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

FORM 10-K

☐ **(Mark One)**

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

For the Fiscal Year Ended December 31, 2014

OR

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

For the transition period from to Commission File Number: 001-35232

WAGEWORKS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**94-3351864**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1100 Park Place, 4th Floor San Mateo, California	**94403**
(Address of principal executive offices)	**(Zip Code)**

(650) 577-5200

(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value per share	**The New York Stock Exchange**

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

None.

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock, $0.001 par value per share, held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was $1,569,799,789 (based on the closing sales price of the registrant's common stock on that date). This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 19, 2015, there were 35,540,372 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2014 Annual Meeting of the Stockholders (the "2014 Proxy Statement"), to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Annual Report where indicated.

WAGEWORKS, INC.

FORM 10-K

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Forward Looking Statements

This Annual Report on Form 10-K 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning tax-advantaged consumer-directed benefits, market opportunity, our future financial and operating results, investment 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, channel partnerships, private exchanges, 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. You should not place undue reliance on these forward-looking statements which speak only as of the date of this Annual Report on Form 10-K. 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.

PART I

Item 1. Business

Corporate Information

WageWorks was incorporated as a Delaware corporation in 2000. Our website address is www.wageworks.com. We make available on our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Our SEC reports can be accessed through the Investor Relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Overview

We are a leader in administering Consumer-Directed Benefits, or CDBs, which empower employees to save money on taxes while also providing corporate tax advantages for employers. We are solely dedicated to administering CDBs, including pre-tax spending accounts such as health and dependent care Flexible Spending Accounts, or FSAs, Health Savings Accounts, or HSAs, Health Reimbursement Arrangements, or HRAs, as well as commuter benefit services, including transit and parking programs, wellness programs and other employee spending account benefits, in the United States. We also administer Consolidated Omnibus Budget Reconciliation Act, or COBRA, continuation services to employer clients.

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

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

These employee contributions result in savings to both employees and employers. As an example, based on our average employee participant's annual FSA contribution of approximately $1,300 and an assumed personal combined federal and state income tax rate of 35%, an employee participant will reduce his or her taxes by approximately $455 per year by participating in an FSA. Our employer clients also realize payroll tax (i.e., FICA and Medicare) savings on the pre-tax contributions made by their employees. In the above FSA example, an employer client would save approximately $56 per participant per year, even after the payment of our fees.

Under our HRA programs, employer clients provide their employee participants with a specified amount of available reimbursement funds to help their employee participants defray out-of-pocket medical expenses such as deductibles, co-insurance and co-payments. All amounts paid by the employer into HRAs are deductible by the employer as an ordinary business expense and are tax-free to the employee.

We administer COBRA continuation services to employer clients to meet the employer's obligation to make available continuation of coverage for participants who are no longer eligible for the employer's COBRA covered benefits. As part of our COBRA program, we offer a direct billing service where former employee participants pay for coverage they elect to continue and we ensure our employer clients meet the challenging aspects of COBRA compliance and administration.

We market and sell our CDB programs through multiple channels, including direct sales to large enterprises, direct sales and through brokers to small-and medium-sized businesses, or SMBs, direct sales to industry purchasing and affiliate groups, through channel partners and within private exchanges. We administer enrollment, eligibility, billing and payment processing services to a customer for purposes of assisting in the administration of their public health insurance exchange business. Our enterprise sales force targets Fortune 1000 companies and generates new large account relationships through employer prospecting, consultant relationships and strategic partnerships. Our SMB distribution channel complements our enterprise sales channel. It consists of third-party advisors and institutional brokers that sell our CDB programs along with their own complementary products to SMBs. Our average sales cycle ranges from approximately two months for SMBs to six to nine months for our large institutional clients.

Our CDB agreements with our larger employer clients, which we refer to as enterprise clients, are typically for three-year terms and provide for monthly fees based on the number of employee participants enrolled in our programs. We price our services based on the estimated number and types of claims, whether payment processing and client support activities will be provided within or outside of the United States, the estimated number of calls to our customer support center and any specific client requirements. Almost all of the healthcare benefit plans we service on behalf of our enterprise clients are subject to contractual minimum monthly billing amounts. Typically, such minimum billing amounts are subject to upward revision on a monthly basis as our employer clients hire new employees who elect to participate in our programs, but generally are not subject to downward revision when employees leave their employers because we continue to administer those former employee participants' accounts for the remainder of the plan year. For our SMB clients, our agreements are typically for one to three year terms and the monthly fee remains constant for the plan year. In some cases, the agreements provide that the monthly fee is subject to upward revision when there is a 10% or greater increase in the number of employee participants during the plan year. In addition, we derive a portion of our revenues from interchange fees that we receive when employee participants use the prepaid debit cards we provide to them for healthcare and commuter expenses.

At January 31, 2015, we had over 4 million employee participants from approximately 45,000 employer clients. Our participant counts do not include our TransitChek Basic program participants, as that fare media is shipped directly to the employers and then the employers distribute the products to their employee base as the demand presents. We believe that January 31 is the most appropriate point-in-time measurement date for annual plan metrics. Although plan changes and the entry and exit of employers and participants from our programs are usually decided late in the calendar year during open enrollment to be effective on January 1, it is not unusual for employers to still be submitting updated files of participants in early January. While updates can be delayed past January, any changes from such late updates are usually minimal. Consequently, we believe the January 31 point-in-time measurement date is the most appropriate date to use as a baseline. In 2014, employee participants used over 4.5 million WageWorks prepaid debit cards.

Part of our growth strategy is the acquisition and integration of TPAs, which we refer to as portfolio purchases. We completed the portfolio purchase of Crosby Benefit Systems, Inc., or CBS, in May 2013 and the acquisition of CONEXIS Benefits Administrators, LP, or CONEXIS, in August 2014.

Our Services

Flexible Spending Accounts

Healthcare

We offer flexible spending accounts, or FSAs, which are employer-sponsored CDBs that enable employees to set aside pre-tax dollars to pay for eligible healthcare expenses that are not generally covered by insurance, such as co-pays, deductibles and over-the-counter medical products, as well as vision expenses, orthodontia, medical devices and autism treatments. Employers benefit from payroll tax savings on the pre-tax FSA contributions from the employee.

During each annual open enrollment period, an employee elects an amount to be placed into an FSA for the following plan year. The contributed amount is then deducted in equal increments out of each paycheck on a pre-tax basis over the plan year. The entire annual election amount is available to the participant for use starting on the first day of the plan year and cannot be changed except for the occurrence of certain life events such as a birth, death, marriage or divorce. During the course of the plan year, we are able to automatically process a substantial majority of our employee participants' claims for reimbursement. The remaining claims for reimbursement are independently adjudicated by us to ensure that FSA funds are used only for qualified healthcare expenses. If an employer has not elected the new carryover option that became available under Notice 2013-71 issued by the IRS and Treasury on October 31, 2013, any unused funds that remain in the account at the end of the plan year are forfeited by the employee participant and revert to the employer. However, with the modification of the long standing "Use-it-or-Lose-it Rule", employers can amend their FSA plans to allow for a carryover of up to $500 of unused amounts remaining at the end of a plan year in a health FSA to be paid or reimbursed to plan participants for qualified medical expenses incurred during the following plan year, provided that the health FSA plan does not also incorporate the grace period rule. This change to the "Use-it-or-Lose-it Rule" is a benefit to employers as well as employees as participants no longer risk losing their hard earned money or find themselves spending the money on unnecessary items to avoid forfeiture of any funds and employers get additional FICS and Medicare savings as more employees participate in the health FSA. Employers will still receive certain forfeitures as the carryover is limited to $500 and participants will still voluntarily or involuntarily terminate employment during a plan year. Forfeited funds are generally used by the employer to defray the administrative expenses of the FSA plans. Forfeitures also reduce excess claims costs that may have been incurred by employee participants who voluntarily or involuntarily leave their employ before the end of a plan year.

The IRS imposes a $2,500 limit, indexed to inflation, on pre-tax dollar employee contributions made to a healthcare FSA for plan years that begin on or after January 1, 2014. The carryover of up to $500 does not count against or otherwise affect the indexed $2,500 salary reduction limit applicable to each plan year. Employers themselves are able to contribute additional amounts in excess of this statutory limit, and may choose to do so in an effort to mitigate the impact of rising healthcare costs on their employees.

Dependent Care

We also offer FSA programs for dependent care plans. These plans allow employees to set aside pre-tax dollars to pay for eligible dependent care expenses, which typically include child care or day care expenses but may also include expenses incurred from adult and elder care. Current laws and regulations limit the amount of pre-tax dollars employees can contribute to dependent care FSAs to $5,000 per tax year. Like healthcare FSAs, employers can also contribute funds to employees' dependent care FSAs, subject to a statutory $5,000 annual limit on total contributions. As with healthcare FSAs, employers realize payroll tax savings on the pre-tax dependent care FSA contributions made by their employees.

Health Reimbursement Arrangements

We offer employer-funded heath reimbursement arrangements, or HRAs. Under HRAs, employers provide their employees with a specified amount of reimbursement funds that are available to help employees defray their out-of-pocket healthcare expenses, such as deductibles, co-insurance and co-payments. HRAs may only be funded by employers and, while there is no limitation on how much employers may contribute, employers are required to establish the programs in such a way as to prevent discrimination in favor of highly compensated employees. HRAs must either be considered an excepted benefit (for example, a dental-only HRA or a retiree HRA) or be integrated with another group health plan. HRAs can be customized by employers so employers have the freedom to determine what expenses are eligible for reimbursement under these arrangements. At the end of the plan year, employers have the option to allow all, or a portion, of the unused funds to roll over and accumulate year-to-year if not spent. All amounts paid by employers into HRAs are deductible by the employer and tax-free to the employee.

Health Savings Accounts

We also administer health savings accounts, or HSAs, for employers that allow employee participants to invest funds to be used for qualified healthcare expenses at any time without federal tax liability or penalty. Such funds are also exempt from payroll taxes for employers. Both employees and employers can make contributions to an HSA. HSA funds are held by a custodian, accumulate year-to-year if not spent and are portable if a participant leaves his employer. Our HSA programs are designed to offer employers a choice of third party custodian to hold the funds as well as a variety of investment options within each custodial offering that enables employers the opportunity to explore a broader assortment of funds to offer their employees.

In order to be eligible for an HSA, an employee must be enrolled in a qualified High Deductible Health Plan, or HDHP, that is HSA-compatible and not be covered by any other impermissible coverage. HSAs have annual contribution limits. For 2014, the annual HSA contribution limit was $3,300 for an individual and $6,550 for a family, with allowable catch-up annual contributions of $1,000 for those aged 55 and older so that those individuals can accumulate adequate funds to meet their healthcare expense obligations. Withdrawals for non-medical expenses are treated similarly to those in an individual retirement account. Specifically, such withdrawals may provide tax advantages if taken after retirement age, and may incur penalties if taken earlier.

Commuter Programs

We also offer qualified transportation fringe benefits. The federal tax code currently permits employers to provide the following commuter benefits to employees on a tax-free basis:

- qualified parking;
- transit passes;
- transportation in a commuter highway vehicle, or vanpooling, if such transportation is in connection with travel between the employee's residence and place of employment; and
- qualified bicycle commuting reimbursement.

For commuter benefits, the maximum monthly amount that employees can exclude from gross income for federal income tax purposes and, in most cases, state income tax purposes is subject to a statutory limit that is periodically adjusted for inflation. For 2014, the monthly maximum is $130 for transit or vanpooling, $250 for parking and $20 for bicycle reimbursement. The Tax Increase Prevention Act of 2014, which was signed into law on December 19, 2014, retroactively adjusted the pretax limit for transit passes and vanpooling for 2014 to $250.

We offer five variations of pre-tax commuter benefit programs: Commuter Order Model (COM), Commuter Account Model (CAM), Commuter Express, TransitChek Premium and TransitChek Basic. Each of these programs is described below.

While these programs differ in terms of funding, implementation and available services, they include the following common features unless otherwise noted:

- home delivery of transit passes and vouchers (other than TransitChek Basic);
- electronic loading of transit agency smartcards (other than TransitChek Basic);
- an express electronic payment feature for select transit and vanpool operators (other than TransitChek Basic);
- access to transit vouchers;
- a prepaid debit card used to pay for transit purchases or parking expenses;
- a direct monthly payment to parking providers for eligible parking (other than TransitChek Basic);
- Park-n-Ride Support, which provides parking at or near transit stations or stops (other than TransitChek Premium and TransitChek Basic);
- a cash reimbursement process for parking, vanpool, and certain other transit expenses (other than TransitChek Basic);
- employer managed parking, which includes support for employer owned, managed, or leased parking, including customization capability by parking facility (COM only); and
- the employer usually recognizes a financial benefit because it does not pay FICA and Medicare tax on amounts contributed by its employees.

Under our COM, which we target to medium-sized and larger enterprise clients, employees place orders for transit, vanpool or parking benefits through our website or our toll-free customer service center. Employers pay us for transit and parking orders in advance. Employers either provide the benefit as a tax-free employer-paid fringe benefit, or reimburse themselves through payroll deductions from the participants, or a combination of both, all of which are exempt from payroll and federal income taxes and, in most cases, state income taxes as well, up to a statutory monthly cap. In addition to the tax-free pretax payroll deductions, employees may also supplement the amounts in their account with their own personal funds, although such supplemental funds, which may be made through payroll deductions, are contributed on an after-tax basis.

Under our CAM, which we target to medium-sized and larger enterprise clients, and particularly to those clients in the public sector, employees make pretax payroll deduction elections that employers use to fund accounts that we maintain. These deductions are exempt from payroll and federal income taxes and, in most cases, state income taxes as well, up to a statutory monthly cap. Participants use the funds in their accounts either automatically to fund a prepaid debit card that can be used to make transit or parking purchases at eligible locations or to purchase a transit or parking pass directly on our website. In addition to the payroll deductions, employees may also supplement the amounts in their account with their own personal funds, although such supplemental funds are contributed on an after-tax basis.

Under our Commuter Express program, which we target to SMBs, employers create transit and parking accounts on behalf of their employees using a web-based application on our proprietary platform. Employees then designate a monthly election amount, the employer submits the appropriate funds to us and we deposit those funds into a transit or parking account, which can be used to fund a variety of transit and parking options. All such employee elections are exempt from federal income taxes and, in most cases, state income taxes as well, up to a statutory monthly cap. Employees may also supplement the amounts in their account with their own personal funds, although such supplemental funds are contributed on an after-tax basis.

Under our TransitChek Premium program, which we target primarily to SMBs in the greater New York Metropolitan market, employers offer their employees the ability to enroll for transit, vanpool, parking or bicycle benefits through our TransitChek Account Management (TAMS) website or our toll-free customer service center. Employer clients pay us for the selected benefit in advance. Other than the bicycle benefit, employer clients either provide the benefit as tax-free employer-paid fringe benefit, or reimburse themselves through payroll deductions from the participants, or a combination of both, all of which are exempt from payroll and federal income taxes and, in most cases, state income tax as well, up to a statutory monthly cap. In addition to the tax-free fringe and pretax payroll deductions, employees may also supplement the amounts in their account with their own personal funds, although such supplemental funds, which may be made through payroll deductions, are contributed on an after-tax basis. The bicycle benefit may only be offered as an employer-paid fringe benefit. In all cases, the elections are exempt from federal income taxes and, in most cases, state income taxes as well, up to the statutory monthly cap.

Under our TransitChek Basic program, employee participants enroll through their employers for pre-tax commuter benefit programs. Employers may offer only transit and parking benefits under this program. These benefits may be offered as a monthly pre-tax election deducted from an employee's salary, a tax-free employer-paid fringe benefit, or a combination of both. Employer clients order products in bulk on behalf of their employees and handle the administration and distribution of the benefit to their employee participants. In all cases, the elections are exempt from federal income taxes and, in most cases, state income taxes as well, up to a statutory monthly cap.

Under all our pre-tax commuter benefit programs, employers usually recognize a financial benefit through the reduction of FICA and Medicare tax obligations. Whether the programs are offered as a pre-tax election deducted from an employee's salary, a tax-free employer-paid fringe, or a combination of both, the amount of the benefit, up to the statutory monthly cap, is excluded from the employee's gross taxable pay resulting in lower payroll taxes.

Our commuter programs include a parking catalog with over 4,900 selectable locations and purchasable transit products from over 650 transit operators covering every major metropolitan area, and currently we fulfill over 11.5 million commuter orders each calendar year, including passes, smartcard loads, direct pay loads, parking payments, vanpool vouchers and commuter cards, to commuters and their employers on an annual basis. We sell our commuter program to employers of all sizes and industries.

COBRA

We offer Consolidated Omnibus Budget Reconciliation Act, or COBRA, continuation services to employer clients to meet the employer's obligation to make available continuation of coverage for participants who are no longer eligible for the employer's COBRA covered benefits which includes medical, dental, vision, HRAs and certain healthcare FSAs. COBRA requires employers to make health coverage available for terminated employees for a period of up to 36 months post-termination. As part of our COBRA program, we offer a direct billing service where former employee participants pay for coverage they elect to continue. We handle the accounting and customer service for these separated employees, as well as interfacing with the carrier regarding the employees' eligibility. At January 31, 2015, we provided COBRA services to approximately 15,000 employer clients.

Our Employer Clients

As of January 31, 2015, we had approximately 45,000 employer clients across a broad range of industries with over 4 million participating employees in all 50 states. Our employer clients include many of the Fortune 100 and Fortune 500 companies.

Our Technology Platforms

We run our services on three distinct on-demand technology platforms that have been designed to be highly scalable, and we closely monitor utilization of all aspects of our platforms for capacity planning purposes. Our existing infrastructure has been designed with sufficient capacity to meet our current and planned future needs.

The majority of our accounts run on our integrated and scalable proprietary platform, which we call our v5 platform. We generally use our v5 platform for medium-sized and enterprise clients. Our v5 platform supports all account administrative functions and provides integration with the systems used by employer clients, payment networks, health plans and key suppliers. Our v5 platform offers employer clients and employee participants a variety of payment features, in addition to traditional reimbursement, for our healthcare, commuter and other employee spending plans. Our v5 platform features a flexible, rules-based engine that includes multi-wallet functionality and is highly configurable to accommodate custom client plan designs and service requests. This multi-wallet functionality allows us to include more than one type of healthcare account (FSA, HRA and HSA) on one card, and helps ensure that funds that are otherwise subject to forfeiture at the end of a plan year are used first to pay for eligible expenses. Our v5 platform also allows for automated file interfacing with clients and external vendors, including card processors, custodian banks, health plan providers, claims and payment vendors. We have a daily settlement system and have implemented internal reporting and monitoring systems to ensure quality control on a daily basis.

In addition to our v5 platform, we also operate a technology platform known as WinFlexOne, which has been specifically designed and enhanced to address the needs of SMBs. While the overall features and capabilities of WinFlexOne are comparable to v5, WinFlexOne utilizes a simpler set of interfaces and product configurations that better accommodate the more limited administrative capabilities and needs of small employers.

Our third primary technology platform, known as Complink, is used to provide COBRA and direct bill services to our SMB and enterprise clients. This feature-rich, integrated platform automates COBRA and direct bill administration activities and operations, and helps to ensure the administration of these programs in compliance with applicable law.

In 2014, we continued to develop and implement new features to enhance the participant and client user experience on our enterprise platform. These efforts touched all areas, including the participant mobile application (mobile app), participant website, client website, reporting, plan design and administration.

We continued our focus on the mobile experience by introducing a new mobile app with an updated look and feel. New app features allow participants to submit commuter and wellness claims, direct payments to healthcare and dependent care providers, and choose between text messages and emails for their account alerts and notifications.

The participant site was enhanced with self-service tools, including a robust search feature for claims and activity and a streamlined online claims experience. HSA enhancements included two new HSA calculators, visibility to incentive funding, and monitoring HSA contributions compared to the IRS maximum. A new web security features page provides an overview of how we protects user data and tips for participants to better protect their information.

Our client-focused enhancements included additional customization features available across the platform, additional carryover and plan design options, more self-service tools and additional reports. We also continued to implement enhancements to our internal applications, consolidate internal platforms, and automate processes to more efficiently implement and serve our users.

