarily due to an increase in the yield on average custodial cash assets from 1.78% for the six months ended July 31, 2017 to 2.07% and an increase in average daily custodial cash assets of $1.0 billion, or 24%.

Custodial revenue per HSA Member increased by approximately 17% and 18% from the three and six months ended July 31, 2017 to the three and six months ended July 31, 2018 primarily due to the increase in the balances of and yield on average daily custodial cash assets. The increase in average daily custodial cash balances is due in part to the increase in HSA Members and the acquisitions of HSA portfolios.

Interchange revenue

The $2.6 million, or 21%, increase in interchange revenue from the three months ended July 31, 2017 to the three months ended July 31, 2018 was primarily due to an overall increase in the number of our HSA Members resulting in an overall increase in the volume of payment activity.

The $5.7 million, or 21%, increase in interchange revenue from the six months ended July 31, 2017 to the six months ended July 31, 2018 was primarily due to an overall increase in the number of our HSA Members resulting in an overall increase in the volume of payment activity.

Interchange revenue per HSA Member decreased by approximately 2% from the three and six months ended July 31, 2017 to the three and six months ended July 31, 2018, primarily due to a decrease in payment activity per HSA Member.

Total revenue

Total revenue per HSA Member increased by 1% from the three and six months ended July 31, 2017 to the three and six months ended July 31, 2018, due to the increase in custodial revenue per HSA Member, partially offset by the

decreases in service and interchange revenue per HSA Member.

Table of Contents

Cost of revenue

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

(in thousands, except percentages)	Three months ended July 31,				Six months ended July 31,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Service costs	$17,199	$14,998	$ 2,201	15 %	$35,246	$30,573	$ 4,673	15 %
Custodial costs	3,502	2,785	717	26 %	6,941	5,586	1,355	24 %
Interchange costs	3,791	3,294	497	15 %	7,853	6,598	1,255	19 %
Total cost of revenue	$24,492	$21,077	$ 3,415	16 %	$50,040	$42,757	$ 7,283	17 %

The increase in costs described below were partially attributed to the HSA portfolio acquisitions and acquisition of a business that occurred during the year ended January 31, 2018.

Service costs

The $2.2 million, or 15%, increase in service costs from the three months ended July 31, 2017 to the three months ended July 31, 2018 was due to the higher volume of accounts being serviced. The $2.2 million increase includes increases of $1.4 million related to the hiring of additional personnel to implement and support our new Network Partners and HSA Members, activation and processing costs of $0.1 million related to account and card activation as well as monthly processing of statements and other communications, information and technology expenses of $0.4 million, and other expenses of $0.5 million. Service costs per HSA Member decreased by 7% from the three months ended July 31, 2017 to the three months ended July 31, 2018 due to a decrease in incremental expenses associated with fraud prevention measures.

The $4.7 million, or 15%, increase in service costs from the six months ended July 31, 2017 to the six months ended July 31, 2018 was due to the higher volume of accounts being serviced. The $4.7 million increase includes increases of $3.1 million related to the hiring of additional personnel to implement and support our new Network Partners and HSA Members, activation and processing costs of $0.5 million related to account and card activation as well as monthly processing of statements and other communications, information and technology expenses of $0.7 million, and other expenses of $0.8 million. Service costs per HSA Member decreased by 7% from the six months ended July 31, 2017 to the six months ended July 31, 2018 due to a decrease in incremental expenses associated with fraud prevention measures.

Custodial costs

The $0.7 million, or 26%, increase in custodial costs from the three months ended July 31, 2017 to the three months ended July 31, 2018 was due to an increase in average daily custodial cash assets, which increased from $4.4 billion for the three months ended July 31, 2017 to $5.5 billion for the three months ended July 31, 2018, partially offset by a decrease in custodial costs on average custodial cash assets from 0.25% for the three months ended July 31, 2017 to 0.24% for the three months ended July 31, 2018.

The $1.4 million, or 24%, increase in custodial costs from the six months ended July 31, 2017 to the six months ended July 31, 2018 was due to an increase in average daily custodial cash assets, which increased from $4.4 billion for the six months ended July 31, 2017 to $5.5 billion for the six months ended July 31, 2018, partially offset by a decrease in custodial costs on average custodial cash assets from 0.25% for the six months ended July 31, 2017 to 0.24% for the six months ended July 31, 2018.