Operations

Operation Support Services

We provide operational support services to our clients, including customer support center servicing and claims processing.

Our customer support center servicing team is responsible for handling all incoming calls from our employee participants and is focused on continually improving the participants' customer service experience. Our team is trained to provide support on all our product offerings and is cross trained to support our claims servicing team. The customer support center servicing team is responsible for resolving any issues or problems an employee participant may have, including: education as to how our programs work; to what benefits an employee participant may be entitled; how to submit a claim for reimbursement; and why an employee participant may need to provide additional detail before a particular transaction is approved. We also have an executive escalations team that is trained to respond to any significant service issues that arise. Our customer support center team serviced approximately 4.2 million calls in 2014.

Our claims servicing team is responsible for processing all incoming claims for payment or reimbursement directly to providers or participants. This team reviews and adjudicates claims to ensure they meet all compliance and employer plan requirements and communicates with participants regarding the status of their claims using our in-house claims center technology tool. Like the customer support center servicing team, the claims servicing team is trained to support the customer support center servicing team when demand dictates. In 2014, the claims servicing team processed approximately 9.9 million claims and card use verification forms.

In an effort to increase our service efficiency and maintain our high-quality high-touch approach, we outsource and train additional resources that we can use to support our customer support center and claims services teams during busy times such as open enrollment. All of these outsourced resources go through the same rigorous training as our own customer support center and claims servicing teams, and we believe that they provide the same level of quality service as our own employees.

Our operations support team is also responsible for processing and coordinating all activities required to support our high volume transaction business, including:

- managing prepaid funds and reimbursement payments from client employers to settle participant transactions;
- monitoring all card spending, authorizations and settlements with the transaction processors;
- delivering electronic and paper statements directly to participants;
- delivering "explanation of benefits" forms directly to participants;
- delivering healthcare and commuter cards and passes directly to participants; and
- managing process improvement projects across our organization.

Our operations support team utilizes both our v5 and WinFlexOne on-demand platforms to deliver products and services to clients and participants. In addition, we have supporting applications provided by third party vendors, the most significant of which is Fidelity National Information Services, which provides card network switching and settlement services, and Alegeus, which handles fulfillment of our printed healthcare statements, explanation of benefits and payment statements and open enrollment guides.

In 2014, our operations team delivered over 4.5 million healthcare and commuter prepaid debit cards, and we fulfill over 11.5 million commuter orders each calendar year.

We also have a professional services team that is responsible for coordinating all activities related to the implementation, transition and on-board of new employer clients, assisting our existing clients with the addition of new services to their accounts and transitioning clients that we acquire from portfolio purchases to our platforms. This team also coordinates project planning to ensure that the startup of new programs coincide with the employer client's new plan year and acts as a client liaison to keep the client informed of the implementation status. In addition, our professional services team coordinates the completion of requests for proposals in response to new business prospects and works directly with all other functions in our organization to ensure each employer client receives consistent quality service.

Employer Relationship Management

We assign each employer client to a regionally aligned account team with a relationship manager who functions as the client's single point of contact. Our relationship managers are trained on all of our account offerings and receive prompt updates from internal subject matter experts on how regulatory or operational changes may impact a particular program or procedure. Our account consultants, who are responsible for day-to-day management of client data, are subject matter experts on new or specific aspects of our business and work closely with the relationship manager to ensure that our employer clients receive high-quality consultative service.

We provide assistance to our enterprise clients with their open enrollment processes. Our employer clients have an annual open enrollment period during which their employees have the opportunity to enroll, re-enroll or change their benefit elections for the upcoming plan year. We provide our employer clients with tools, such as educational information, calculators, video, webinars and onsite support to help facilitate their open enrollment and help drive employee participation in our programs.

We also provide both pre- and post-enrollment consultation services to employer clients to ensure that they utilize our services in a way that fits with their overall approach to employee benefit plans for the upcoming year. These consultations include providing employer clients with robust data regarding spend patterns, participation and service utilization, such as website usage, online claims submissions and participant feedback, to ensure maximum employee participation in their benefits programs. Our Employer Relationship Management team also ensures that any platform or product changes are properly communicated to and adopted by our clients. Examples of these changes include service enhancements, such as online claims processing, the launch of our mobile application and website process changes.

We have relationships with a significant number of regional transit authorities, and have a large catalog of commuter pass offerings. Our Employer Relationship Management team ensures that our commuter clients' employee participants are kept informed about rate changes, new pricing schemes and the adoption of new technologies, such as smart cards.

Sales and Business Development

We grow our employer client base through our various sales channels and through other business development efforts.

Sales

We sell our CDB programs to our employer clients through five different sales channels, each of which targets a distinct group of clients.

Direct Sales. Our direct sales force targets Enterprise, Mid-market and SMB companies and generates new account relationships through employer prospecting, consultant relationships and strategic partnerships. Our Enterprise team focuses on Fortune 1000 employers while our Mid-market and SMB teams focus on employers with fewer than 10,000 employees. Our sales process includes responding to requests for proposals, making client presentations and providing demonstrations of our v5 platform, and is focused on both securing new accounts as well as cross-selling additional products to existing clients.

SMB Distribution Channel. Our SMB distribution channel complements our direct sales channel and consists of third party advisors, including insurance agents and benefits consultants who typically have two to three enterprise clients and several hundred smaller employer clients, and institutional resellers, including regional and national insurance carriers, health plans, payroll providers, commercial banks and TPAs, who sell our CDB programs to smaller employers along with their own complementary products. We provide CDB programs to our resellers who either rebrand our programs under their own name or co-brand the programs with us.

Group Purchasing Organizations. We also sell our programs through group purchasing organizations in which we negotiate a standard service contract with group purchasing organizations that are formed by industry specific employers to cover their members. Once the standard contract and pricing have been negotiated, we are able to add additional employers that are members of the group at a low incremental cost.

Channel Partnerships. Channel partnerships involve an existing provider agreeing to transition its CDB clients to us over a defined period of time for an agreed upon purchase price. In these cases, we negotiate a master agreement with the channel partner that outlines the details of transitioning the CDB clients from their platform to ours. In all cases, we negotiate and execute new agreements (including Business Associate Agreements) with the transitioned clients and implement them as new business. These channel partnerships also have a resale and referral component to them so we stand to derive additional opportunities from these arrangements.

Private Exchanges. The private exchange marketplace offers another opportunity for us to sell our programs. There are different private exchange models, some that cater to enterprise businesses and others that focus on mid-market and SMB companies. Depending on the type of exchange at issue, we have an opportunity to offer some or all of our products. With these relationships, which can be exclusive or non-exclusive, we establish a standard master agreement with the private exchange partner and then provide services to companies participating in such exchange that decide to include our products in their defined contribution offering to their employee base.

We also sell our customer service, enrollment, eligibility, billing and payment processing services to a customer for purposes of assisting in the administration of their public health insurance exchange business.

Business Development

In addition to our sales channels, we utilize portfolio purchases as a business development strategy to broaden our employer client base and to acquire new employer clients. Since 2007, we have purchased CDB portfolios of seven TPAs: MHM Resources, or MHM, in September 2007, Creative Benefits, or CB, in September 2008, Planned Benefit Systems, or PBS, in August 2010, the CDB assets of a division of Fringe Benefits Management Company, or FBM, in November 2010, CS in January 2012, BCI in December 2012 and CBS in May 2013. In addition, we have completed two acquisitions, TC in February 2012 and CONEXIS in August 2014. We migrate acquired clients to our proprietary technology platforms over time following the completion of a portfolio purchase. The acquired portfolios often contain a mix of large employer clients and SMB clients. In general, larger clients will be transitioned to our v5 platform and smaller clients will be transitioned to the WinFlexOne platform. This process is usually completed over a 12-to-24-month period. In connection with these portfolio purchases, we have leveraged the ease of integration and efficiencies afforded by our on-demand software platforms and cross-sold additional CDB products and services to many acquired employer clients.

Marketing

We market ourselves as a leader in administering CDBs through three primary channels:

Public Communications

Our public communications efforts include:

- Our public websites, which include information about WageWorks, our CDB programs and developments in the CDB industry;
- Our public social media sites, which include information about our products and company, the industry, and general information about healthcare and commuting designed for general public;
- Our nationwide media campaign to educate the public about CDBs, which includes print, online and broadcast media stories, as well as utilization of social media;
- Participation in trade shows, conferences and other events with the goal to educate employers, employees, brokers, and others in the industry about CDBs and about WageWorks practices;
- Direct outreach to educate employers or employees via promotions, street teams, seat drops, that focus on explaining the nature of CDBs;
- Partnerships with other providers in the industry that share the same goal to educate the public about CDBs; and
- Involvement with various industry organizations, such as the Employers Council on Flexible Compensation, the Special Interest Group for IIAS Standards, the HSA Council and the Society of Human Resource Management.

Client Communications

Our client communications initiatives include:

- Updating the public websites and our owned social media properties to educate clients on the state of the industry and news about WageWorks;
- Publishing client newsletters and other direct mail or email messages with information about us, our products and the industry;
- Providing clients with educational programs, such as webinars, case studies, savings examples and white papers via online and offline channels;
- Creating education and awareness tools for employees to support clients' annual open enrollment processes, including our annual open enrollment webinar series, planning support, materials gallery, and custom marketing plans, where applicable; and
- In cooperation with our compliance team, providing clients with regulatory updates and guidance as they occur.

Participant Communications

Our participant communications efforts include:

- Providing online or offline open enrollment materials that are easy for employees to understand and use to make a decision about participation;
- Preparing welcome materials and introductory guides to help new participants get started;
- Providing ongoing educational resources for participants regarding program features, benefits and regulatory changes;
- Ongoing updates on how to make the best use of the benefit via email messaging; and
- Deep product education and help related content for participants featured on all owned websites and designed owned social properties.

Partner/Broker Communications

Our partner and broker communication efforts include:

- Updates about our industry and our offerings to all public websites and our owned social media properties;
- Designated events to educate partners, brokers and channels about us; and
- Email updates or offline updates about WageWorks and the state of the industry.

We also regularly engage in advocacy efforts to educate legislators and regulators about the importance of retaining and expanding the availability of CDBs for employees. For example, we worked closely with regulators to modify the use it or lose it rule resulting in the ability to carryover unused FSA dollars to future plan years. In addition, our agency comment letters improved the mechanical aspects of Health Reimbursement Arrangements by allowing for simplified assessment of when an HRA is integrated and clarifying that certain HRAs can be considered excepted benefits. We continue to work on the legislative front for transit to be included in a tax extenders package and for permanent parity between transit and parking.

Government Regulation

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

IRS Regulations

We are subject to applicable Internal Revenue Service regulations, which lay the foundation for tax savings and eligible expenses under the CDB programs we administer. Each year, the IRS issues guidance regarding employee plans.

ERISA

Certain of our CDB programs are covered by the Employee Retirement Income Security Act of 1974, as amended, or ERISA, which governs the structure of "employee benefits plans." ERISA does not typically apply to dependent care FSAs, HSAs or any of our commuter programs, or to agreements with churches or governments. ERISA generally imposes extensive reporting requirements on employers, as well as an obligation to provide detailed disclosure to covered individuals, which includes both employees and beneficiaries. The Department of Labor can bring enforcement actions or assess penalties against employers for failing to comply with ERISA's requirements. Participants may also file lawsuits against employers under ERISA.

HIPAA, Privacy and Data Security Regulations

In connection with processing data on behalf of our clients and participants, we frequently undertake or are subject to specific compliance obligations under privacy and data security-related laws, including the Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Health Information Technology for Economic and Clinical Health (HITECH) Act, enacted as part of the American Recovery and Reinvestment Act of 2009, and related state laws. We are also subject to federal and state security breach notification laws, as well as state laws regulating the processing of personal information, including laws governing the collection, use and disclosure of social security numbers and related identifiers. As part of the payment-related aspects of our business, we may also undertake security-related obligations arising out of the Gramm-Leach-Bliley Act and the Payment Card Industry guidelines applicable to card systems.

Department of Labor

The Department of Labor, or the DOL, is responsible for issuing guidance under any component plans that are subject to ERISA, including healthcare FSAs and HRAs.

The DOL issues regulations, technical releases and other pieces of guidance that apply to employee benefit plans generally. In addition, in response to a request by an individual or an organization, the DOL's Employee Benefits Security Administration may issue an advisory opinion that interprets and applies ERISA to a specific situation, including issues related to consumer-directed healthcare accounts.

Centers for Medicare and Medicaid Services / Department of Health and Human Services

The Centers for Medicare and Medicaid Services, or CMS, is also involved in the oversight of the group health plans we administer as a division of the Department of Health and Human Services, or HHS. In addition to the IRS, Department of Treasury, and the Department of Labor, CMS has responsibility for enforcement and implementation of many of the requirements of health care reform. HHS has responsibility over enforcement of the HIPAA privacy rules.

Healthcare Reform

In March 2010, the federal government enacted significant reforms to healthcare legislation through the Patient Protection and Affordable Care Act, or PPACA, and the Healthcare and Education Reconciliation Act of 2010, or HCERA. These laws amended various provisions in many federal laws, including the Internal Revenue Code of 1986, as amended, or the Code, and ERISA. These amendments include numerous coverage changes affecting group health plans, which now apply to insurers and governmental plans, as well as employer-sponsored health plans, including self-insured plans. Future provisions of PPACA await regulations and may have an impact on employee health plans, including self-funded CDB accounts, including HSAs. One such proposed regulation includes an excise tax on high-cost health plans, which is scheduled to be enacted in 2018. As currently written, this proposed excise tax would be 40% of the amount over a set threshold, and includes medical plan premiums, employer contributions to CDB accounts and tax-advantaged employee contributions to HSAs and healthcare FSAs.

Competition

The market for CDBs, as well as COBRA and direct bill services is highly competitive, rapidly evolving and fragmented. Key categories of competitors include:

- National CDB specialists, such as TASC, Inc.;
- Health insurance carriers, such as Aetna or UHC;
- Human resources consulting firms, such as Aon Hewitt;
- Payroll providers, such as ADP or Ceridian;
- Small regional TPAs focused on CDBs; and
- With respect to CDBs, commercial banks, such as Bank of America.

Sales opportunities are presented through a number of different channels and often involve direct competition and requests for proposal processes. Many of our competitors, such as health insurance carriers, payroll providers, human resources consulting firms and commercial banks, offer CDB and/or COBRA and direct bill programs as non-core offerings bundled with their main products and services. We also compete against many regional TPAs who often lack sufficient resources to rapidly implement new technologies or to tailor their operations and service offerings in response to evolving rules and regulations. We further compete against the limited number of other specialists for CDB and other benefit programs.

Our ability to compete successfully depends on a number of factors, including:

- our products' performance and cost relative to that of our competitors;

- the quality of service that we provide to our employer clients and their employee participants;
- our ability to easily identify, acquire and integrate client portfolio purchases; and
- our industry leadership and expertise.

Some of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. As a result, some of these competitors may choose to devote greater resources to the development, promotion, sale and support of their products and services. We believe our focus on CDB and benefit continuation programs, our high quality service and our highly scalable delivery model are the principal basis on which we can compete in the market. We cannot assure you that our products will continue to compete favorably or that we will be successful in the face of increasing competition from new products and enhancements introduced by our existing competitors or new companies entering our market.

Intellectual Property

Our success depends in part on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patent laws, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. We have one issued patent which expires in 2022.

Despite our efforts to preserve and protect our proprietary and intellectual property rights, unauthorized third parties may attempt to copy, reverse engineer, or otherwise obtain portions of our products. Competitors may attempt to develop similar products that could compete in the same market as our products. Unauthorized disclosure of our confidential information by our employees or third parties could occur.

Third-party infringement claims are also possible in our industry, especially as software functionality and features expand, evolve, and overlap with other industry segments. Current and future competitors, as well as non-practicing patent holders, could claim at any time that some or all of our products infringe on patents they now hold or might obtain, or be issued in the future.

Employees

At December 31, 2014, we had 1,675 employees, including 1,548 full-time employees, 15 part-time employees and 112 temporary or seasonal employees. There are 116 employees located in our Northern California headquarters and the remainder are located in our various other offices throughout the United States or work remotely from various locations. None of our employees are currently represented by labor unions or are covered by a collective bargaining agreement with respect to his or her employment. To date we have not experienced any work stoppages, and we consider our relationship with our employees to be good.

Legal Proceedings

From time-to-time, we are subject to various legal proceedings that arise in the normal course of our business activities. In addition, from time-to-time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. As of December 31, 2014, we are not a party to any litigation whereby the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations, prospects, cash flows, financial position or brand.

Item 1A. Risk Factors

RISK FACTORS

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

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

Our business fundamentally depends on employer and employee demand for tax-advantaged Consumer-Directed Benefits, or CDBs. Any diminution in or elimination of the availability of CDBs for employees would materially adversely affect our results of operations, financial condition, business and prospects. In addition, incentives for employers to offer CDBs may also be reduced or eliminated by changes in laws that result in employers no longer realizing financial gain from the implementation of these benefits. If

employers cease to offer CDB programs or reduce the number of programs they offer to their employees, our results of operations, financial condition, business and prospects would also be materially adversely affected. We are not aware of any reliable statistics on the growth of CDB programs and cannot assure you that participation in CDB programs will grow.

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

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

Our recent growth has been, and our future growth will be, substantially dependent on our ability to continue to make and integrate acquisitions and complementary portfolio purchases to expand our employer client base and service offerings. Since 2007, we have completed seven portfolio purchases and two acquisitions. Our most recent acquisition of CONEXIS was completed in August 2014. Our successful integration of these portfolio purchases and acquisitions into our operations on a cost-effective basis is critical to our future financial performance. While we believe that there are numerous potential portfolio purchases and acquisitions that would add to our employer client base and service offerings, we cannot assure you that we will be able to successfully make a sufficient number of such portfolio purchases or acquisitions in a timely and effective manner in order to support our growth objectives. In addition, the process of integrating portfolio purchases and acquisitions may create unforeseen difficulties and expenditures. We face various risks in making portfolio purchases and any acquisitions, including:

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

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

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

Most of our revenue is derived from the long term, multi-year agreements that we typically enter into with our employer clients. The initial subscription period is typically three years for our larger employer clients, which we refer to as enterprise clients, and one to three years for our SMB clients. We also derive revenue from our channel partner agreements with American Family Life Assurance Company, or Aflac, and Ceridian. We anticipate in the future establishing new channel partnerships with other companies. Our employer clients, however, have no obligation to renew their agreements with us after the initial term and we cannot assure you that our employer clients will continue to renew their agreements at the same rate, if at all. In addition, employer clients transitioning to us from a channel partner have no obligation to enter into agreements with us and, if they do, there is no guarantee that they will renew their agreements with us after the initial transition period.

Moreover, most of our employer clients have the right to cancel their agreements for convenience, subject to certain notice requirements. While few employer clients have terminated their agreements with us for convenience, some of our employer clients have elected not to renew their agreements with us. Our employer clients' renewal rates may decline or fluctuate as a result of a number of factors, including the prices of competing products or services or reductions in our employer clients' spending levels.

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

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

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

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

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

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

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

The market for our products and services is highly competitive, rapidly evolving and fragmented. We have numerous competitors, including health insurance carriers, such as Aetna, human resources consultants and outsourcers, such as Aon Hewitt, payroll providers, such as ADP, national CDB specialists, such as TASC, and regional third party administrators and commercial banks, such as Bank of America. Many of our competitors, including health insurance carriers, have longer operating histories and

significantly greater financial, technical, marketing and other resources than we have. As a result, some of these competitors may be in a position to devote greater resources to the development, promotion, sale and support of their products and services.

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

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

Changes in healthcare or other laws and regulations applicable to our business may occur that could increase our compliance and other costs of doing business, require significant systems enhancement, or render our products or services less profitable or obsolete, any of which could have a material adverse effect on our results of operations.

The Patient Protection and Affordable Care Act signed into law on March 23, 2010 and related regulations or regulatory actions could adversely affect our ability to offer certain of our CDBs in the manner that we do today or may make CDBs less attractive to some employers. For example, any new laws that increase reporting and compliance burdens on employers may make them less likely to offer CDBs to their employees and instead offer employees benefit coverage through public exchanges. In addition, it is unclear whether the "Cadillac Tax" set to become effective in 2018 will apply proportionately to an employer's total health care costs including health related CDBs or if health related CDBs will be exempt from the calculation. If employers are less incentivized to offer our CDB programs to employees because of increased regulatory burdens, costs or otherwise, our results of operations and financial condition could be materially adversely affected.

In addition, the numerous federal and state laws and regulations related to the privacy and security of personal health information, in particular those promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, require the implementation of administrative, physical and technological safeguards to ensure the confidentiality and integrity of individually identifiable health information in electronic form. We are required to enter into written agreements with all of our employer clients known as Business Associated Agreements. Pursuant to these agreements, and as our employer client's "Business Associate" thereunder, we are required to safeguard all individually identifiable health information of their participating employees and are restricted in how we use and disclose such information. These agreements also contain data security breach notification requirements which, in some circumstances, may be more stringent than HIPAA requirements. As we are unable to predict what changes to HIPAA or other privacy and security laws or regulations might be made in the future, we can't be certain how those changes could affect our business or the costs of compliance.

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

We intend to continue to invest in technology and development to create new and enhanced products and services to offer our employer clients and their participating employees. During this past year, we have added several new features to our participant site and have continued to enhance the site's mobile compatibility. To increase the value we deliver to our clients, we have also updated the look and feel of our client facing website with the addition of a new graphic dashboard providing users access to key metrics. Scalability of our platform also remains an on-going focus as our platform volume increases. We continue to make investments in technology stack upgrades, to ensure stability and performance of our applications for our clients and participants. Our health and wellness offerings continue to be expanded to include online claims for our wellness product and the integration of a Wellness Portal to provide our users with the most up-to-date health and wellness information. We are developing new technology to handle the enrollment, billing, customer service and payment processing matters associated with a health care carrier's offerings on the public health insurance exchanges. Despite quality testing of the technology prior to use, it may contain errors that impact its function and performance and this may result in negative consequences. We have limited experience in these areas and so we may not be able to anticipate or manage new risks and obligations or legal, compliance or other requirements that may arise. The anticipated benefits of such new and improved products and services may not outweigh the costs and resources associated with their development.

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

are unable to successfully develop or acquire new products or services or enhance our existing products or services to meet client requirements, our results of operations, financial condition, business or prospects may be materially adversely affected.

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

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

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

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

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

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

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

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

Our average sales cycle ranges from approximately two months for SMBs to six to nine months for our large institutional clients, and, in some cases, even longer depending on the size of the potential client. Factors that may influence the length of our sales cycle include:

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

The fluctuations that result from the length of our sales cycle may be magnified for large- and mid-sized potential employer clients. If we are unable to close an expected significant transaction with one or more of these potential clients in the anticipated period, our operating results for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, would be harmed.

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

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

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

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

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

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

If employee participants do not continue to utilize our prepaid debit cards or choose to use PIN rather than signature enabled prepaid debit cards, our results of operations, business and prospects could be materially adversely affected.

We derive a portion of our revenue from interchange fees that are paid to us when employee participants utilize our prepaid debit cards to pay for certain healthcare and commuter expenses under our CDB programs. These fees represent a percentage of the expenses transacted on each debit card. If our employer clients do not adopt these prepaid debit cards as part of the benefits programs they offer, if the employee participants do not use them at the rate we expect, if employee participants choose to process their transactions over PIN networks rather than signature networks or if other alternatives to prepaid tax-advantaged benefit cards develop, our results of operations, business and prospects could be materially adversely affected.

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

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

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

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

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

The plans we administer and, as a result, our business are subject to extensive, complex and continually changing federal and state laws and regulations, including the Affordable Care Act, IRS regulations, ERISA, privacy and HIPAA regulations and Department of Labor regulations, all of which are further described in our Annual Report on Form 10-K under the heading "*Business — Government Regulation*". If we fail to comply with any applicable law, rule or regulation, we could be subject to fines and penalties, indemnification claims by our clients, or become the subject of a regulatory enforcement action, each of which would materially adversely affect our business and reputation.

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

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

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

We must collect, store and use employee participants' confidential information, including the transmission of that data to third parties, to provide our services. For example, we collect names, addresses, social security numbers and other personally identifiable information from employee participants. In addition, we facilitate the issuance and funding of prepaid debit cards and, in some cases, collect bank routing information, account numbers and personal credit card information for purposes of funding an account or issuing a reimbursement. We have invested significantly in preserving the security of this data.

In addition, we outsource customer support center services and claims processing services to third-party service providers to whom we transmit certain confidential information of our employee participants. We have security measures in place with each of these service providers to help protect this confidential information, including written agreements that outline how protected health information will be handled and shared. However, there are no assurances that these measures, or any additional security measures that our service providers may have in place, will be sufficient to protect this outsourced confidential information from unauthorized security breaches.

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

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

Breaches of our security measures or those of our third-party service providers or security incidents could result in unauthorized access to our sites, networks and systems; unauthorized access to, misuse or misappropriation of employer client or employee participants' information, including personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to notification of individuals, or other forms of breach remediation; deployment of additional personnel and protection technologies; response to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory investigations, prosecutions, and other actions, and other potential liabilities. If any of these events occurs, or is believed to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business, including our ability to provide access, usage or maintenance and support services to our customers, may be impaired. If current or prospective employer clients or employee participants believe that our systems and solutions do not provide adequate security for the storage of personal or other sensitive information or its transmission over the Internet, our business and our financial results could be harmed. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

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

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

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

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

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

Our services and solutions are subject to numerous laws and regulations related to the privacy and security of personal health information, including those promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as well as the Health Information Technology for Economic and Clinical Health Act, or HITECH, which was enacted as part of the American Recovery and Reinvestment Act of 2009, which require the implementation of administrative, physical and technological safeguards to ensure the confidentiality and integrity of individually identifiable health information in electronic form. Further, our services and solutions are subject to Payment Card Industry, or PCI, data security standards that impose requirements regarding the storage and processing of payment card information. If we cannot comply with, or if we incur a violation of, any of these obligations, we could incur significant liability or our growth could be adversely impacted, either of which could have an adverse effect on our reputation, business, financial condition and operating results.

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

Any such new laws, regulations, industry standards, or other legal obligations or any changed interpretation of existing laws, regulations, industry standards, or other obligations may require us to incur additional costs and restrict our business operations. If our privacy or data security measures fail to comply with current or future laws, regulations, policies, legal obligations or industry standards, or any changed interpretations of the foregoing, we may be subject to litigation, regulatory investigations, enforcement actions, inquiries, prosecutions, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws, regulations, industry standards, or other legal obligations, or any changed interpretations of the foregoing, limit the ability of our customers, channel partners or service providers to use and share personally identifiable information or other data or our ability to store, process and share personally identifiable information or other data, demand for our solutions could decrease, our costs could increase and our business, financial condition and operating results could be harmed.

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

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

In addition, we depend on information technology networks and systems to collect, process, transmit and store electronic information and to communicate among our locations and with our channel partners, service providers, employer clients and employee participants. Security breaches could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We also are required at times to manage, utilize and store sensitive or confidential employer client and employee participant data, as well as our own employee data in the regular course of business. As a result, we are subject to numerous laws and regulations designed to protect this information, including various U.S. federal and state laws governing the protection of health or other individually identifiable information, all of which are further described in our Annual Report on Form 10-K under the

heading "*Business — Government Regulation*". If any person, including any of our personnel, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose customers. Similarly, unauthorized access to or through our information systems or those we develop or utilize in connection with our provision of services, whether by our personnel or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management's focus and resources from business operations.

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

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

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

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

If we fail to effectively upgrade our information technology systems, our business and operations could be disrupted.

As part of our efforts to continue the improvement of our enterprise resource planning, we plan to upgrade our existing information technology systems in order to automate several controls that are currently performed manually. We may experience difficulties in transitioning to these upgraded systems, including loss of data and decreases in productivity as personnel work to become familiar with these new systems. In addition, our management information systems will require modification and refinement as we grow and as our business needs change, which could prolong difficulties we experience with systems transitions, and we may not always employ the most effective systems for our purposes. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our business and we may fail to meet our reporting obligations.

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

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

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

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

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

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

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

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

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

Our ability to use net operating loss carryforwards to offset future taxable income may be limited.

As of December 31, 2014, we had $38.5 million of federal and $47.0 million of state net operating loss carryforwards available to offset future taxable income. The state net operating loss carryforward is on the post-apportionment basis. These net operating loss carryforwards will expire beginning in 2024 through 2033 for U.S. federal income tax purposes and beginning in 2018 through 2033 for state income tax purposes, if not fully utilized. In addition, we have federal and state research and development credit carryforwards of approximately $4.7 million and $2.4 million, respectively. The federal research credit carryforwards expire beginning in 2022 through 2034, if not fully utilized. The California research credit carries forward indefinitely. Our ability to utilize net operating loss and tax credit carryforwards are subject to restrictions, including limitations in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code ("IRC") of 1986, as amended, and similar state tax law. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). We have considered Section 382 of the IRC and concluded that any ownership change would not diminish our utilization of our net operating loss or our research and development credits during the carryover periods.

If one or more jurisdictions successfully assert that we should have collected or in the future should collect additional sales and use taxes on our fees, we could be subject to additional liability with respect to past or future sales and the results of our operations could be adversely affected.

Sales and use tax laws and rates vary by jurisdiction and such laws are subject to interpretation. In those jurisdictions where we believe sales taxes are applicable, we collect and file timely sales tax returns. Currently, such taxes are minimal. Jurisdictions in which we do not collect sales and use taxes may assert that such taxes are applicable, which could result in the assessment of such taxes, interest and penalties, and we could be required to collect such taxes in the future. This additional sales and use tax liability could adversely affect our results of operations.

Third parties may assert intellectual property infringement claims against us, or our services may infringe the intellectual property rights of third parties, which may subject us to legal liability and materially adversely affect our reputation.

Assertion of intellectual property infringement claims against us could result in litigation. We might not prevail in any such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on commercially reasonable terms, or at all. Even if obtained, we may be unable to protect such licenses from infringement or misuse, or prevent infringement claims against us in connection with our licensing efforts. Any such claims, regardless of their merit or ultimate outcome, could result in substantial cost to us, divert management's attention and our resources away from our operations and otherwise adversely affect our reputation. Our process for controlling our own employees' use of third-party proprietary information may not be sufficient to prevent assertions of intellectual property infringement claims against us.

We rely on insurance to mitigate some risks of our business and, to the extent the cost of insurance increases or we maintain insufficient coverage, our results of operations, business and financial condition may be materially adversely affected.

We contract for insurance to cover a portion of our potential business risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to obtain sufficient insurance to meet our needs, may have to pay very high prices for the coverage we do obtain or may not acquire any insurance for certain types of business risk including those related to cyber security matters. This could leave us exposed, and to the extent we incur liabilities and expenses for which we are not adequately insured, our results of operations, business and financial condition could be materially adversely affected. Also, to the extent the cost of maintaining insurance increases, our operating expenses will rise, which could materially adversely affect our results of operations, financial condition, business and prospects.

In the past significant deficiencies in our internal control over financial reporting have been identified. If our internal controls are not effective, there may be errors in our financial information that could require a restatement or delay our SEC filings, and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.

We have, in the past, experienced issues with our internal control over financial reporting and it is possible that we may discover significant deficiencies or material weaknesses in our internal control over financial reporting in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could cause us to fail to meet our periodic reporting obligations, or result in material misstatements in our financial information. Any such delays or restatements could cause investors to lose confidence in our reported financial information and lead to a decline in our stock price.

Substantial sales of our common stock by our stockholders could depress the market price of our common stock regardless of our operating results.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of our common stock and impair our ability to raise capital through offerings of our common stock. As of December 31, 2014, we had 35,479,360 shares of our common stock outstanding. In addition, as of December 31, 2014, there were outstanding options to purchase 3,206,316 shares of our common stock and 637,436 restricted stock units. Substantially all of our outstanding common stock is eligible for sale, subject to Rule 144 volume limitations for holders affected by such limitations, as are common stock issuable under vested and exercisable options. If our existing stockholders sell a large number of common stock or the public market perceives that existing stockholders might sell our common stock, the market price of our common stock could decline significantly. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

Our stock price has fluctuated and may continue to do so and may even decline regardless of our financial performance.

The market price of our common stock has fluctuated and may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial results;
- the financial projections we provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of other newly public companies generally, or those in our industry in particular;
- changes brought about by health care reform and the emergence of federal, state and private exchanges;
- price and volume fluctuations in the overall stock market, including as a result of trends in the global economy;
- any major change in our board of directors or management;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against such a company. If securities class action litigation is instituted against us, it could result in substantial costs and a diversion of our management's attention and resources and could materially adversely affect our operating results.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of delaying, preventing or rendering more difficult an acquisition of us if such acquisition is deemed undesirable by our board of directors. Our corporate governance documents include provisions that:

- create a classified board of directors whose members serve staggered three-year terms;
- authorize "blank check" preferred stock, which could be issued by the board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limit the ability of our stockholders to call and bring business before special meetings;
- require advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- control the procedures for the conduct and scheduling of board of directors and stockholder meetings; and
- provide the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay or prevent unsolicited takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. In addition, our existing credit facility prohibits us from paying cash dividends, and any future financing agreements may prohibit us from paying any type of dividends. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Facilities

We do not currently own any of our facilities. Our corporate headquarters are located in San Mateo, California where we occupy approximately 38,249 square feet of space under a lease that expires in December 2014. We have additional facilities in Arizona, California, Florida, Massachusetts, New York, Ohio, Rhode Island, Texas, Vermont and Wisconsin under various that will expire between November 2012 and January 2023. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate planned expansion of our operations.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has traded on the New York Stock Exchange, or the NYSE, under the symbol "WAGE" since May 2012. The following table sets forth the range of high and low sales prices on the NYSE of our common stock for the periods indicated, as reported by the NYSE.

	Price Range	
	High	Low
Fiscal 2013:		
First Quarter (January 1, 2013 - March 31, 2013)	$ 26.25	$ 17.32
Second Quarter (April 1, 2013 - June 30, 2013)	$ 34.95	$ 23.91
Third Quarter (July 1, 2013 - September 30, 2013)	$ 56.97	$ 32.88
Fourth Quarter (October 1, 2013 - December 31, 2013)	$ 62.58	$ 46.59

	Price Range	
	High	Low
Fiscal 2014:		
First Quarter (January 1, 2014 - March 31, 2014)	$ 68.31	$ 52.90
Second Quarter (April 1, 2014 - June 30, 2014)	$ 58.36	$ 33.04
Third Quarter (July 1, 2014 - September 30, 2014)	$ 49.95	$ 39.31
Fourth Quarter (October 1, 2014 - December 31, 2014)	$ 64.99	$ 43.44

Stockholders

As of February 20, 2015, according to the records of our transfer agent, there were 34 holders of record of our common stock. The number of beneficial stockholders is substantially greater than the number of holders of record because a large portion of our common stock is held through brokerage firms.

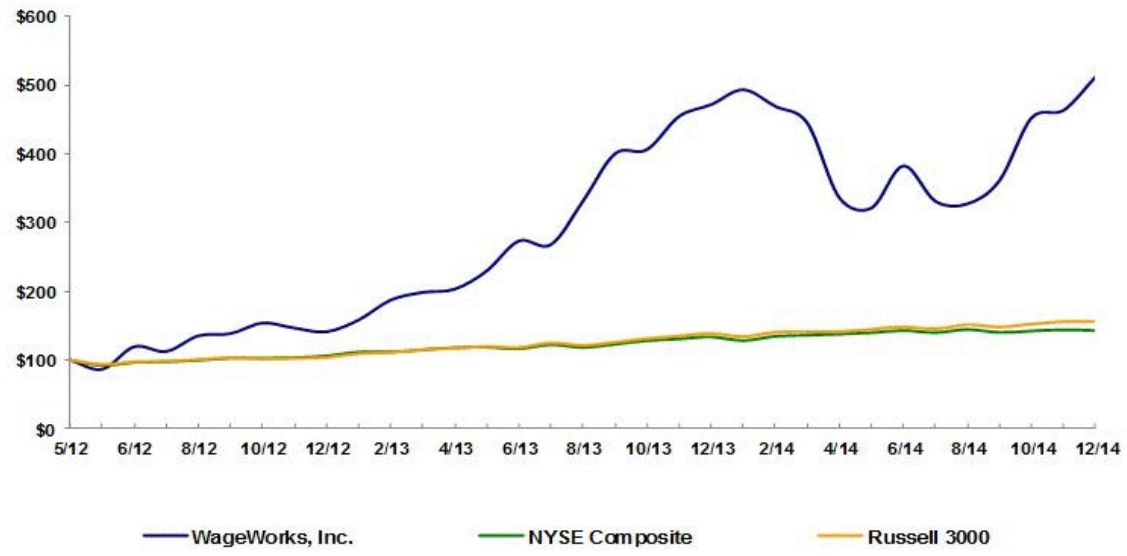
Dividends

We have never declared nor paid any cash dividend on our common stock. We currently intend to retain any future earnings and do not currently plan to pay any dividends in the immediate future. The payment of future dividends on the common stock and the rate of such dividends, if any and when not restricted, will be determined by our board of directors in light of our results of operations, financial condition, capital requirements, and any other relevant factors.

Stock Performance Graph

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

The following graph compares the cumulative total return of our common stock with the total return for the New York Stock Exchange Composite Index (the "NYSE Composite") and the Russell 3000 Index (the "Russell 3000") from May 10, 2012 (the date our common stock commenced trading on the NYSE) through December 31, 2014. The chart assumes $100 was invested on May 10, 2012, in the common stock of WageWorks, Inc., the NYSE Composite and the Russell 3000, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Item 6. Selected Financial Data

The following selected consolidated financial data (presented in thousands, except per share amounts) is derived from our consolidated financial statements. As our operating results are not necessarily indicative of future operating results, this data should be read in conjunction with the consolidated financial statements and notes thereto in Item 8 of Part II, "Financial Statements and Supplementary Data", and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Years Ended December 31,				
	2010	2011	2012	2013	2014
	(in thousands, except per share data)				
Operations:					
Revenues	$ 115,047	$ 135,637	$ 177,282	$ 219,278	$ 267,832
Operating expenses:					
Cost of revenues (excluding amortization of internal use software)	50,205	55,651	64,647	81,918	100,226
Sales and marketing, technology and development and general and administrative	49,044	55,099	78,029	93,772	115,565
Amortization and change in contingent consideration	7,764	11,327	15,674	11,612	20,992
Total operating expense	107,013	122,077	158,350	187,302	236,783
Income from operations	8,034	13,560	18,932	31,976	31,049
Other income (expense):					
Interest income	220	36	36	17	5
Interest expense	(188)	(494)	(1,772)	(1,339)	(1,612)
Interest expense: amortization of convertible debt discount	(21,107)	—	—	—	—
Other, net	(5,413)	351	429	248	743
Income (loss) before income taxes	(18,454)	13,453	17,625	30,902	30,185
Income tax (provision) benefit	1,204	19,868	(7,126)	(9,203)	(11,943)
Net income (loss)	(17,250)	33,321	10,499	21,699	18,242
Accretion of redemption premium (expense) benefit	(6,740)	(6,209)	(2,301)	—	—
Net income (loss) attributable to common stockholders	$ (23,990)	$ 27,112	$ 8,198	$ 21,699	$ 18,242
Net income (loss) per share attributable to common stockholders:					
Basic	$ (15.70)	$ 17.65	$ 0.45	$ 0.65	$ 0.52
Diluted	$ (15.70)	$ 1.43	$ 0.33	$ 0.62	$ 0.50
Weighted Average Common Shares Outstanding					
Basic	1,528	1,536	18,138	33,626	35,145
Diluted	1,528	20,086	24,414	35,277	36,330
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 104,280	$ 154,621	$ 305,793	$ 359,958	$ 413,301
Working capital	(43,311)	(35,816)	46,362	68,843	61,467
Total assets	206,831	278,696	519,970	599,655	794,715
Total liabilities	182,254	218,584	363,559	371,523	515,291
Total redeemable convertible preferred stock	75,960	82,169	—	—	—
Total stockholders' equity (deficit)	(51,383)	(22,057)	156,411	228,132	279,424

In fiscal 2012, the revenue growth and associated increase to cost of revenues and other operating expenses were driven by post-purchase revenue from our acquisitions of Choice Strategies and TransitChek which were acquired in January 2012 and February 2012, respectively. The revenue growth and associated increases to cost of revenues and other operating expenses in fiscal 2013, was driven by post-purchase revenue from the acquisitions of Benefit Concepts and Crosby Benefit Systems, which were acquired in December 2012 and May 2013, respectively. Similarly, the revenue growth and associated increase in cost of revenues and other operating expenses in fiscal 2014, was driven by post-purchase revenue from the acquisition of CONEXIS, which was acquired in August 2014. In addition, changes in the estimated fair value of contingent consideration related to our acquisitions are included within the amortization and change in contingent consideration line item in the consolidated statement of income. The nature of these changes are disclosed within Note 1 to our consolidated financial statements under "Fair Value of Financial Instruments" and within our Management's Discussion and Analysis of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning market opportunity, our future financial and operating results, investment 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, 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 under Part I, Item 1A above. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Overview

We are a leader in administering Consumer-Directed Benefits, or CDBs, which empower employees to save money on taxes while also providing corporate tax advantages for employers. We are solely dedicated to administering CDBs, including pre –tax spending accounts such as health and dependent care Flexible Spending Accounts, or FSAs, Health Savings Accounts, or HSAs, Health Reimbursement Arrangements, or HRAs, as well as commuter benefit services, including transit and parking programs, wellness programs and other employee spending account benefits, in the United States. We also administer Consolidated Omnibus Budget Reconciliation Act, or COBRA, continuation services to employer clients.