Interchange costs

The $0.5 million, or 15%, and $1.3 million, or 19%, increase in interchange costs for the three and six months ended July 31, 2017 compared to the three and six months ended July 31, 2018 was due to an overall increase in payment activity, attributable to the growth in HSA Members.

As we continue to add HSA Members, our cost of revenue will increase in aggregate 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 scale our Member Education Center, Network Partner implementation and account management functions.

Table of Contents

Operating expenses

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

(in thousands, except percentages)	Three months ended July 31,				Six months ended July 31,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Sales and marketing	$7,243	$5,194	$ 2,049	39 %	$14,103	$9,815	$ 4,288	44 %
Technology and development	8,398	6,797	1,601	24 %	16,377	13,039	3,338	26 %
General and administrative	7,893	6,234	1,659	27 %	15,400	12,102	3,298	27 %
Amortization of acquired intangible assets	1,478	1,082	396	37 %	2,948	2,165	783	36 %
Total operating expenses	$25,012	$19,307	$ 5,705	30 %	$48,828	$37,121	$ 11,707	32 %

Sales and marketing

The $2.0 million, or 39%, increase in sales and marketing expense from the three months ended July 31, 2017 to the three months ended July 31, 2018 was due to increased staffing and sales commissions of $0.6 million, stock-based compensation expense of $0.4 million, and increases in other expenses of $1.1 million.

The $4.3 million, or 44%, increase in sales and marketing expense from the six months ended July 31, 2017 to the six months ended July 31, 2018 was due to increased staffing and sales commissions of $1.4 million, stock-based compensation expense of $0.8 million, and increases in other expenses of $2.1 million.

Sales and marketing expense from the three and six months ended July 31, 2018 reflects the adoption of the new revenue recognition standard, ASC 606. As a result, we capitalize sales commissions and amortize these costs over the average economic life of an HSA Member, to sales and marketing expense in the condensed consolidated statement of operations. Our previous practice was to fully expense sales commissions when the HSA Member was added to our platform.

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

Technology and development

The $1.6 million, or 24%, increase in technology and development expense from the three months ended July 31, 2017 to the three months ended July 31, 2018 was due to increased personnel-related expense of $0.9 million, increases in technology-related expenses, and increased amortization, depreciation and stock-based compensation of $1.1 million, which were partially offset by decreases in professional fees and capitalized development of $0.3 million.

The $3.3 million, or 26%, increase in technology and development expense from the six months ended July 31, 2017 to the six months ended July 31, 2018 was due to increased personnel-related expense of $2.1 million, increases in technology-related expenses, and increased amortization, depreciation and stock-based compensation of $2.0 million, which were partially offset by decreases in professional fees of $0.7 million.

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 increase 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

The $1.7 million, or 27%, increase in general and administrative expense from the three months ended July 31, 2017 to the three months ended July 31, 2018 was due to increased personnel-related expense of $0.9 million and increases in stock-based compensation of $0.8 million.

The $3.3 million, or 27%, increase in general and administrative expense from the six months ended July 31, 2017 to the six months ended July 31, 2018 was due to increased personnel-related expense of $1.5 million, increases in

stock-based compensation of $1.4 million, and increased other expenses of $0.4 million.

We expect our general and administrative expenses to increase for the foreseeable future due to the additional demands on our legal, compliance, accounting, insurance, and investor relations functions that we continue to incur

Table of Contents

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

The increase in amortization of acquired intangible assets for the three and six months ended July 31, 2018 compared to the three and six months ended July 31, 2017 was attributable to the HSA portfolio asset acquisitions and acquisition of a business that occurred during the year ended January 31, 2018, and the acquisition of the Mountain America Credit Union HSA portfolio which closed during the three months ended July 31, 2018.

Other expense, net

The change in other expense, net from the three and six months ended July 31, 2017 to the three and six months ended July 31, 2018 was due to the adoption of ASU 2016-01.

Income tax provision (benefit)

Income tax benefit for the three and six months ended July 31, 2018 was $1.0 million and $3.1 million as compared to $0.5 million and a tax provision of $1.3 million for the three and six months ended July 31, 2017. The change for the three and six months ended July 31, 2018 compared to the three and six months ended July 31, 2017 was primarily the result of the reduction in the US federal corporate income tax rate from 35% to 21% as a result of legislative changes effective January 1, 2018 and an increase in federal and state research and development tax credits.

Our effective income tax rate for the three and six months ended July 31, 2018 was a benefit of 4.8% and 7.3%, compared to a benefit of 3.0% and a provision of 4.1% for the three and six months ended July 31, 2017. The 1.8 and 11.4 percentage point decrease for the three and six months ended July 31, 2018 compared to the three and six months ended July 31, 2017 is primarily due to the reduction in the US federal corporate income tax rate from 35% to 21% as a result of legislative changes effective January 1, 2018 and an increase in federal and state research and development tax credits.

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.

In the past we have experienced higher operating expenses in our fourth fiscal quarter due to sales commissions for new accounts activated in January. Beginning February 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers. As a result of this adoption, the Company capitalizes incremental contract acquisition costs, such as sales commissions, and amortizes these costs over the average economic life of a member.

Liquidity and capital resources

Cash and marketable securities overview

As of July 31, 2018, 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 July 31, 2018 and January 31, 2018, cash, cash equivalents and marketable securities were $302.9 million and $240.3 million, respectively.

Capital resources

We have a "shelf" registration statement on Form S-3 on file with the SEC. This shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus

Table of Contents

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.

We have a secured credit facility of $100.0 million. The credit facility has a term of five years and expires on September 30, 2020. The credit facility contains covenants and events of default customary for facilities of this type. There were no borrowings under the facility as of July 31, 2018. We were in compliance with all covenants as of July 31, 2018.

Use of cash

Capital expenditures for the six months ended July 31, 2018 and 2017 were $7.4 million and $7.3 million, respectively. We expect our capital expenditures to increase for the remainder of the year ending January 31, 2019 as we continue to devote capital expenditures to improve the architecture and functionality of our proprietary system. Costs to improve the architecture of our proprietary system include computer hardware, personnel and related costs for software engineering and outsourced software engineering services. In addition, we plan to devote further resources to leasehold improvements and furniture and fixtures for our office space.

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:

	Six months ended July 31,	
(in thousands)	2018	2017
Net cash provided by operating activities	$52,640	$39,761
Net cash used in investing activities	(8,773)	(17,066)
Net cash provided by financing activities	18,469	7,072
Increase in cash and cash equivalents	62,336	29,767
Beginning cash and cash equivalents	199,472	139,954
Ending cash and cash equivalents	$261,808	$169,721

Cash flows provided by operating activities. Net cash provided by operating activities during the six months ended July 31, 2018 resulted primarily from our net income of $45.1 million, adjusted for the following non-cash items: depreciation and amortization of $8.9 million, stock-based compensation of $9.7 million, and changes in deferred taxes of $2.4 million, and changes in inventories, accrued liabilities, other long-term liabilities, and unrealized losses on marketable securities and other totaling $0.5 million. These items were offset by an increase in other assets of $7.0 million, a decrease in accrued compensation of $2.8 million resulting from the payment of bonuses and commissions subsequent to year-end, an increase in accounts receivable of $3.3 million, and an decrease in accounts payable of $0.8 million.

Net cash provided by operating activities during the six months ended July 31, 2017 resulted primarily from our net income of $31.0 million being adjusted for the following non-cash items: depreciation and amortization of $7.1 million, stock-based compensation of $6.8 million, a change in deferred taxes of $4.7 million impacted by the adoption of ASU 2016-09 and utilization of deferred tax benefits and changes in inventories, accrued liabilities, other long-term liabilities and amortization of deferred financing costs and other totaling $1.8 million. These items were offset by a decrease in accrued compensation of $2.2 million resulting from the payment of bonuses and commissions subsequent to year-end, an increase in accounts receivable of $3.9 million, an increase in other assets of $4.1 million, and a decrease in accounts payable of $1.5 million.

Cash flows used in investing activities. Net cash used in investing activities for the six months ended July 31, 2018 was primarily the result of the continued development of our proprietary system and other software necessary to support our continued account growth. Purchases of software and capitalized software development costs for the

Table of Contents

six months ended July 31, 2018 were $4.7 million. This compares to purchases of software and capitalized software development costs of $5.2 million for the six months ended July 31, 2017. Our purchases of property and equipment increased from $2.2 million for the six months ended July 31, 2017 to $2.7 million for the six months ended July 31, 2018, primarily as a result of increases in tenant improvements. In addition, during the six months ended July 31, 2018, purchases of intangible member assets resulted in cash outflows of $1.0 million.