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

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

These employee contributions result in savings to both employees and employers. As an example, based on our average employee participant's annual FSA contribution of approximately $1,300 and an assumed personal combined federal and state income tax rate of 35%, an employee participant will reduce his or her taxes by approximately $455 per year by participating in an FSA. Our employer clients also realize payroll tax (i.e., FICA and Medicare) savings on the pre-tax contributions made by their employees. In the above FSA example, an employer client would save approximately $56 per participant per year, even after the payment of our fees.

Under our HRA programs, employer clients provide their employee participants with a specified amount of available reimbursement funds to help their employee participants defray out-of-pocket medical expenses such as deductibles, co-insurance and co-payments. All amounts paid by the employer into HRAs are deductible by the employer as an ordinary business expense and are tax-free to the employee.

We administer COBRA continuation services to employer clients to meet the employer's obligation to make available continuation of coverage for participants who are no longer eligible for the employer's COBRA covered benefits. As part of our COBRA program, we offer a direct billing service where former employee participants pay for coverage they elect to continue and we ensure our employer clients meet the challenging aspects of COBRA compliance and administration.

Benefit plan years customarily run concurrently with the calendar year and have an open enrollment period that typically occurs at benefit plan year-end during the fourth quarter of the calendar year. Most of our healthcare CDB agreements are executed in the last quarter of the calendar year. Because the signing of our contract often coincides with open enrollment, employer clients are able to offer our CDB programs to their employees during open enrollment for the upcoming benefit year. As a result of this timing, we are able to obtain significant visibility into our healthcare-related revenue early on in each plan year because healthcare benefit plans are administered on an annual basis, contractual revenue is based on the number of participants enrolled in our CDB programs on a per month basis and the minimum number of enrolled participants for the plan year is usually established at the close of the open enrollment period. In contrast to healthcare CDB programs, enrollment in commuter programs occurs on a monthly basis. Therefore, there is less visibility and some variability in commuter revenue from month-to-month, particularly during the summer vacation period when employee participants are less likely to participate in commuter programs for those months.

We offer prepaid debit cards for use in conjunction with almost all of the plans that we administer. These prepaid debit cards are offered in coordination with commercial banks and card associations. We receive interchange fees from employee participants' prepaid debit card transactions, which are calculated as a percentage of the expenses transacted on each card. Although the rules do not include an explicit exemption for health benefit cards, these interchange fees are exempt from the Durbin Amendment because there is an exception for general purpose reloadable prepaid cards and some of such cards also fall outside the definitions that establish the scope of coverage. In addition to interchange fees, we also derive revenue through our wholesale card program from fees we charge to assist third party administrators, or TPAs, in issuing our prepaid debit cards to their employee participant groups and in selling their administrative services utilizing our prepaid debit cards to new employee participants. We have historically experienced seasonality in healthcare interchange revenue, which is typically the highest during the first quarter of the year because participants are either using their newly available balances for the current plan year or spending any remaining funds available from the prior plan year during the prior plan year's grace period. A grace period is generally established by employer clients as January 1 through March 15 of the succeeding plan year and is the period during which employee participants can access funds from the prior plan year's FSA account. Healthcare interchange revenue generally declines through the second and third quarters and is subject to a small increase in December as some employee participants strive to use their remaining account balances before the end of the plan year.

We also sell our customer service, enrollment, eligibility, billing and payment processing services to a customer for purposes of assisting in the administration of their public health insurance exchange business.

We also offer transit passes from various transit agencies, which we purchase on behalf of employee participants. Due to our significant volume, we receive commissions on these passes which we recognize as vendor commission revenue.

Our cost of revenues typically varies with our revenue and is, therefore, impacted by the seasonality of our business. We incur higher expenses in the first quarter associated with increased headcount in the form of temporary workers, consultants and other outsourced services that are required to cover the increased call volume and activity associated with the commencement of the new plan year. The need for these resources diminishes in the second and third quarters, but increases again in the fourth quarter when we provide services to our employer clients during their open enrollment periods. We also incur higher debit card production expenses in the fourth quarter.

At the beginning of a plan year, most of our enterprise clients provide us with prefunds for their FSA programs based on a percentage of projected elections by the employee participants for the plan year ahead. This prefunding activity covers our estimate of approximately one week of spending on behalf of the employer client's employee participants. During the plan year, we process employee participants' FSA claims as they are submitted and typically seek reimbursement from our employer clients within one week after settling the claim. Employer clients generally set a time after the close of a plan year when employee participants in FSA programs are allowed to continue submitting claims for the preceding plan year, which we refer to as a run-out period. At the end of the plan year and following the grace period and run-out period, as applicable, we reconcile all claims paid against the FSA prefund and return any unused funds to the employer. If an employer has adopted the new carryover option instead of the grace period rule for their plan year, then any unused funds, of up to $500 per participant, will be carried over into the new plan year rather than returned to the employer client. Prior to that point we will have already received an entirely new FSA prefund from a continuing employer client for the new plan year.

Our growth strategy includes acquiring and integrating smaller TPAs to expand our employer client base. Consistent with this acquisition strategy, we have made seven portfolio purchases and two acquisitions since 2007. Our model for these portfolio purchases and acquisitions generally involves a payment at closing of the transaction and contingent payments based on achievement of revenue growth targets. Our most recent acquisition of CONEXIS in August 2014 did not include a contingent consideration payment. Portfolio purchases and acquisitions may have a material adverse impact on our results of operations, including a potential material adverse impact on our cost of revenues in the short term as we migrate acquired clients to our proprietary technology platforms, typically over the succeeding 12 to 24 months, in order to achieve additional operating efficiencies. There are several hundred regional TPA portfolios that we continually monitor and evaluate in order to maintain a robust pipeline of potential candidates for purchase and we intend to continue executing our focused strategy of portfolio purchases to broaden our employer client base.

Key Components of Our Results of Operations

Revenue

We generate revenue from the following sources: healthcare solutions, commuter solutions, Consolidated Omnibus Budget Reconciliation Act services, or COBRA, and other services.

Healthcare Revenue

We derive our healthcare revenue from the service fees paid by our employer clients for the administration services we provide in connection with their employee participants' healthcare FSA, dependent care FSA, HRA and HSA tax-advantaged accounts. Our fee is generally fixed for the duration of the written agreement with our employer client, which is typically three years for our enterprise clients and one to three years for our small-and medium-sized business, or SMB, clients. These fees are paid to us on a monthly basis by our employer clients, and the related services are made available to employee participants pursuant to written agreements between us and each employer client. Almost all of the healthcare benefit plans we service on behalf of our enterprise employer clients are subject to contractual minimum monthly billing amounts. Generally, such minimum billing amounts are subject to upward revision on a monthly basis as our employer clients hire new employees who elect to participate in our programs, but generally are not subject to downward revision when employees leave their employers because we continue to administer those former employee participants' accounts for the remainder of the plan year. For SMB employer clients, the monthly fee remains constant for the plan year unless there is a 10% or greater increase in the number of employee participants in which case it is subject to upward revision. Revenue is recognized monthly as services are rendered under our written service agreements.

We also earn interchange revenue from debit cards used by employee participants in connection with all of our healthcare programs and through our wholesale card program, which we recognize monthly based on reports received from third parties. We also earn revenue from self-service plan kits called Premium Only Plan kits, or POP revenue.

Commuter Revenue

For our Commuter Order Model, or COM, Commuter Account Model, or CAM and Commuter Express, we derive our commuter revenue from monthly service fees paid by our employer clients, interchange revenue that we receive from debit cards used by employee participants in connection with our commuter solutions and revenue from the sale of transit passes used in our commuter solutions. Our fees from employer clients are normally paid monthly in arrears based on the number of employee participants enrolled for the month. Most agreements have volume tiers that adjust the per participant price based upon the number of participants enrolled during that month. Revenue is recognized monthly as services are rendered under these written service agreements. We earn interchange revenue from the debit cards used by employee participants in connection with our commuter programs, which we recognize monthly based on reports received from third parties. We also receive commissions from transit passes, which we purchase from various transit agencies on behalf of employee participants. Due to our significant volume, we receive commissions on these passes which we recognize as vendor commission revenue. Commission revenue is recognized on a monthly basis as transactions are placed under written purchase agreements having stipulated terms and conditions, which do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

Revenue from the TransitChek Basic program is based on a percentage of the face value of the transit and parking passes ordered by employer clients and revenue from the TransitChek Premium program is derived from monthly service fees paid by employer clients based on the number of participants. In both programs, revenues also include interchange revenue that we receive from debit cards used by employee participants in connection with our commuter solutions. We also recognize revenue on our estimate of certain passes that will expire unused over the estimated useful life of the passes, as the amounts paid for these passes are nonrefundable to both the employer client and the employee participant.

COBRA Revenue

Our COBRA revenue, is derived from the administration services we provide to employer clients for continuation of coverage for participants who are no longer eligible for the employer's health benefits, such as medical, dental, vision, and for the continued administration of the employee participants' HRAs and certain healthcare FSAs. Our agreements to provide COBRA services are not consistently structured and we receive fees based on a variety of methodologies.

Other Revenue

Other revenue includes enrollment and eligibility services, employee account administration (i.e., tuition and health club reimbursements) and project-related professional fees. We also derive other revenue from administrative services we provide to a customer to operate their health insurance exchange business which includes enrollment, billing, customer service and payment processing services. Other services revenue is recognized as services are rendered under our written service agreements.

Costs and Expenses

Cost of Revenues (excluding amortization of internal use software)

Cost of revenues includes the costs of providing services to our employer clients' employee participants.

The primary component of cost of revenues is personnel expenses and the expenses related to our claims processing, product support and customer service personnel. Cost of revenues includes outsourced and temporary help costs, check/ACH payment processing services, debit card processing services, shipping and handling costs for cards and passes and employee participant communications costs.

Cost of revenues also includes the losses or gains associated with processing our large volume of transactions, which we refer to as "net processing losses or gains." In the normal course of our business, we make administrative and processing errors that we cannot bill to our employer clients. For example, we may over-reimburse employee participants for claims they submit or incur the cost of replacing commuter passes that are not received by employee participants. Upon identifying such an error, we record the expense as a processing loss. In certain circumstances, we experience recoveries with respect to these amounts which are recorded as processing gains.

Cost of revenues does not include amortization of internal use software or change in contingent consideration, which are included in amortization and change in contingent consideration, or the cost of operating on-demand technology infrastructure, which is included in technology and development expenses.

Technology and Development

Technology and development expenses include personnel and related expenses for our technology operations and development personnel as well as outsourced programming services, the costs of operating our on-demand technology infrastructure, depreciation of equipment and software licensing expenses. During the planning and post-implementation phases of development, we expense, as incurred, all internal use software and website development expenses associated with our proprietary scalable delivery model. During the development phase, costs incurred for internal use software are capitalized and subsequently amortized once the software is available for its intended use. See "*Amortization and Change in Contingent Consideration*" below. Expenses associated with the platform content or the repair or maintenance of the existing platforms are expensed as incurred.

Sales and Marketing

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

General and Administrative

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

Amortization and Change in Contingent Consideration

Amortization and change in contingent consideration expense includes amortization of internal use software, amortization of acquired intangible assets and changes in contingent consideration in connection with portfolio purchases and acquisitions.

We capitalize internal use software and website development costs incurred during the development phase and we amortize these costs over the technology's estimated useful life, which is generally four years. These capitalized costs include personnel costs and fees for outsourced programming and consulting services.

We also amortize acquired intangible assets consisting primarily of employer client agreements and relationships and broker relationships. Employer client agreements and relationships and broker relationships are amortized on a straight-line basis over an average estimated life.

We measure acquired contingent consideration payable each reporting period at fair value and recognize changes in fair value in our consolidated statements of income each period, until the final amount payable is determined. Increases or decreases in the fair value of the contingent consideration payable can result from changes in revenue forecasts, discount rates and risk and probability assumptions. Significant judgment is employed in determining the appropriateness of these assumptions in each period.

Other Income (Expense)

Other income (expense) primarily consists of (i) interest income; (ii) interest expense; and (iii) gain (loss) on settlements and other investments.

Provision for Income Taxes

We are subject to taxation in the United States. Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. As of December 31, 2014, we remain in a net deferred tax asset position. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

At December 31, 2014, we had federal and state operating loss carryforwards of approximately $38.5 million and $47.0 million, respectively, available to offset future regular and alternative minimum taxable income. The state net operating loss carryforward is on the post-apportionment basis. Our federal net operating loss carryforwards expire in the years 2024 through 2033, if not utilized. The state net operating loss carryforwards expire in the years 2018 through 2033. The federal and state net operating loss carryforwards include excess tax deductions related to stock options in the amount of $21.8 million and $16.2 million, respectively. When utilized, the related excess tax benefit will be booked to additional paid-in capital. We also have tax deductible goodwill related to asset acquisitions.

We have federal and California research and development credit carryforwards of approximately $4.7 million and $2.4 million respectively, available to offset future tax liabilities. The federal research credit carryforwards expire beginning in 2022 through 2034, if not fully utilized. The California tax credit carryforward can be carried forward indefinitely.

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

We make estimates and judgments about our future taxable income that are based on assumptions that are consistent with our plans and estimates. Should the actual amounts differ from our estimates, our provision for income taxes could be materially affected.

Critical Accounting Policies and Significant Management Estimates

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

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

Revenue Recognition

We report revenue for the following product lines: healthcare, commuter, COBRA and other services.

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists, there is a fixed or determinable fee, delivery has occurred, and collectability is reasonably assured.

Healthcare and commuter programs include revenues generated from benefit service fees based on employee participant levels, fees based on a percentage of the face value of the transit and parking passes, interchange and other commission fees. The criteria above are generally met each month as we deliver services to our employer clients and their employee participants.

Most of our employee participants utilize prepaid debit cards to pay for their qualified healthcare and commuter expenses and we receive fees, known as interchange, that represent a percentage of the expenses transacted on each card. We also receive commissions from transit passes that we purchase from various transit agencies on behalf of employee participants. Due to our significant volume, we receive commissions on these passes which we recognize as vendor commission revenue. In addition, we recognize revenue on our estimate of passes that will expire unused over the estimated useful life of the passes, as the amounts paid for these passes are nonrefundable to both the employer client and the employee participant.

Valuation of Long-Lived Assets and Goodwill

Long-lived assets, such as property, equipment, acquired intangibles and capitalized internal use software subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable such as: (i) a significant adverse change in the extent or manner in which it is being used or in its physical condition, (ii) a significant adverse change in legal factors or in the business climate that could affect its value, or (iii) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with its use.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. An asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. We have determined that the entity level is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other assets and liabilities as our revenue is interdependent on the revenue-producing activities and significant shared operating activities of all long-lived assets. The entity level is the aggregation of our revenue streams arising from the administration of employer client sponsored healthcare programs, commuter programs, COBRA programs and other programs. Management tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

We perform an annual goodwill impairment test on December 31st and more frequently if events and circumstances indicate that the asset might be impaired. The impairment tests are performed in accordance with Financial Accounting Standards Board (FASB) ASC 350, *Intangibles—Goodwill and Other*, or ASC 350. An impairment loss is recognized to the extent that the carrying amount exceeds the reporting unit's fair value. The goodwill impairment analysis is a two-step process: First, the reporting unit's estimated fair value is compared to its carrying value, including goodwill. If we determine that the estimated fair value of the reporting unit is less than its carrying value, we move to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit's goodwill in a manner similar to a purchase price allocation. ASC 350 allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendments also expand upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

In assessing the qualitative factors, we assess relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry and market considerations, overall financial performance, our specific events and share price trends and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact. At December 31, 2014, we completed our annual goodwill impairment assessment and management concluded that no indicators of an impairment were determined to be present.

When reviewing goodwill for impairment, we assess whether goodwill should be allocated to operating levels lower than our single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. Currently, our one reporting unit was determined to be our single reportable segment in accordance with FASB ASC 280, *Segment Reporting*.

To date, we have not made any impairment adjustments to goodwill, as the fair value of our reporting unit in all prior years has always exceeded our carrying value by a significant amount.

Income Taxes

We are subject to income taxes in the United States. Significant judgments are required in determining the consolidated provision for income taxes.

We use the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We record a valuation allowance to reduce deferred tax assets to an amount whose realization is more likely than not.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the belief that our tax return positions are supportable, we believe that certain positions may not be more likely than not of being sustained upon review by tax authorities. As of December 31, 2014, our unrecognized tax benefits approximated $4.1 million, and we have no uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations. We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. We do not anticipate any adjustments would result in a material change to our financial position. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

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

In the future, if there is a significant negative change in our operating results or the other factors that were considered in making this determination, we could be required to record a valuation allowance against our deferred tax assets. Any subsequent increases in the valuation allowance will be recognized as an increase in deferred tax expense. Any decreases in the valuation allowance will be recorded either as a reduction of the income tax provision or as a credit to paid-in capital if the associated deferred tax asset relates to windfall stock option deductions on the exercise of stock options.

Stock-Based Compensation

Stock-based compensation for stock awards is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option pricing model and is recognized as an expense over the requisite service period, which is generally the vesting period. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price and related volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate, estimated forfeitures and expected dividends. The following table sets forth the weighted average assumptions used with respect to valuing option awards during 2012, 2013 and 2014.

	Year Ended December 31,		
	2012	2013	2014
Expected volatility	52.79%	51.43%	46.90%
Risk-free interest rate	1.26%	1.09%	1.87%
Expected term (in years)	6.60	6.00	6.09
Dividend yield	—%	—%	—%

We use the "simplified" method as an estimate of expected term due to the lack of option exercise history as a public company. We based the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We do not anticipate paying any cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. If we use different assumptions for estimating stock-based compensation expense in future periods, or if actual forfeitures differ materially from our estimated forfeitures, future stock-based compensation expense may differ significantly from what we have recorded in the current period and could materially affect our income from operations, net income and net income per share.

Results of Operations

Revenue

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
Revenue:		(in thousands)			
Healthcare	$ 112,905	$ 135,140	$ 155,989	20%	15%
Commuter	51,817	59,579	61,776	15%	4%
COBRA	8,157	15,047	31,996	84%	113%
Other	4,403	9,512	18,071	116%	90%
Total revenue	$ 177,282	$ 219,278	$ 267,832	24%	22%

Healthcare Revenue

The $20.8 million increase in healthcare revenue from 2013 to 2014 was primarily due to an $18.7 million increase in FSA and HRA revenue. The FSA and HRA revenue increase was primarily driven by growth in new employee participation in our programs of $9.2 million, post-purchase revenues for CONEXIS, which was acquired in August 2014, of $5.7 million and an interchange fee revenue increase of $2.9 million due to increased debit card usage as well as an increase in the number of debit cards issued. FSA and HRA also increased by $0.9 million in POP revenue, during 2014 compared to 2013. The growth in healthcare revenue was further driven by a $2.1 million increase in HSA revenue primarily due to growth in participation of our HSA programs.

The $22.2 million increase in healthcare revenue from 2012 to 2013 was primarily due to a $17.0 million increase in FSA revenue, which was driven by an increase of $7.5 million related to the Aflac channel partner arrangement, $5.4 million in post-purchase revenues for BCI, which was acquired in December 2012, $1.2 million from the addition of a large employer client in the first quarter of 2013 and $1.3 million in post-purchase revenues for CBS, which was acquired in May 2013. The growth in healthcare revenue was further driven by a $4.3 million increase in HRA revenue primarily due to the addition of a large employer client and $1.0 million increase in HSA revenue due to growth in participation of our HSA programs.

Commuter Revenue

The $2.2 million increase in commuter revenue from 2013 to 2014 was primarily driven by a $0.9 million increase in our commuter benefit programs, due to growth in the number of employee participants in these programs. The remainder of the commuter revenue growth was primarily driven by increased interchange revenue of $0.8 million as a result of increased debit card usage and a full year of revenue from CBS of $0.3 million.

The $7.8 million increase in commuter revenue from 2012 to 2013 was primarily driven by a $2.3 million increase in TransitCheck Premium revenue and a $1.2 million increase in Commuter Order Model revenue as the number of employee participants in these programs grew, as well as having a full year of revenue in 2013 for TC, which was acquired in February of 2012. Commuter revenue was further driven by a $2.1 million increase in TransitCheck Basic revenue due primarily to the increase in the statutory monthly cap increase in the first quarter of 2013, as well as the impact from having a full year of revenue for TC. The remainder of the commuter revenue growth was primarily driven by $1.1 million in increased interchange revenue as a result of increased debit card usage and $0.6 million in transit agency commission revenue.

COBRA Revenue

The $16.9 million increase in COBRA revenue from 2013 to 2014 was primarily driven by $15.9 million in post-purchase revenues for CONEXIS. The remainder of the COBRA revenue growth was primarily driven by increased participation by employer clients in our COBRA administration services.

The $6.9 million increase in COBRA revenue from 2012 to 2013 was primarily driven by the inclusion of $5.7 million in post-purchase COBRA revenues for BCI and $0.5 million in post-purchase revenues for CBS. The remainder of the COBRA revenue growth was primarily driven by increased participation by employer clients in our COBRA administration services.

Other Revenue

The $8.6 million increase in other revenue from 2013 to 2014 was primarily driven by $8.2 million in post-purchase revenues for CONEXIS, with the remainder of the increase due to increases in our gym and tuition reimbursement programs.

The $5.1 million increase in other revenue from 2012 to 2013 was primarily driven by the inclusion of $3.8 million in post-purchase revenues for BCI and $1.0 million in post-purchase revenues for CBS.

Cost of Revenue

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
	(in thousands)				
Cost of revenues (excluding amortization of internal use software)	$ 64,647	$ 81,918	$ 100,226	27%	22%
Percent of revenue	36%	37%	37%		

The $18.3 million increase in cost of revenues from 2013 to was primarily due to the inclusion of post-purchase expense of $10.3 million for CONEXIS, as well as increases in outsourced services costs of $4.0 million due to processing and supporting an increased number of employee participants. Cost of revenues was further driven by an increase in salaries and personnel-related costs of $1.5 million due to an increase in headcount to support employee participant growth and an increase in stock-based compensation expense of $1.2 million due to new grants of stock options and performance-based restricted stock units. Cost of revenues was also driven by an increase travel and entertainment of $0.4 million to support our sales efforts and acquisition related travel as well as an increase in postage and printing costs of $0.3 million as we transitioned certain COBRA printing costs to an outside vendor. The remainder of the increase in cost of revenues is primarily due to platform losses during 2014 as well favorable platform loss adjustments in 2013.

The $17.3 million increase in cost of revenues (excluding amortization of internal use software) from 2012 to 2013 was primarily driven by increases in salaries and personnel-related costs of $9.0 million, primarily as a result of post-purchase salaries and personnel-related costs from the BCI and CBS portfolio purchases, which increased headcount. Cost of revenues were further driven by the inclusion of approximately $4.8 million in other post-purchase expenses for BCI and CBS, and $2.6 million in outsource services costs resulting from processing and supporting an increased number of employee participants. Stock-based compensation expense increased $0.7 million, primarily due to additional expense from new grants of restricted stock units, performance-based restricted stock units and stock options, as well as adjustments to the vesting terms of performance based stock options as the probability of achieving the performance criteria for early vesting were deemed probable of being met.

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

Technology and Development

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
	(in thousands)				
Technology and development	$ 18,849	$ 21,459	$ 27,741	14%	29%
Percent of revenue	10%	10%	10%		

The $6.3 million increase in technology and development expenses from 2013 to 2014 was primarily due to the inclusion of post-purchase expense of $6.2 million for CONEXIS as well as a $0.4 million increase in stock-based compensation expense due to new grants of stock options. These increases were partially offset by higher capitalization of internally developed software projects which reduced the amount of expense recognized year over year, as we had a greater number of software projects in 2014 as compared to 2013, partly driven by new software projects related to our acquisition of CONEXIS.

The $2.6 million increase in technology and development expenses from to 2012 to 2013 was driven by increases in salaries and personnel-related costs of $2.6 million, primarily as a result of post-purchase salaries and personnel-related costs due to an increase in headcount from the BCI and CBS portfolio purchases and increased headcount to support improvements to our platform in handling the processing of claims. Technology and development expenses were further driven by the inclusion of approximately $0.7 million in other post-purchase expenses for BCI and CBS and an increase in stock-based compensation expense of $0.4 million from new grants of restricted stock units, performance-based restricted stock units and stock options. These increases were partially offset by a $1.1 million decrease in temporary help and consulting services due to consolidation of ongoing projects and contractors becoming full-time employees in 2013.

We intend to continue enhancing the functionality of our software platform as part of our continuous effort to improve our employer client and employee participant experience and to maintain and enhance our control and compliance environment. As a result of our focus on technology development and our acquisition of CONEXIS, we expect our technology and development expenses to increase in dollar amount in future periods. The timing of development and enhancement of projects, including whether they are in phases where costs are capitalized or expensed, could significantly affect our technology and development expense both in dollar amount and as a percentage of revenue.

Sales and Marketing

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
	(in thousands)				
Sales and marketing	$ 30,341	$ 34,676	$ 44,940	14%	30%
Percent of revenue	17%	16%	17%		

The $10.3 million increase in sales and marketing expense from 2013 to 2014 was primarily due to the inclusion of post-purchase expense of $5.3 million for CONEXIS as well as an increase in salaries and personnel-related costs of $2.4 million due to hiring sales and marketing personnel to implement various new sales and marketing programs and to a lesser extent a full year of costs related to the CBS portfolio purchase, which was acquired in May 2013. Sales and marketing expenses were further driven by an increase in stock-based compensation expense of $1.4 million due to new grants of stock options and performance-based restricted stock units. Sales and marketing expense was also driven by an increase of $0.5 million in ongoing promotional marketing initiatives. Outside sales commissions driven by increased sales volumes through our broker relationships and travel and entertainment increased sales and marketing expense by $0.4 million.

The $4.3 million increase in sales and marketing expense from 2012 to 2013 was primarily driven by salaries and personnel-related costs of $2.9 million as a result of increases in headcount from the BCI and CBS portfolio purchases of $1.2 million, increased hiring of sales and marketing personnel resulting from the ongoing implementation of various new sales and marketing programs of $1.1 million and increases in commission expense of $0.6 million. Sales and marketing expenses were further driven by an increase in stock-based compensation expense of $0.6 million from new grants of restricted stock, performance-based restricted stock units and stock options. Travel and entertainment expense also increased by $0.4 million during 2013 when compared to 2012.

Sales and marketing expense as a percentage of revenue decreased in 2013 as compared to 2012 by 1%. This decrease was primarily due to our BCI and CBS acquisitions having lower relative sales and marketing expenses as a percentage of revenue.

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

General and Administrative

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
	(in thousands)				
General and administrative	$ 28,839	$ 37,637	$ 42,884	31%	14%
Percent of revenue	16%	17%	16%		

The $5.2 million increase in general and administrative expenses from 2013 to 2014 was primarily driven by the inclusion of post-purchase expense of $2.8 million for CONEXIS and $2.3 million in stock-based compensation expense, primarily due to new grants of stock options, restricted stock units and performance-based restricted stock units.

The $8.8 million increase in general and administration expense from 2012 to 2013 was primarily driven by an increase of $3.7 million in stock-based compensation expense, primarily due to additional expense from new grants of restricted stock units, performance-based restricted stock units and stock options, as well as adjustments to the vesting terms of performance based stock options as the probability of achieving the performance criteria for early vesting were deemed probable of being met. General and administrative expenses were further driven by salaries and personnel-related costs of $2.3 million due to an increase in headcount as we continue to expand our operations and from the BCI and CBS portfolio purchases, as well as an increase of $1.4 million in professional fees, as a result of increased legal fees incurred as part of our follow-on public offering, required Securities and Exchange Commission filings and acquisitions. Professional fees were further driven by fees incurred as part of our efforts to enhance our control environment to meet compliance rules with Section 404 of the Sarbanes-Oxley Act. In fiscal 2012, we also benefited from a $0.4 million bad debt reserve release, which compares favorably to fiscal 2013. General and administrative expenses also increased by $0.5 million driven by increased allocation of facilities costs to general and administrative departments as a result of increased headcount, when compared to the same period a year ago and the inclusion of approximately $0.2 million in other post-purchase expenses for BCI and CBS.

As we continue to grow, we expect our general and administrative expenses to increase in dollar amount as we expand general and administrative headcount to support our continued growth and due to the increased expenses associated with being a public company.

Amortization and Change in Contingent Consideration

	Year Ended December 31,			Change from prior year	
	2012	2013	2014	2013	2014
	(in thousands)				
Amortization and change in contingent consideration	$ 15,674	$ 11,612	$ 20,992	-26%	81%

Our amortization and change in contingent consideration consists of three components: amortization of internal use software, amortization of acquired intangibles and change in contingent consideration. We capitalize our software development costs related to the development and enhancement of our business solution. When the technology is available for its intended use, the capitalized costs are amortized over the technology's estimated useful life, which is generally four years. Acquired intangibles are also amortized over their estimated useful lives.

The $9.4 million increase in the amortization and change in contingent consideration line item from 2013 to 2014 was driven by a re-measurement of the contingent consideration related to BCI, which took place in the third quarter of 2013, as the timing of anticipated partnerships and employer clients were deferred until later in 2014 and into 2015, which reduced the forecasted BCI revenues used in the determination of the contingent consideration. Due to the re-measurement, a $6.0 million gain was recognized in 2013 while no such gains were recognized during 2014. The remaining increase is due primarily to additional amortization expense from acquired intangible assets related to the CONEXIS acquisition and additional amortization of capitalized software development costs.

The $4.1 million decrease in amortization and change in contingent consideration from 2012 to 2013 was driven by a gain of $6.0 million related to the re-measurement of the contingent consideration related to BCI, as the timing of anticipated partnerships and certain new employer clients were deferred until later in 2014 and into 2015, as such the forecasted revenue increase in 2014 and 2015 was adjusted downward. The gain related to BCI is partially offset by additional amortization expense from acquired intangible assets, including the BCI portfolio purchase, the Aflac channel partnership arrangement and additional amortization of capitalized software development costs.

Other Income (Expense)

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Interest income	$ 36	$ 17	$ 5
Interest expense	(1,772)	(1,339)	(1,612)
Other income	48	248	743

The increase in the other income line item from 2013 to 2014 is due to a gain related to the settlement of a dispute with a third party.

The decrease in interest expense from 2012 to 2013 was due to the repayment of outstanding debt borrowed under our credit facility with Union Bank, N.A. in 2013.

Income Taxes

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Income taxes provision	$ (7,126)	$ (9,203)	$ (11,943)

The change from 2013 to 2014 was primarily the result of an increase in federal income taxes driven by an increase in the overall tax rate for 2014 when compared to 2013. The overall tax rate in 2013 had a reduction as compared to 2014, due to permanent tax items related to non-deductible changes in the fair value of our contingent consideration.

The change from 2012 to 2013 was primarily the result of an increase in federal income taxes, driven by higher taxable income year over year, partially offset by a reduction in overall tax rate due to permanent tax items primarily related to non-deductible changes in the fair value of contingent consideration.

Liquidity and Capital Resources

At December 31, 2014, our principal sources of liquidity were cash and cash equivalents totaling $413.3 million comprised primarily of prefunds by clients of amounts to be paid on behalf of employee participants as well as, in recent years, other cash flows from operating activities.

We believe that our existing cash and cash equivalents and expected cash flow from operations will be sufficient to meet our operating and capital requirements, as well as anticipated cash requirements for potential future portfolio purchases, over at least the next 12 months. We have historically been able to fulfill our obligations as incurred and expect to continue to fulfill our obligations in the future. Our expectation is based on our current and anticipated client retention rates and our continuing funding model in which the vast majority of our enterprise clients provide us with prefunds as more fully described below under "*—Prefunds*."

Prefunds

Under our contracts with the vast majority of our enterprise employer clients, we receive prefunds that have been and are expected to continue to be a significant source of cash flows from operating activities. Each prefund is reflected in cash and cash equivalents on our balance sheet with an equivalent customer obligation recorded as a liability as the prefund is received. Changes in these prefunds and corresponding customer obligations are reflected in our cash flows from operating activities. The substantial majority of our SMB employer clients deposit funds into a separate custodial account, and those funds are neither a source of cash flows from operating activities nor reflected on our balance sheet. These SMB employer clients are responsible for maintaining an adequate balance in those custodial accounts to cover their employee participants' claims. We only pay SMB employee participant claims from amounts in the custodial accounts.

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

By way of example, a new FSA enterprise employer client with a plan year starting January 1 will provide the projected annual election for its employee participants as a prefund in late December. Once the new plan year starts, the employee participants can immediately access all elected funds of their FSA benefit even before any payroll deductions have commenced. This access to funds differs from our HSA programs where available funds are added to employee participants' accounts only as payroll deductions occur and HRA programs where funds are only available as contributions are made.

Following the run-out period and grace period, the FSA prefunds from the prior plan year are reconciled and funds are returned to the employer clients, resulting in a substantial decline in our cash position. If an employer has adopted the new carryover option instead of the grace period rule for their plan year, then any unused funds, of up to $500 per participant, will be carried over into the new plan year rather than returned to the employer client. The cycle then repeats itself in each plan year as participants enroll in programs and prefunds are received in the fourth quarter for the new plan year. In a majority of cases, new FSA prefunds for the succeeding plan year are received prior to a plan year's prefund being fully paid out in the form of benefits for employee participants or being returned to the employer client. Because participant activity in our commuter programs varies monthly, prefunds for these programs fluctuate monthly.

Our enterprise client contracts do not contain restrictions on our use of enterprise client prefunds and, as a result, these prefunds are reflected as cash and cash equivalents on our balance sheet and changes in prefunds are recorded as an element of our cash flow from operating activities. The timing of when employer clients make their prefunds as well as the timing of when we make payments on behalf of employee participants can significantly affect our cash flows.

Union Bank Credit Facility

Debt consists of borrowings under a Credit Agreement, or Revolver, with MUFG Union Bank, N.A. (formerly Union Bank, N.A.), or UB, under which we can borrow an aggregate principal amount of up to $125.0 million, with a $15.0 million subfacility for the issuance of letters of credit. At December 31, 2014, we had $79.6 million principal amount outstanding under the Revolver. The debt under the Revolver is scheduled to mature on July 21, 2017.

Each loan under the Revolver bears interest at a fluctuating rate per annum equal to a prime rate determined in accordance with the terms of the Revolver, plus a spread of 0.00% to 0.25%, or at our option, a LIBOR rate determined in accordance with the Revolver, plus a spread of 1.75% to 2.25%.

As collateral for the Revolver, we granted UB a security interest in substantially all of our assets. All of our material existing and future subsidiaries are required to guaranty our obligations under the Revolver. Such guarantees by existing and future material subsidiaries are and will be secured by substantially all of the property of such material subsidiaries.

The Revolver contains customary affirmative and negative covenants and also has financial covenants relating to a liquidity ratio, a consolidated leverage ratio, a debt service coverage ratio and a minimum consolidated net worth covenant. We are obligated to pay customary commitment fees and letter of credit fees for a facility of this size and type. We are currently in compliance with all financial and non-financial covenants under the Revolver.

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

Cash Flows

The following table presents information regarding our financial position including cash and cash equivalents as of December 31, 2013 and 2014:

	December 31,	
	2013	2014
	(in thousands)	
Cash and cash equivalents, end of period	$ 359,958	$ 413,301

The following table presents information regarding our cash flows for the years ended December 2012, 2013 and 2014:

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Net cash provided by operating activities	$ 56,133	$ 61,705	$ 54,423
Net cash used in investing activities	(7,554)	(27,555)	(65,535)
Net cash provided by financing activities	102,593	20,015	64,455
Net increase in cash and cash equivalents	$ 151,172	$ 54,165	$ 53,343

Cash Flows from Operating Activities

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Net cash provided by operating activities	$ 56,133	$ 61,705	$ 54,423

Net cash provided by operating activities decreased in 2014 when compared to 2013 by $7.3 million, primarily due to an increase in accounts receivable in 2014 when compared to 2013, primarily from the timing and receipt of billing for funds owed by employer clients as well as the timing of our billing and employer client payments of prefunds in our customer obligations account when compared to a year ago.

Net cash provided by operating activities increased in 2013 when compared to 2012, driven by an increase in net income of $11.2 million in 2013 compared to 2012, and an increase in cash inflow of $2.7 million from customer obligations primarily due to the timing of our billing and increase in employer client payments of prefunds for 2014. Cash provided by operating activities were further impacted a by $3.4 million payment of contingent consideration in excess of the initial measurement reflected in operating activities in 2012 while only a $0.6 million payment related to contingent consideration in excess of the initial measurement was reflected in operating activities in 2013. These increases were partially offset by an increase in accounts receivable in 2013 when compared to 2012, primarily from the timing and receipt of billing for funds owed by employer clients that had a $2.9 million impact on operating cash.

Net cash provided by operating activities in 2012 resulted primarily from our net income of $10.5 million being adjusted for the following non-cash items: depreciation, amortization and change in contingent consideration aggregating $18.6 million, deferred taxes of $6.7 million and stock-based compensation of $3.8 million. Cash from operating activities increased by $23.7 million for customer obligations primarily due to the increase in prefunds and the timing of our billings and employer client payments. Operating cash flow was further increased by changes in accounts payable and accrued expenses of $5.1 million primarily from an increase in transit agency payables as a result of the TC acquisition. These cash flows were offset in part by increases in accounts receivable balance of approximately $5.5 million due to the timing of collections and overall increases from the various 2012 acquisitions, $3.4 million in charges to the statement of operations for changes in the value of contingent consideration in excess of the initial measurement and $2.7 million due to net changes in prepaid expenses and other current assets driven by offering costs related to our initial public offering and follow-on offering.

Cash Flows from Investing Activities

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Net cash used in investing activities	$ (7,554)	$ (27,555)	$ (65,535)

Net cash used in investing activities increased in 2014 compared to 2013, primarily due to cash used in the acquisition of CONEXIS of $44.3 million, net of cash received, during the third quarter of 2014, partially offset by a payment of $15.0 million during the third quarter of 2013, in connection with an advanced payment made to Ceridian for the employer clients that are expected to transition to us, while no such payment was made during 2014. Cash used in investing activities was further increased by capitalized internal use software for various new software projects when compared to 2013, as well as an increase in purchased equipment.