Cash flows provided by financing activities. Cash flow provided by financing activities during the six months ended July 31, 2018 resulted primarily from the proceeds associated with the exercise of stock options of $18.5 million compared to $7.1 million for the six months ended July 31, 2017.

Contractual obligations

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

Off-balance sheet arrangements

During the three months ended July 31, 2018 and 2017, we did 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 management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are more fully described in Note 1 of the accompanying unaudited condensed consolidated financial statements and in Note 1 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended January 31, 2018. Other than the adoption of ASU 2014-09 and related subsequent amendments, Revenue from Contracts with Customers, described in Note 1 of the accompanying unaudited condensed consolidated financial statements, there have been no significant or material changes in our critical accounting policies during the six months ended July 31, 2018, as compared to those disclosed in "Management's discussion and analysis of financial condition and results of operations – Critical accounting policies and significant management estimates" in our Annual Report on Form 10-K for the year ended January 31, 2018.

Recent accounting pronouncements

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

Item 3. Qualitative and quantitative disclosures about market risk

Market risk

Concentration of market risk. We derive a substantial portion of our revenue from providing services to tax-advantaged healthcare account holders. A significant downturn in this market or changes in state and/or federal laws impacting the preferential tax treatment of healthcare accounts such as HSAs could have a material adverse effect on our results of operations. During the three and six months ended July 31, 2018, no one customer accounted for greater than 10% of our total revenue. We monitor market and regulatory changes regularly and make adjustments to our business if necessary.

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

Concentration of credit risk

-30-

Table of Contents

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 July 31, 2018 were $302.9 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 July 31, 2018 was $24.9 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. We continue to monitor our credit risk and place our cash, cash equivalents, and marketable securities with reputable financial institutions.

Interest rate risk

Custodial assets. As of July 31, 2018, we had custodial cash assets of approximately $5.5 billion. We have entered into depository agreements with financial institutions for our cash custodial assets. The contracted interest rates were negotiated at the time the depository agreements were executed. A significant reduction in prevailing market 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 July 31, 2018, we had unrestricted cash and cash equivalents of $261.8 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 July 31, 2018, we had marketable securities of $41.1 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.

Item 4. 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 the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act means controls and other procedures of a company that are designed to ensure the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures included, 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. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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 period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

From time-to-time, we may be subject to various legal proceedings and claims that arise in the normal course of our business activities. As of the date of this Quarterly Report on Form 10-Q, 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, cash flows, financial position or brand.

Item 1A. Risk factors

The risks described in “Risk factors,” in our Annual Report on Form 10-K for the year ended January 31, 2018 could materially and adversely affect our business, financial condition and results of operations. There have been no material changes in such risks. These risk factors do not identify all risks that we face - our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sale of Equity Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

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 IPO 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 $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 IPO 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. 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. Other than the foregoing dividends, 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.

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 Bank HSA portfolios for approximately $34.2 million and approximately $6.2 million, respectively.

Table of Contents

During the year ended January 31, 2018, the Company used funds received from the offerings to acquire the rights to be custodian of two HSA portfolios for approximately $6.4 million and $8.0 million in cash, respectively, the assets of BenefitGuard LLC, a 401(k) provider that offers plan administrator and named fiduciary services for 401(k) employer sponsors, for approximately $2.9 million, and the rights to be the sole administrator of a portfolio of HSA Members for $3.3 million.

During the three months ended July 31, 2018, the Company used funds received from the offerings to acquire the rights to be custodian of an HSA portfolio for approximately $1.0 million in cash.

The remainder of the funds received have been invested in registered money market accounts and mutual funds.

Item 6. Exhibits

		Incorporate by reference			
Exhibit no.	Description	Form	File No.	Exhibit	Filing Date
3.1	Second Amended and Restated Certificate of Incorporation of the Company.	8-K	001-36568	3.1	July 6, 2018
3.2	Second Amended and Restated By-Laws of the Company.	8-K	001-36568	3.2	July 6, 2018
10.1+	Employment Agreement, dated June 21, 2018, by and between the Registrant and Ted Bloomberg.				
10.2+	Team Member Confidentiality and Non-Competition Agreement, dated June 21, 2018, by and between the Registrant and Ted Bloomberg.				
10.3+	Amendment to Executive Change in Control Severance Plan				
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.

Table of Contents

Signatures

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

HEALTHEQUITY, INC.

Date: September 6, 2018 By: /s/ Darcy Mott

Name: Darcy Mott

Title: Executive Vice President and Chief Financial Officer