Net cash used in investing activities increased in 2013 compared to 2012, primarily due to a payment of $15.0 million during the third quarter of 2013, in connection with an advanced payment made to Ceridian for the employer clients that are expected to transition to WageWorks, while no such payments was made in 2012. Cash used in investing activities were further impacted by cash received in the acquisition of TransitChek during 2012, which had a positive net cash inflow in investing activities of $8.9 million for 2012, while the acquisition of Crosby Benefit Systems, Inc., during 2013 had a negative cash outflow of $0.8 million, causing a negative year-over-year impact of $9.7 million. These increases in cash used in investing activities were partially offset by the impact of cash paid for the Aflac channel partner arrangement in the amount of $6.0 million during 2012, while cash paid for the Aflac and Ceridian channel partner arrangement in 2013 was only $1.6 million, causing a positive year-over-year impact of $4.4 million.

Net cash used in investing activities in 2012 was primarily the result of $12.3 million of capitalized internal use software and purchased equipment, which was largely related to further upgrades to our product platform. In connection with the Aflac channel partner arrangement, we also paid Aflac $6.0 million for the employer clients that have transitioned to us. These outflows were partially offset by cash acquired in connection with our CS and BCI portfolio purchases as well as the TC acquisition exceeding the cash payments made for these acquisitions.

Cash Flows from Financing Activities

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Net cash provided by financing activities	$ 102,593	$ 20,015	$ 64,455

Net cash provided by financing activities increased in 2014 compared to 2013, primarily due to cash received from borrowing on our line of credit with UB, to partially fund the acquisition of CONEXIS. Cash provided by financing activities was further increased by a $15.0 million repayment of debt in the third quarter of 2013 under our line of credit with UB while no such payment was made in 2014. These increases were partially offset by cash received from our follow-on offering that took place in the first quarter of 2013 of $11.6 million, while no proceeds for follow-on offerings were received in 2014 as well as decreases in proceeds received from the exercise of stock options and issuance of stock under our employee stock purchase plan totaling in 2014.

Net cash provided by financing activities decreased in 2013 compared to 2012, primarily due to cash received from our initial public offering and drawdowns under the Revolver with UB during 2012 totaling $92.0 million while we did not have these transactions during 2013. Cash provided by financing activities were further decreased by a $15.0 million repayment of debt in 2013 under our Revolver with Union Bank. These decreases were partially offset by increases in proceeds received from the exercise of stock options and issuance of stock under our employee stock purchase plan totaling $12.6 million. The decreases in cash provided by financing activities were further offset by payments of contingent consideration made during 2012 totaling $14.7 million while payments of contingent consideration made during 2013 only totaled $6.6 million.

Net cash provided by financing activities in 2012 was due to $62.6 million and $16.5 million received in connection with our initial public offering and follow-on offering, respectively, as well as $29.5 million in draw downs on our credit facility to fund payments for our TC acquisition and CS portfolio purchase that took place in the first quarter of 2012. Financing inflows were further increased by $7.0 million from cash received from the exercise of warrants, exercise of stock options and the issuance of common stock related to our employee stock purchase plan, partially offset by contingent consideration payments of $14.7 million related to PBS, CS, TC and FBM transactions.

Recently Issued Accounting Pronouncements

See Note 1 of our accompanying consolidated financial statements for a full description of recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial condition.

Contractual Obligations

The following table describes our contractual obligations as of December 31, 2014:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (1)	$ 79,600	$ —	$ 79,600	$ —	$ —
Interest on long-term debt obligations (2)	5,244	2,030	3,214	—	—
Lease obligations (3)	41,263	9,493	9,965	9,609	12,196
Acquisition payments (4)	4,610	3,660	950	—	—
CONEXIS holdback obligation (5)	10,000	10,000	—	—	—
Total	**$ 140,717**	**$ 25,183**	**$ 93,729**	**$ 9,609**	**$ 12,196**

(1) Credit facility: as of December 31, 2014 is $125.0 million with a variable interest rate of base rate plus a spread of 0.00% to 0.25% per annum or LIBOR plus a spread of 1.75% to 2.25% per annum, and a maturity date of July 21, 2017. At December 31, 2014, we had $79.6 million of outstanding principal which is recorded net of debt issuance costs on our balance sheet. The debt issuance costs are not included in the table above.

(2) Estimated interest payments assume the interest rate applicable as of December 31, 2014 of 2.58% per annum on a $79.6 million principal amount.

(3) We lease facilities under non-cancelable operating leases expiring at various dates through 2023 and equipment under non-cancelable capital leases expiring at various dates through 2016.

(4) Estimated undiscounted contingent consideration for companies acquired in 2012 and 2013.

(5) Expected payment of holdback amount related to the CONEXIS acquisition, expected to be paid on August 1, 2015.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may affect our financial position due to adverse changes in financial market prices and rates. We are exposed to market risks related to changes in interest rates.

As of December 31, 2014, we had cash and cash equivalents of $413.3 million. These amounts consist of cash on deposit with banks and money market funds. The cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we do not believe that changes in interest rates would have a material impact on our financial position and results of operations. However, declines in interest rates and cash balances will reduce future investment income.

The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This objective is accomplished by making diversified investments, consisting only of investment grade securities. The decrease in interest income from the effect of a hypothetical decrease in short-term interest rates of 10% would not have a material impact on our net income and cash flows.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on our outstanding debt instruments. As of December 31, 2014, we had outstanding principal of $79.6 million under our credit facility. Each loan under the credit facility bears interest at a fluctuating rate per annum equal to a prime rate determined in accordance with the credit agreement, plus a spread of 0.00% to 0.25%, or at our option, a LIBOR rate determined in accordance with the credit agreement, plus a spread of 1.75% to 2.25%, as of December 31, 2014. The increase in interest expense from the effect of a hypothetical change in interest rates of 1% would not have a material impact on our net income and cash flows.

Item 8. Financial Statements and Supplementary Data

WageWorks, Inc. and Subsidiaries
Index To Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
WageWorks, Inc.:

We have audited the accompanying consolidated balance sheets of WageWorks, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WageWorks, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), WageWorks, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
February 26, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
WageWorks Inc.:

We have audited WageWorks, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). WageWorks, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, WageWorks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Company acquired CONEXIS Benefits Administrators, LP on August 1, 2014, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, CONEXIS Benefits Administrators, LP's internal control over financial reporting which represented 11% and 25%, respectively, of total revenues and total assets of the related consolidated financial statement amounts of the Company as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of CONEXIS Benefits Administrators, LP.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of WageWorks, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 26, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Francisco, California
February 26, 2015

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

	December 31, 2013	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 359,958	$ 413,301
Restricted cash	331	332
Accounts receivable, net	32,863	54,453
Deferred tax assets - current	1,985	11,006
Prepaid expenses and other current assets	10,135	14,215
Total current assets	405,272	493,307
Property and equipment, net	26,532	39,137
Goodwill	97,636	157,109
Acquired intangible assets, net	42,786	94,776
Deferred tax assets	10,666	699
Other assets	16,763	9,687
Total assets	**$ 599,655**	**$ 794,715**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 49,419	$ 54,285
Customer obligations	281,153	362,451
Short-term contingent payment	4,265	3,180
Other current liabilities	1,592	11,924
Total current liabilities	336,429	431,840
Long-term debt	29,448	79,219
Long-term contingent payment, net of current portion	3,802	695
Other non-current liability	1,844	3,537
Total liabilities	371,523	515,291
Stockholders' Equity:		
Common stock, $0.001 par value. Authorized 1,000,000 shares; issued 34,746 shares at December 31, 2013 and 35,479 shares at December 31, 2014	35	36
Additional paid-in capital	270,519	303,568
Accumulated deficit	(42,422)	(24,180)
Total stockholders' equity	228,132	279,424
Total liabilities and stockholders' equity	**$ 599,655**	**$ 794,715**

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

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

	Year Ended December 31,		
	2012	2013	2014
Revenues:			
Healthcare	$ 112,905	$ 135,140	$ 155,989
Commuter	51,817	59,579	61,776
COBRA	8,157	15,047	31,996
Other	4,403	9,512	18,071
Total revenue	177,282	219,278	267,832
Operating expenses:			
Cost of revenues (excluding amortization of internal use software)	64,647	81,918	100,226
Technology and development	18,849	21,459	27,741
Sales and marketing	30,341	34,676	44,940
General and administrative	28,839	37,637	42,884
Amortization and change in contingent consideration	15,674	11,612	20,992
Total operating expenses	158,350	187,302	236,783
Income from operations	18,932	31,976	31,049
Other income (expense):			
Interest income	36	17	5
Interest expense	(1,772)	(1,339)	(1,612)
Gain on revaluation of warrants	381	—	—
Other income	48	248	743
Income before income taxes	17,625	30,902	30,185
Income tax provision	(7,126)	(9,203)	(11,943)
Net income	10,499	21,699	18,242
Accretion of redemption premium expense	(2,301)	—	—
Net income attributable to common stockholders	**$ 8,198**	**$ 21,699**	**$ 18,242**
Basic net income per share	$ 0.45	$ 0.65	$ 0.52
Diluted net income per share	$ 0.33	$ 0.62	$ 0.50
Shares used in basic net income per share calculations	18,138	33,626	35,145
Shares used in diluted net income per share calculations	24,414	35,277	36,330

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

WAGEWORKS, INC.
Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except per share amounts)

	Convertible preferred stock		Common stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	paid-in capital	deficit	Equity (Deficit)
Balance at December 31, 2011	17,645	$ 33,965	1,546	$ 2	$ 18,596	$ (74,620)	$ (22,057)
Issuance of common stock in May 2012 initial public offering at $9.00 per share, net of issuance costs of $5,527	-	-	7,475	7	57,023	-	57,030
Issuance of common stock in October 2012 follow-on offering at $17.50 per share, net of issuance costs of $903	-	-	1,000	1	15,546	-	15,547
Conversion of preferred stock to common stock	(17,645)	(33,965)	17,688	18	118,416	-	84,469
Conversion of preferred stock warrants to common stock warrants	-	-	-	-	738	-	738
Exercise of stock options	-	-	701	1	4,391	-	4,392
Exercise of Investor Warrant	-	-	3,039	3	1,737	-	1,740
Exercise of ORIX Warrant	-	-	43	-	-	-	-
Issuance of common stock under Employee Stock Purchase Plan	-	-	87	-	852	-	852
Share repurchases	-	-	(8)	-	(113)	-	(113)
Tax benefit from the exercise of stock options	-	-	-	-	1,865	-	1,865
Stock-based compensation	-	-	-	-	3,750	-	3,750
Accretion of redemption premium	-	-	-	-	(2,301)	-	(2,301)
Net income	-	-	-	-	-	10,499	10,499
Balance at December 31, 2012	-	$ -	31,571	$ 32	$ 220,500	$ (64,121)	$ 156,411
Issuance of common stock in March 2013 follow-on offering at $24.00 per share, net of issuance costs of $829	-	-	500	1	10,721	-	10,722
Exercise of stock options	-	-	2,118	2	15,979	-	15,981
Exercise of Investor Warrant	-	-	351	-	-	-	-
Exercise of Lender Warrant	-	-	117	-	-	-	-
Issuance of common stock under Employee Stock Purchase Plan	-	-	89	-	1,817	-	1,817
Tax benefit from the exercise of stock options	-	-	-	-	12,296	-	12,296
Stock-based compensation	-	-	-	-	9,206	-	9,206
Net income	-	-	-	-	-	21,699	21,699
Balance at December 31, 2013	-	$ -	34,746	$ 35	$ 270,519	$ (42,422)	$ 228,132
Exercise of stock options	-	-	648	1	6,743	-	6,744
Issuance of common stock under Employee Stock Purchase Plan	-	-	60	-	2,100	-	2,100
Restricted stock units	-	-	25	-	(785)	-	(785)
Tax benefit from the exercise of stock options	-	-	-	-	10,433	-	10,433
Stock-based compensation	-	-	-	-	14,558	-	14,558
Net income	-	-	-	-	-	18,242	18,242
Balance at December 31, 2014	-	$ -	35,479	$ 36	$ 303,568	$ (24,180)	$ 279,424

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

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

	Year Ended December 31,		
	2012	2013	2014
Cash flows from operating activities:			
Net income	$ 10,499	$ 21,699	$ 18,242
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,950	3,421	4,386
Amortization and change in contingent consideration	15,674	11,612	20,992
Stock-based compensation	3,750	9,206	14,558
Revaluation of warrants	(381)	—	
Loss on disposal of fixed assets	178	128	98
Payment of contingent consideration in excess of initial measurement	(3,361)	(643)	—
Provision for doubtful accounts	(261)	180	(367)
Deferred taxes	6,688	9,049	10,582
Excess tax benefit from the exercise of stock options	(1,901)	(12,296)	(10,433)
Changes in operating assets and liabilities:			
Accounts receivable	(5,538)	(8,457)	(20,969)
Prepaid expenses and other current assets	(2,659)	(3,954)	(2,743)
Other assets	(160)	(179)	(2,877)
Accounts payable and accrued expenses	5,075	7,840	2,684
Customer obligations	23,680	26,339	19,480
Other liabilities	1,900	(2,240)	790
Net cash provided by operating activities	56,133	61,705	54,423
Cash flows from investing activities:			
Purchases of property and equipment	(12,291)	(13,832)	(21,200)
Cash consideration for business acquisitions, net of cash acquired	8,953	(752)	(44,334)
Cash paid for acquisition of client contracts	(6,006)	(1,573)	—
Advance payment for acquisition of client contracts	—	(14,646)	—
Change in restricted cash	1,790	3,248	(1)
Net cash used in investing activities	(7,554)	(27,555)	(65,535)
Cash flows from financing activities:			
Proceeds from debt	29,470	—	49,663
Repayment of debt	—	(15,000)	—
Proceeds from initial public offering net of underwriters commissions and discounts	62,557	—	—
Proceeds from follow-on offering net of underwriters commissions and discounts	16,450	11,550	—
Proceeds from exercise of warrants	1,740	—	—
Proceeds from exercise of common stock options	4,392	15,981	6,744
Proceeds from issuance of common stock (Employee Stock Purchase Plan)	852	1,817	2,100
Payment of contingent consideration	(14,656)	(6,629)	(4,485)
Payment for share repurchases	(113)	—	—
Excess tax benefit from the exercise of stock options	1,901	12,296	10,433
Net cash provided by financing activities	102,593	20,015	64,455
Net increase in cash and cash equivalents	151,172	54,165	53,343
Cash and cash equivalents at beginning of the year	154,621	305,793	359,958
Cash and cash equivalents at end of the year	**$ 305,793**	**$ 359,958**	**$ 413,301**
Supplemental cash flow disclosure:			
Cash paid during the year for:			
Interest	$ 1,094	$ 1,533	$ 866
Taxes	583	714	836
Noncash financing and investing activities:			
Accretion of redemption premium	2,301	—	—
Reduction in FBM contingent consideration due to re-negotiated lease	528	—	—
Reduction in FBM contingent consideration due to post-purchase adjustment	2,316	—	—

Conversion of preferred stock to common stock	118,434	—	—
Conversion of preferred warrants to common stock warrants	738	—	—

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

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

(1) Summary of Business and Significant Accounting Policies

Business

WageWorks, Inc., or the Company, is a leader in administering Consumer-Directed Benefits, or CDBs, which empower employees to save money on taxes while also providing corporate tax advantages for employers. The Company is solely dedicated to administering CDBs, including pre –tax spending accounts such as health and dependent care Flexible Spending Accounts, or FSAs, Health Savings Accounts, or HSAs, Health Reimbursement Arrangements, or HRAs, as well as commuter benefit services, including transit and parking programs, wellness programs and other employee spending account benefits, in the United States.

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

The Company's CDB programs assist employees and their families in saving money by using pre-tax dollars to pay for certain of their healthcare, dependent care and commuter expenses. Employers financially benefit from the Company's programs through reduced payroll taxes, even after factoring in the Company's fees. Under the Company's FSA, HSA and commuter programs, employee participants contribute funds from their pre-tax income to pay for qualified out-of-pocket healthcare expenses not fully covered by insurance, such as co-pays, deductibles and over-the-counter medical products or for commuting costs. Under the Company's HRA programs, employer clients provide their employee participants with a specified amount of available reimbursement funds to help their employee participants defray out-of-pocket medical expenses such as deductibles, co-insurance and co-payments. All amounts paid by the employer into HRAs are deductible by the employer as an ordinary business expense and are tax-free to the employee.

The Company operates as a single reportable segment on an entity level basis. The Company generates revenue from the administration of healthcare, commuter, COBRA and other employer sponsored tax-advantaged benefit services. The entity level is the aggregation of these four revenue streams.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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 accounts and transactions have been eliminated in consolidation.

Reclassification

Prior period amounts related to our COBRA revenue within our consolidated income statement have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in these consolidated financial statements include allowances for doubtful accounts, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortization, loss contingencies, expired and unredeemed products, deferred tax assets, reserve for income tax uncertainties, the assumptions used for stock-based compensation, the assumptions used for software and web site development cost classification, and the assumptions used to fair value contingent consideration associated with acquisitions and purchase accounting. Actual results could differ from those estimates. In making its estimates, the Company considers the current economic and legislative environment in the estimates and has considered those factors when reviewing the assumptions and estimates.

Cash, Cash Equivalents, and Restricted Cash

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

In all cases, the Company recognizes a related liability to its customers, classified as customer obligations in the accompanying consolidated balance sheets.

Restricted cash represents cash used to collateralize standby letters of credit.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements and Disclosures*, or ASC 820, provides a consistent framework to define, measure, and disclose the fair value of assets and liabilities in financial statements. ASC 820 establishes a three-level hierarchy priority for disclosure of assets and liabilities recorded at fair value. The ordering of priority reflects the degree to which objective prices in external active markets are available to measure fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable.

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

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

The contingent consideration payable related to the Benefit Concepts, Inc. (BCI) and Crosby Benefit Systems, Inc. (CBS) acquisitions were recorded at fair value on the acquisition date and are adjusted quarterly to fair value. The increases or decreases in the fair value of contingent consideration payable can result from changes in anticipated revenue levels and changes in assumed discount periods and rates. As the fair value measure is based on significant inputs that are not observable in the market, they are categorized as Level 3.

Other financial instruments not measured at fair value on the Company's consolidated balance sheet at December 31, 2014, but which require disclosure of their fair values include: cash and cash equivalents (including restricted cash), accounts receivable, accounts payable and accrued expenses and debt under the line of credit with Union Bank, N.A. The estimated fair value of such instruments at December 31, 2014 approximates their carrying value as reported on the consolidated balance sheet. The fair value of all of these instruments are categorized as Level 2 of the fair value hierarchy, with the exception of cash, which is categorized as Level 1 due to its short term nature.

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3) (dollars in thousands):

	Contingent Consideration BCI	Contingent Consideration CBS
Balances at December 31, 2013	5,801	2,266
Gains or losses included in earnings:		
Losses on revaluation of contingent consideration	212	81
Payment of contingent consideration	(3,308)	(1,177)
Balances at December 31, 2014	$ 2,705	$ 1,170

The Company measures contingent consideration elements each reporting period at fair value and recognizes changes in fair value in earnings each period in the amortization and change in contingent consideration line item on the consolidated statements of income, until the contingency is resolved.

The Company recorded a net gain of $5.4 million for changes in the fair value of contingent considerations during 2013, which was primarily driven by a gain of $5.9 million related to the BCI contingent consideration, as the timing of anticipated partnerships and certain new employer clients were deferred until later in 2014 and into 2015, as such the forecasted revenue increase in 2014 and 2015 was adjusted downward and a gain of $0.3 million related to FBM. These gains were partially offset by charges related to the change in fair value of the contingent consideration for CS of $0.8 million due to increased revenue levels estimated to be achieved, as well as charges related to the change in fair value of the contingent consideration for CBS of $0.1 million as a result of the passage of time. The net gain was recorded in the amortization and change in contingent consideration line item in the Company's accompanying consolidated statements of income.

The Company recorded a $0.3 million charge related to the change in fair value of the contingent considerations for BCI and CBS during 2014, as a result of accretion charges due to the passage of time.

Quantitative Information About Level 3 Fair Value Measurements

The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration designated as Level 3 are as follows:

	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Input
	(in thousands)		
Contingent consideration - BCI	$2,705	Discounted cash flow	Annualized revenue and probability of achievement
Contingent consideration - CBS	$1,170	Discounted cash flow	Annualized revenue and probability of achievement

Sensitivity To Changes In Significant Unobservable Inputs

As presented in the table above, the significant unobservable inputs used in the fair value measurement of contingent consideration related to the acquisitions are annualized revenue forecasts developed by the Company's management and the probability of achievement of those revenue forecasts. Significant increases (decreases) in these unobservable inputs in isolation would result in a significantly lower (higher) fair value measurement.

Accounts Receivable

Accounts receivable represent both amounts receivable in relation to fees for the Company's services and unpaid amounts by customers for benefit services of participants provided by third-party vendors, such as transit agencies and healthcare providers. The Company provides for an allowance for doubtful accounts by reference to reserves for specific accounts. The Company reviews its allowance for doubtful accounts monthly. Accounts more than 30 days past due are reviewed weekly for collectability. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Write-offs for 2012, 2013 and 2014 were not significant.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation on computer and equipment and furniture and fixtures is calculated on a straight-line basis over the estimated useful lives of those assets, ranging from three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful life or the lease term.

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

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

Software and Web Site Development Costs

The Company recognizes internal use software and Website development costs in accordance with FASB ASC Subtopic 350-40, *Intangibles — Goodwill and Other — Internal-Use Software*, and FASB ASC Subtopic 350-50, *Intangibles — Goodwill and Other — Website Development Costs*, respectively. As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development. Costs incurred in the development phase are capitalized and recognized over the technology's estimated useful life, generally four years, as amortization in the accompanying consolidated statements of income. Costs associated with the platform content or the repair or maintenance of the existing platforms is expensed as incurred.

The Company accounts for interest costs related to internal use software and Website development costs in accordance with the provisions of FASB ASC Subtopic 835-20, *Interest—Capitalization of Interest*, which require capitalization of interest on major construction or acquisition projects where the financial statement effect of capitalization versus current expense recognition is likely to be material. Capitalized interest related to software and development costs was immaterial for all years.

Accounting for Impairment of Long-Lived Assets

In accordance with FASB ASC Subtopic 360-10, *Property, Plant and Equipment*, the Company evaluates the recoverability of property and equipment and other assets, including identifiable intangible assets with definite lives, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group, based on discounted cash flows. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. Impairment adjustments related to software development costs were not significant for 2012, 2013 or 2014. There were no other significant impairments recorded for the remaining other long-lived assets for 2012, 2013 or 2014.

Acquisitions and Goodwill

The Company has accounted for all of its acquisitions using the purchase method as required under the provisions of FASB ASC 805, *Business Combinations*, or ASC 805. The cost of acquisition is allocated to the assets acquired and liabilities assumed based on fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired in the acquisition.

The Company performs a goodwill impairment test annually on December 31st and more frequently if events and circumstances indicate that the asset might be impaired. The impairment tests are performed in accordance with FASB ASC 350, *Intangibles—Goodwill and Other*, or ASC 350. The following are examples of triggering events (none of which occurred in 2012 or 2013) that could indicate that the fair value of a reporting unit has fallen below the unit's carrying amount:

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

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

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

ASC 350 reduces the complexity and costs of goodwill impairment testing by allowing an entity the option to first make a qualitative evaluation about the likelihood of goodwill impairment. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. In assessing the qualitative factors, the Company assesses relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry and market considerations, overall financial performance, Company specific events and share price trends and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact. At December 31, 2014, we completed our annual goodwill impairment assessment and management concluded that goodwill is not impaired and the two-step goodwill impairment test was not deemed necessary.

To date, the Company has not made any impairment adjustments to goodwill as the fair value of its reporting unit determined as the market capitalization of the Company on the testing date in all prior years has always exceeded its carrying value by a significant amount.

Income Taxes

The Company reports income taxes in accordance with FASB ASC 740, *Income Taxes*, which requires an asset and liability approach in accounting for income taxes. Deferred tax assets and liabilities arise from the differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements, as well as from net operating loss and tax credit carryforwards. Deferred tax amounts are determined by using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under current enacted tax law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized.

The Company uses financial projections to support its net deferred tax assets, which contain significant assumptions and estimates of future operations. If such assumptions were to differ significantly, it may have a material impact on the Company’s ability to realize its deferred tax assets. At the end of each period, the Company assesses the ability to realize the deferred tax benefits. If it is more likely than not that the Company would not realize the deferred tax benefits, then the Company would establish a valuation allowance for all or a portion of the deferred tax benefits.

Under ASC Subtopic 740-10, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained on examination by the taxing authorities, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records interest and penalties related to uncertain tax positions in income tax expense.

Revenue Recognition

The Company reports revenue based on the following product lines: Healthcare, Commuter, COBRA and Other services. Healthcare and Commuter include revenues generated from benefit service fees based on employee participant participation levels and interchange and other commission revenues. Interchange and other commission revenues are based on a percentage of total healthcare and commuter dollars transacted pursuant to written purchase agreements with certain vendors and banks. COBRA revenue is generated from the administration of continuation of coverage services for participants who are no longer eligible for their employer’s health benefits, such as medical, dental, vision and for the continued administration of employee participants’ HRAs and certain healthcare FSAs. Other revenue includes services related to enrollment and eligibility, non-healthcare, and employee account administration (i.e., tuition and health club reimbursements) and project-related professional services.

The Company recognizes all revenue streams in accordance with FASB ASC 605, *Revenue Recognition*. As such, the Company recognizes revenue when collectability is reasonably assured, service has been performed, persuasive evidence of an arrangement exists, and there is a fixed or determinable fee.

Benefit service fees are recognized on a monthly basis as services are rendered and earned under service arrangements where fees and commissions are fixed or determinable and collectability is reasonably assured. Benefit service fees are based on a fee for service model (e.g., monthly fee per participant) in which revenue is recognized on a monthly basis as services are rendered under price quotations or service agreements having stipulated terms and conditions, which do not require management to make any significant judgments or assumptions regarding any potential uncertainties. Fees received for initial setup of new clients and annual renewal fees are deferred and recognized on a monthly basis as services are rendered over the agreed benefit period. Contracts where initial setup fees are charged have an initial term of one year. The agreed benefit period means the length of the benefit plan year, which is one year. The initial setup fees are not considered separable from the ongoing services provided for which benefit service fees are earned.

Vendor and bank interchange revenues are attributed to revenue sharing arrangements the Company enters into with certain banks and card associations, whereby the Company shares a portion of the transaction fees earned by these financial institutions on debit cards the Company issues to its employee participants based on a percentage of total dollars transacted as reported on third-party reports. Commission revenue entails the Company purchasing passes on behalf of its employee participants from various transit agencies and due to the significant volume of purchases, the Company receives commissions on these passes which the Company records on a net basis. Commission revenue is recognized on a monthly basis as transactions are placed under written purchase agreements having stipulated terms and conditions, which do not require management to make any significant judgments or assumptions regarding any potential uncertainties. In addition, the Company recognizes revenue on its estimate of passes that will expire unused over the estimated useful life of the passes, as the amounts paid for these passes are nonrefundable to both the employer client and the employee participant.

Professional service fees are related to projects provided to the Company's existing employer clients that last up to two months to accommodate their changing reporting and file transfer requirements and recognized upon completion of services and projects. These projects are discrete contracts and are not entered into contemporaneously with any other services the Company provides. The professional services are rendered with written price quotations or service agreements having stipulated terms and conditions, which do not require management to make any significant judgments or assumptions regarding any potential uncertainties and where fees are fixed or determinable and collectability is reasonably assured.

Stock-Based Compensation

The Company accounts for stock-based compensation costs in accordance with FASB ASC 718, *Compensation—Stock Compensation*, or ASC 718. Under ASC 718, stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award at that date, and is recognized as expense over the employee's requisite service period (generally over the vesting period of the award) on a straight-line basis.

ASC 718 requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows. There was approximately $1.9 million, $12.3 million and $10.4 million of excess tax benefits in the years ended December 31, 2012, 2013 and 2014, respectively.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard allows for either a full retrospective or a modified retrospective transition method and is effective for fiscal years beginning after December 15, 2016, which for the Company is the first quarter of fiscal 2017. Early application is not permitted. The Company is in the process of determining what impact, if any, the adoption of this ASU will have on its consolidated financial statements and related disclosures.

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

(2) Net Income Per Share

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

	Year Ended December 31,		
	2012	2013	2014
Numerator (basic and diluted):			
Net income	$ 10,499	$ 21,699	$ 18,242
Less: accretion of redemption premium expense	(2,301)	—	—
Net income attributable to common stockholders for basic EPS	$ 8,198	$ 21,699	$ 18,242
Add back: accretion of redemption premium related to dilutive redeemable preferred stock	(260)	—	
Net income attributable to common stockholders for diluted EPS	$ 7,938	$ 21,699	$ 18,242
Denominator (basic):			
Weighted average common shares outstanding	18,138	33,626	35,145
Denominator (diluted):			
Weighted average common shares outstanding	18,138	33,626	35,145
Dilutive stock options	1,377	1,651	1,185
Weighted average common shares from stock warrants	403	—	—
Weighted average common shares from preferred stock	4,496	—	—
Diluted weighted average common shares outstanding	24,414	35,277	36,330
Net income per share:			
Basic	$ 0.45	$ 0.65	$ 0.52
Diluted	$ 0.33	$ 0.62	$ 0.50

Diluted net income per share does not include the effect of the following anti-dilutive common equivalent shares (in thousands):

	Year Ended December 31,		
	2012	2013	2014
Stock options outstanding	31	22	1,090
Common shares from convertible preferred stock	2,077	-	-
Total common stock equivalents	2,108	22	1,090

(3) Acquisitions and Channel Partner Arrangements

Crosby Benefit Systems, Inc. Acquisition

On May 1, 2013, the Company acquired Crosby Benefit Systems, Inc., or CBS, a third party administrator of CDBs, such as, flexible spending accounts, health reimbursement arrangements, COBRA continuance services, enrollment and eligibility management and commuter programs, based in Newton, Massachusetts. CBS will continue to operate out of the Newton office as a division of the Company. The Company accounted for the acquisition of CBS as a purchase of a business under ASC 805. This acquisition added new customers and participant relationships and further strengthens the Company's position in the Consumer-Directed Benefits market. The aggregate non-contingent portion of the purchase price was $5.0 million and was paid in cash on May 1, 2013.

The purchase price also includes a contingent consideration element that requires the Company to pay the former owners of CBS additional amounts in 2014 and 2015 based upon revenue growth rates of CBS for 2014 and 2015, respectively. The fair value of the contingent element is $1.2 million as of December 31, 2014. The fair value was determined from forecasts developed by management based upon existing business and relationships and projected growth rates. As the fair value measure is based on significant inputs that are not observable in the market, the Company categorizes the inputs as Level 3 inputs under ASC 820.

Ceridian Channel Partner Arrangement

In July 2013, the Company entered into a channel partner arrangement with Ceridian Corporation, or Ceridian, a global product and services company, pursuant to which the Ceridian's CDB account administration business will be substantially transitioned to the Company between October 2013 and January 2015. In conjunction with the transition, the Company also entered into a separate reseller arrangement with Ceridian.

The final purchase price is calculated as a multiple of the expected annual revenue for each employer client successfully transitioned to the Company. The timing of the transition of revenue to the Company is dependent upon the employer clients executing new agreements with the Company and agreeing to a service conversion, a process whose timing and outcome is ultimately controlled by each employer client. In July 2013, the Company made an initial payment of $15.0 million to Ceridian, in advance of any employer clients transitioning over to the Company, which is anticipated to cover a substantial portion of the purchase price. The $15.0 million payment was recorded in other assets in the Company's consolidated balance sheet. As the employer clients transition to the Company, amounts from the other asset category will be reclassified as an intangible asset and amortization will commence. From the inception of the partnership and through the year ended December 31, 2014, the Company has reclassified $10.3 million from other assets to intangible assets in connection with employer clients that have transitioned to the Company and will amortize the intangible assets over an expected life of 7 years.

CONEXIS Acquisition

On August 1, 2014, the Company entered into an Asset Purchase Agreement with CONEXIS Benefits Administrators, LP ("CONEXIS"), a Texas limited partnership and Word & Brown Insurance Administrator, Inc., a California corporation, pursuant to which the Company acquired substantially all of the assets of CONEXIS. CONEXIS is a leader in employee benefits administration and serves approximately 16,000 organizations of all sizes. This acquisition added a new base of Consumer-Directed Benefits customers and participant relationships. The purchase price was $118.0 million, adjusted for working capital adjustments, of which $108.0 million was paid at closing with the remaining balance classified in the consolidated balance sheet in the other current liabilities line item. The remaining balance is expected to be paid on August 1, 2015 after adjustment for any indemnification losses incurred by the Company for which it is entitled to recover.

The Company accounted for the acquisition of CONEXIS as a purchase of a business under ASC 805. The results of operations for CONEXIS have been included in the Company's financial results since the acquisition.

As part of the purchase price allocation, the Company determined that CONEXIS's separately identifiable intangible assets were its customer relationships, developed technology and trade name. The Company used the income approach to value the customer relationships and trade name. This approach calculates fair value by discounting the after-tax cash flows back to a present value. The baseline data for this analysis was the cash flow estimates used to price the transaction. Cash flows were forecasted and then discounted using a discount rate for customer relationships of 15% and trade name of 12%, based on the estimated internal rate of return and weighted average cost of capital, which employs an estimate of the required equity rate of return and after-tax cost of debt. The Company used a replacement cost approach to estimate the fair value of developed technology in which estimates of development time and cost per man month are used to calculate total replacement cost.

Goodwill was calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The recognized amount of goodwill is provisional and subject to change pending the completion of the allocation of the consideration transferred to the assets acquired and liabilities assumed. Goodwill recognized from the transaction results from the acquired workforce, the opportunity to expand our client base and achieve greater long-term growth opportunities than either company had operating alone. All of the recognized goodwill is expected to be deductible for tax purposes.

The following table summarizes the allocation of the purchase price at the date of acquisition (in millions):

	Amount	Weighted Average Useful Life (in years)
Net tangible assets acquired	$ 4.7	
Customer relationships	48.1	10
Developed technology	3.9	5
Trade name	1.6	3
Non-compete agreement	0.2	7
Goodwill	59.5	
Total allocation of purchase price	$ 118.0	

The valuation of working capital balances are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of the assets acquired. The Company believes that information provides a reasonable basis for estimating the fair value but the Company is waiting for additional information necessary to finalize those amounts. Thus, the provisional measurements of fair value reflected are subject to change. Such changes are not expected to be significant. These adjustments to our tangible assets will have an impact on our overall valuation of CONEXIS and in turn may impact the amounts currently recognized for intangible assets and goodwill. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

The following unaudited pro forma financial information presents the consolidated results of operations of the Company and CONEXIS as if the acquisition had occurred at the beginning of fiscal 2013 with pro forma adjustments to give effect to amortization of intangible assets, depreciation of acquired property and equipment, corporate allocation costs and an increase in interest expense due to financing costs in connection with the acquisition. The pro forma financial information is presented for informational purposes only and may not be indicative of the results of operations that would have been achieved if the acquisition had taken place at January 1, 2013.

	Year Ended December 31,	
	2013	2014
	(In thousands, except per share data) (Unaudited)	
Total revenue	$ 270,635	$ 303,710
Net income	15,379	15,004
Net income per share:		
Basic	$ 0.46	$ 0.43
Diluted	$ 0.44	$ 0.41

(4) Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2014 is as follows (dollars in thousands):

Balance at December 31, 2013	$ 97,636
Additions: CONEXIS acquisition (see Note 3)	59,473
Balance at December 31, 2014	$ 157,109

Acquired intangible assets at December 31, 2013 and December 31, 2014 were comprised of the following (dollars in thousands):

	December 31, 2013			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Amortizable intangible assets:						
Client contracts and broker relationships	$ 62,689	$ 25,313	$ 37,376	$ 120,723	$ 33,885	$ 86,838
Trade names	2,240	1,120	1,120	3,880	1,657	2,223
Technology	9,946	6,850	3,096	13,846	9,390	4,456
Noncompete agreements	2,012	1,745	267	2,232	1,798	434
Favorable lease	1,137	210	927	1,137	312	825
Total	$ 78,024	$ 35,238	$ 42,786	$ 141,818	$ 47,042	$ 94,776

Amortization expense for acquired intangible assets totaled $6.6 million, $9.1 million and $11.8 million in 2012, 2013 and 2014, respectively.

The estimated expected amortization expense in future periods at December 31, 2014 is as follows (dollars in thousands):

2015	$ 14,622
2016	13,545
2017	12,991
2018	12,365
2019	11,805
Thereafter	29,448
Total	$ 94,776

(5) Accounts Receivable

Accounts receivable at December 31, 2013 and 2014 were comprised of the following (dollars in thousands):

	December 31, 2013	December 31, 2014
Trade receivables	$ 18,398	$ 35,762
Unpaid amounts for benefit services	14,932	19,458
	33,330	55,220
Less allowance for doubtful accounts	(467)	(767)
Accounts receivable, net	$ 32,863	$ 54,453

Allowance for doubtful accounts roll forward is comprised of the following (dollars in thousands):

Allowance for Doubtful Accounts:	Balance at Beginning of Fiscal Year	Charged to Operations	Recoveries (Deductions)	Balance at End of Fiscal Year
		(in thousands)		
Year ended December 31, 2014	$ 467	$ 259	$ 41	$ 767
Year ended December 31, 2013	403	247	(183)	467
Year ended December 31, 2012	69	539	(205)	403

(6) Property and Equipment

Property and equipment at December 31, 2013 and 2014 were comprised of the following (dollars in thousands):

	December 31, 2013	December 31, 2014
Computers and equipment	$ 9,960	$ 13,670
Software and software development costs	64,241	77,104
Furniture and fixtures	2,815	3,306
Leasehold improvements	5,840	8,285
	$ 82,856	$ 102,365
Less accumulated depreciation and amortization	(56,324)	(63,228)
Property and equipment, net	$ 26,532	$ 39,137

During 2012, 2013 and 2014, the Company capitalized software development costs of $10.5 million, $15.3 million and $16.5 million, respectively. Amortization expense related to capitalized software development costs was $6.7 million, $8.0 million, and $8.8 million for 2012, 2013, and 2014 respectively. These costs are included in amortization and change in contingent consideration in the accompanying consolidated statements of income. At December 31, 2014, the unamortized software development costs included in property and equipment in the accompanying consolidated balance sheet was $24.0 million.

Total depreciation expense, including amortization of internal use software, for the years ended December 31, 2012, 2013 and 2014 was $9.7 million, $11.4 million and $13.2 million, respectively.

(7) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2013 and 2014 were comprised of the following (dollars in thousands):

	December 31, 2013	December 31, 2014
Accounts payable	$ 1,859	$ 1,180
Payable to benefit providers and transit agencies	23,017	19,500
Accrued payables	6,305	11,099
Accrued compensation and related benefits	13,379	16,045
Other accrued expenses	1,616	3,156
Deferred revenue	3,243	3,305
Accounts payable and accrued expenses	$ 49,419	$ 54,285

(8) Debt

Debt consists of borrowings under a Commercial Credit Agreement, or Revolver, with MUFG Union Bank, N.A. (formerly Union Bank, N.A.), or UB under which the Company can borrow an aggregate principal amount up to $125.0 million, with a $15.0 million subfacility for the issuance of letters of credit and as of December 31, 2014, the Company had $79.6 million outstanding under the Revolver with UB. As collateral for the Revolver, the Company granted UB a security interest in substantially all of the Company's assets. All of the Company's material existing and future subsidiaries are required to guaranty the Company's obligations under the Revolver. Such guarantees by existing and future material subsidiaries are and will be secured by substantially all of the property of such material subsidiaries.

Each loan under the Revolver bears interest at a fluctuating rate per annum equal to a prime rate determined in accordance with the terms of the Revolver, plus a spread of 0.00% to 0.25%, or, at the Company's option, an interest rate equal to the LIBOR rate determined in accordance with the Revolver, plus a spread of 1.75% to 2.25%. The interest rate applicable to the remaining loan outstanding at December 31, 2014 is 2.58%. Principal, together with all accrued and unpaid interest, is due and payable on July 21, 2017.

The Revolver contains customary affirmative and negative covenants and also has financial covenants relating to a liquidity ratio, a consolidated leverage ratio, a debt service coverage ratio and a minimum consolidated net worth covenant. The Company is obligated to pay customary commitment fees and letter of credit fees for a facility of this size and type.

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

(9) Common Stock

(a) Authorized Shares

On May 15, 2012, the certificate of incorporation was amended to authorize the issuance of 1.1 billion shares of capital stock. The total number of shares of common stock authorized was 1.0 billion shares with a par value of $0.001 per share.

(b) Follow-On Public Offerings

On March 18, 2013, the Company closed a follow-on public offering and sold 500,000 shares of common stock at a price of $24.00 per share, which raised $11.6 million, net of underwriters' discounts and commissions. Certain selling stockholders, including funds affiliated with VantagePoint Capital Partners, or VantagePoint, sold 5,131,115 shares of common stock in the offering. In addition, the underwriters exercised their overallotment option to purchase 844,667 additional shares from the selling stockholders. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

On August 19, 2013, the Company closed a follow-on public offering pursuant to which certain selling stockholders, including VantagePoint, sold 2,968,276 shares of common stock. In addition, the underwriters exercised their overallotment option to purchase 445,241 additional shares from the selling stockholders. The shares were purchased at a price of $39.54 per share, net of underwriters' discounts and commissions. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

(10) Employee Benefit Plans

(a) Employee Stock Option Plan

The Company's stock option program is a long-term retention program that is intended to attract, retain, and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. The Company considers its option program critical to its operation and productivity.

Currently, the Company grants options from the 2010 Equity Incentive Plan (2010 Plan). The Company's 2010 Plan was adopted on May 26, 2010, and the Company has reserved for issuance under the 2010 Plan a total of 4.3 million common stock shares at December 31, 2014. Under the 2010 Plan, options can be granted to all employees, including executive officers, outside consultants and non-employee directors.

The Company's 2000 Stock Option/Stock Issuance Plan adopted in June 2000, as amended and restated, (2000 Plan), provides for the issuance of options and other stock-based awards. The Company has reserved for issuance under the 2000 Plan a total of 1.0 million common stock shares at December 31, 2014. The Company issues new shares upon the exercise of stock options. Any forfeitures or shares remaining under the plan are canceled and not available for reissue.

Options under the 2000 and the 2010 Plan, or the Plans, are generally for periods not to exceed 10 years and must be issued at prices not less than 85% of the estimated fair value of the shares of Common Stock on the date of grant as determined by the plan administrator. Options become vested and exercisable at such times and under such conditions as determined by the board of directors. Options generally vest over four years with 25% vesting after one year and the balance vesting monthly over the remaining period.

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

	Year Ended December 31,		
	2012	2013	2014
Cost of revenue	$ 282	$ 978	$ 2,227
Technology and development	323	818	1,209
Sales and marketing	476	1,079	2,466
General and administrative	2,669	6,331	8,656
Total	$ 3,750	$ 9,206	$ 14,558

As of December 31, 2014, there was $18.6 million of total unrecognized compensation cost related to unvested stock options that are expected to vest. The cost is expected to be recognized over a weighted average period of approximate 3.00 years, as of December 31, 2014.

The following table summarizes the weighted-average fair value of stock options granted:

	Year Ended December 31,		
	2012	2013	2014
Stock options granted (in thousands)	983	576	1,026
Weighted average fair value at date of grant	$ 5.83	$ 12.55	$ 20.06

Stock option activity for the year ended December 31, 2014 is as follows (shares in thousands):

	Shares	Weighted average exercise price	Remaining contractual term (years)	Aggregate intrinsic value (dollars in thousands)
Outstanding at December 31, 2013	2,989	$ 11.80	6.55	$ 142,377
Granted	1,026	42.74		
Exercised	(648)	10.40		
Forfeited	(161)	33.57		
Outstanding as of December 31, 2014	3,206	$ 20.90	6.75	$ 140,029
Vested and expected to vest at December 31, 2014	3,099	$ 20.37	6.68	$ 136,960
Exercisable at December 31, 2014	1,860	$ 9.91	5.17	$ 101,665

The total intrinsic value of options exercised during the years ended December 31, 2012, 2013 and 2014, was $8.1 million, $55.6 million and $28.4 million, respectively. Cash received from option exercises under all share-based payment arrangements was $4.4 million, $16.0 million and $6.7 million for the years ended December 31, 2012, 2013 and 2014, respectively. The Company elected to follow the tax law method of determining realization of excess tax benefits for stock-based compensation in accordance with ASC 718. There was approximately $1.9 million, $12.3 million and $10.4 million of excess tax benefits related to stock-based compensation that was recorded to stockholders' equity during the years ended December 31, 2012, 2013 and 2014, respectively.

(b) Valuation Assumptions

The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,		
	2012	2013	2014
Expected volatility	52.79%	51.43%	46.90%
Risk-free interest rate	1.26%	1.09%	1.87%
Expected term (in years)	6.60	6.00	6.09
Dividend yield	—%	—%	—%

Stock-based compensation cost is measured at the grant date based on the fair value of the award. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. Expected volatility is determined using weighted average volatility of peer publicly traded companies as well as the Company's own historical volatility. The Company expects that it will increase weighting of its own historical data in future periods, as that history grows over time. The risk-free interest rate is determined by using published zero coupon rates on treasury notes for each grant date given the expected term on the options. The dividend yield of zero is based on the fact that the Company expects to invest cash in operations and has never paid cash dividends on its common stock. 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. During 2014, the Company assessed the appropriateness of the use of the simplified method and determined that it was appropriate as the Company develops a history of option exercises. The Company will continue to assess the appropriateness of the use of the simplified method.

The fair value of each option grant for performance share options was estimated on the date of grant using the same option valuation model used for options granted under the employee share option plan and assumes that performance goals will be achieved.

Stock-based compensation expense is recognized in the consolidated statements of income based on awards ultimately expected to vest, it is reduced for estimated pre-vest forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In addition, ASC 718 requires that compensation cost recognized at any date must be at least equal to the amount attributable to options that are vested at that date. The Company calculates an adjustment of its compensation costs to the vested amounts on a quarterly basis. The pre-vesting of forfeitures is estimated based on weighted average historical forfeiture rates. Under the provisions of ASC 718, the Company will record additional expense if the actual forfeiture rate is lower than estimated, and will record a recovery of prior expense if the actual forfeiture rate is higher than estimated.

(c) Restricted Stock Units

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

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

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

Generally, service-based restricted stock units vest over four years with 25% vesting after one year and the balance vesting monthly over the remaining period.

In fiscal 2013, the Company granted a total of 219,000 performance-based restricted stock units to certain executives and employees and granted a total of 171,500 service-based restricted stock units to certain employees. Performance-based restricted stock units are typically granted so that they vest upon the achievement of certain revenue growth rates, and other financial metrics, during a specified performance period for which participants have the ability to receive up to 150% of the target number of shares originally granted.

In the first quarter of 2014, the Company granted a total of 106,500 performance-based restricted stock units to certain executive officers and employees. Performance-based restricted stock units are typically granted such that they vest upon the achievement of certain revenue growth rates, and other financial metrics, during a specified performance period for which participants have the ability to receive up to 150% of the target number of shares originally granted.

The restricted stock units will be eligible to vest based on the Company's achievement against an average annual EBITDA margin target equal to or greater than 22% and compound revenue growth target for the specified performance period.

The following table describes the levels of revenue growth target for the specified performance period for the restricted stock units to vest:

Achievement of Revenue Growth Objective	Percentage of RSU Vesting
20% and Greater	150% will vest
Between 15% but less than 20%	Between 100% and 150% will vest
Between 10% but less than 15%	Between 50% and 100% will vest
Below 10%	None will vest

The Company determined that it is probable that the revenue growth rates and other financial metrics, related to the performance-based restricted stock units granted in fiscal 2013, will be achieved and so the Company is recognizing stock-based compensation expense associated with these awards at the 150% target.

In the second quarter of 2014, the Company granted a total of 199,000 market-based performance restricted stock units to certain executive officers. The number of shares to be vested is subject to change based on certain market conditions. In the third quarter of 2014, one of the executives notified the Company he would resign and 33,000 market-based performance restricted stock units were forfeited and canceled.

The market-based performance restricted stock units will be eligible to vest based on the Company's achievement of certain per share price of its common stock as reported on the New York Stock Exchange, or NYSE, for any twenty consecutive trading day period during the specified performance period.

The following table describes the price per share targets that must be achieved for the specified performance period for the restricted stock units to vest:

WageWorks Per Share Price on NYSE	Payout Percentage
$100	200%
$90	100%
$75	50%
Below $75	0%

Stock-based compensation expense related to restricted stock units was $2.7 million and $6.0 million in 2013 and 2014, respectively. Total unrecorded stock-based compensation cost at December 31, 2014 associated with restricted stock units was $18.8 million, which is expected to be recognized over a weighted-average period of 1.95 years.

The following table summarizes information about restricted stock units issued to officers, directors, and employees under our 2010 Plan:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Unvested at December 31, 2013	384	$ 24.48
Granted	384	50.03
Vested	(41)	24.46
Forfeitures	(90)	37.96
Unvested at December 31, 2014	637	$ 37.99

(d) Employee Stock Purchase Plan

Concurrent with the closing of our IPO in May 2012, the Company established the 2012 Employee Stock Purchase Plan (ESPP) which is intended to qualify under Section 423 of the Internal Revenue Code of 1986. The ESPP allows eligible Company executives and other employees to purchase shares of the Company's common stock at a discount through payroll deductions. The Company issued 59,535 common stock shares for which it received $2.1 million from employee contributions during 2014. At December 31, 2014, a total of 927,624 shares of the Company's common stock are available for sale under the ESPP. In addition, the ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year, equal to the least of:

- 500,000 shares of common stock;
- 1% of the outstanding shares of our common stock as of the last day of our immediately preceding fiscal year; or
- such other amount as may be determined by the board.

Under the ESPP, employees are eligible to purchase common stock through payroll deductions of up to 25% of their eligible compensation, subject to any plan limitations. The ESPP has four consecutive offering periods of approximately three months in length during the year and the purchase price of the shares will be 85% of the lower of the fair value of our common stock on the first trading day of the offering period or on the last day of the offering period.

(e) 401(k) Plan

The Company participates in the WageWorks 401(k) Plan, or 401(k) Plan, a tax-deferred savings plan covering all of its employees working more than 1,000 hours per year. Employees become participants in the 401(k) Plan on the first day of any month following the first day of employment. Eligible employees may contribute up to 85% of their compensation to the 401(k) Plan, limited to the maximum allowed under the Internal Revenue Code. The Company, at its discretion, may match up to 25% of the first 6% of employees' contributions and may make additional contributions to the 401(k) Plan. The Company contributed approximately $0.7 million for 2012 and $1.0 million for both 2013 and 2014.

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

(11) Income Taxes

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

The components of the provision for income taxes for the years ended December 31, 2012, 2013 and 2014 are as follows (dollars in thousands):

	2012	2013	2014
Current:			
Federal	$ (1,667)	$ (10,748)	$ (9,459)
State	(635)	(1702)	(1,539)
	$ (2,302)	$ (12,450)	$ (10,998)
Deferred:			
Federal	(4,757)	2,929	(828)
State	(67)	318	(117)
	(4,824)	3,247	(945)
Total provision for income taxes	$ (7,126)	$ (9,203)	$ (11,943)

Deferred tax assets (liabilities) as of December 31, 2013 and 2014 consist of the following (dollars in thousands):

	2013	2014
Deferred tax assets		
Current:		
Accruals and reserves	$ 1,985	$ 3,219
Net operating loss carryforwards	-	7,787
Deferred tax assets-current	$ 1,985	11,006
Noncurrent:		
Net operating loss carryforwards	13,410	34
Stock-based compensation	5,182	9,238
R&D and other credits	2,523	2,680
Property and equipment	609	579
Reserves-noncurrent	453	622
Deferred tax assets-noncurrent	22,177	13,153
Gross deferred tax assets	24,162	24,159
Deferred tax liabilities		
Noncurrent:		
Intangibles	(6,665)	(5,630)
Goodwill	(4,846)	(6,824)
Gross deferred tax liabilities	(11,511)	(12,454)
Net deferred tax assets and liabilities		
Net deferred tax assets-current	1,985	11,006
Net deferred tax assets (liabilities)-non-current	10,666	699
Total net deferred tax assets	$ 12,651	$ 11,705

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2012, 2013 and 2014:

	2012	2013	2014
Tax provision at U.S. statutory rate	35 %	35 %	35 %
State income taxes, net of federal benefit	3	5	5
Permanent items - adjustments to contingent consideration	3	(8)	—
Permanent items - other	1	1	1
R&D credits	—	(1)	—
Other	(2)	(2)	(1)
Provision (benefit) for tax	40 %	30 %	40 %

The Company's accounting for deferred taxes involves the evaluation of a number of factors concerning the realizability of the Company's deferred tax assets. Assessing the realizability of deferred tax assets is dependent upon several factors, including the likelihood and amount, if any, of future taxable income in relevant jurisdictions during the periods in which those temporary differences become deductible. The Company's management forecasts taxable income by considering all available positive and negative evidence including its history of operating income or losses and its financial plans and estimates which are used to manage the business. The Company has concluded there was sufficient positive evidence at the end of 2012, 2013 and 2014 to continue to support the position that the Company does not need to maintain a valuation allowance on deferred tax assets. These assumptions require significant judgment about future taxable income. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are reduced.

At December 31, 2014, unrecognized tax benefits approximated $4.1 million, which would impact the income tax expense if recognized. Included in the balance at December 31, 2014 is $0.5 million of current year tax positions, which would affect the Company's income tax expense if recognized. As of December 31, 2014, the Company has no uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations in the following year. The Company does not anticipate that any adjustments would result in a material change to its financial position. For the years ended December 31, 2012, 2013 and 2014, the Company did not recognize interest or penalties related to unrecognized tax benefits.

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

	Year Ended December 31,		
	2012	2013	2014
	(In thousands)		
Balance, beginning of year	$ 2,321	$ 2,478	$ 3,716
Increase in tax positions for prior years	15	515	-
Decrease in tax positions for prior years	-	-	(90)
Increase in tax positions for current year	142	723	483
Balance, end of year	$ 2,478	$ 3,716	$ 4,109

The Company files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. As a result of the Company's net operating loss carryforwards, the 2000 through 2014 tax years are open and may be subject to potential examination in one or more jurisdictions.

At December 31, 2014, the Company had federal and state operating loss carryforwards of approximately $38.5 million and $47.0 million, respectively, available to offset future regular and alternative minimum taxable income. The Company's state net operating loss carryforward is on the post-apportionment basis. The Company's federal net operating loss carryforwards expire in the years 2024 through 2033, if not utilized. The state net operating loss carryforwards expire in the years 2018 through 2033. The federal and state net operating loss carryforwards include excess tax deductions related to stock options in the amount of $21.8 million and $16.2 million, respectively. When utilized, the related tax benefit will be booked to additional paid-in capital.

The Company also has tax deductible goodwill related to asset acquisitions.

In addition, the Company had federal and California research and development credit carryforwards of approximately $4.7 million and $2.4 million respectively, available to offset future tax liabilities. The federal research credit carryforwards expire beginning in the years 2022 through 2034, if not fully utilized. The California tax credit carryforward can be carried forward indefinitely.

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

The Company elected to follow the tax law method of determining realization of excess tax benefits for stock-based compensation in accordance with ASC 718. During 2013, the Company recorded approximately $10.4 million of excess tax benefits related to stock-based compensation that was credited to stockholders' equity during the year.

(12) Commitments and Contingencies

(a) Operating Leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through 2023. Future minimum lease payments under noncancelable operating leases are as follows (dollars in thousands):

	Operating leases
	As of December 31, 2014
2015	$ 8,154
2016	5,049
2017	4,665
2018	4,759
2019	4,850
Thereafter	12,196
Total future minimum lease payments	$ 39,673

Rent expense in 2012 was $4.5 million and $4.7 million for both 2013 and 2014. Future minimum lease payments under capital leases, not included in the table above, as of December 31, 2014 are $1.3 million and $0.3 million for 2015 and 2016, respectively. We have no future minimum lease payments under capital leases extending beyond 2016.

(b) Legal Matters

The Company is involved from time to time in claims that arise in the normal course of its business. The Company is not presently subject to any material litigation nor, to management's knowledge, is any litigation threatened against the Company that collectively is expected to have a material adverse effect on the Company's cash flows, financial condition or results of operations.

(13) Related Party

The National Flex Trust, or the Trust, established by a subsidiary of the Company, is to provide reimbursement of qualified expenses to plan participants under certain employer plans that have contracted with the Company to provide the plan services using a custodial account, or the Trust Account. The client is responsible for maintaining the employer plan for their participants, including the establishment of eligibility and paying all eligible claim amounts owed to their participants. The Company is an independent contractor engaged to perform administration services. As an administrator, the Company does not have the power to direct the activities of the Trust that would most significantly impact the Trust's economic performance.

Under a Management Agreement for Services to the Trust, the Company is to provide services to the Trust, including accounting, treasury, tax, administration, and management. The Trust is to pay the Company monthly for the services provided based on plan participants and/or debit cards administered. For the past several years, the Trust's earnings have been insufficient to cover these costs and, consequently, the Company has not recognized these fees during this period. Amounts due to the Company from the Trust for management services have been fully written off as of December 31, 2012. Trust expenses subsidized by the Company were $82,000, $80,000 and $100,000 in 2012, 2013 and 2014.

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

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

(14) Selected Quarterly Financial Data (unaudited)

	Fiscal Quarter Ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(in thousands, except per share amounts)							
Revenues:								
Healthcare	$ 35,727	$ 33,871	$ 32,646	$ 32,896	$ 39,984	$ 37,592	$ 38,600	$ 39,813
Commuter	14,707	14,722	14,949	15,201	16,043	15,050	15,078	15,605
COBRA	3,492	3,673	3,837	4,045	4,038	3,701	9,544	14,713
Other	2,189	2,295	2,139	2,889	2,555	2,414	4,776	8,326
Total revenues	56,115	54,561	53,571	55,031	62,620	58,757	67,998	78,457
Operating expenses:								
Cost of revenues (excluding amortization of internal use software)	20,613	19,932	19,300	22,073	22,797	21,157	24,951	31,321
Sales and marketing, technology and development and general and administrative	23,541	23,167	23,832	23,232	24,498	25,169	30,771	35,127
Amortization and change in contingent consideration	4,462	4,725	554	1,871	4,420	4,549	5,688	6,335
Total operating expenses	48,616	47,824	43,686	47,176	51,715	50,875	61,410	72,783
Income from operations	7,499	6,737	9,885	7,855	10,905	7,882	6,588	5,674
Other, net	(352)	(349)	(316)	(57)	(243)	(242)	215	(594)
Income before income taxes	7,147	6,388	9,569	7,798	10,662	7,640	6,803	5,080
Income tax provision	(2,511)	(2,396)	(1,818)	(2,478)	(4,218)	(3,053)	(2,690)	(1,982)
Net income	**$ 4,636**	**$ 3,992**	**$ 7,751**	**$ 5,320**	**$ 6,444**	**$ 4,587**	**$ 4,113**	**$ 3,098**
Earnings per share:								
Basic	**$ 0.14**	**$ 0.12**	**$ 0.23**	**$ 0.15**	**$ 0.19**	**$ 0.13**	**$ 0.12**	**$ 0.09**
Diluted	**$ 0.14**	**$ 0.11**	**$ 0.22**	**$ 0.15**	**$ 0.18**	**$ 0.13**	**$ 0.11**	**$ 0.08**
Shares outstanding:								
Basic	32,226	33,473	34,134	34,638	34,831	35,117	35,234	35,393
Diluted	33,841	35,047	35,785	36,313	36,303	36,340	36,152	36,517

In the third and fourth quarters of fiscal 2013, the Company made fair value adjustments to the contingent consideration liability related to the BCI acquisition as are disclosed within Note 1 to our consolidated financial statements under “Fair Value of Financial Instruments.”

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Subject to the limitations noted above, based on their evaluation at the end of the period covered by this Annual Report on Form 10-K, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 using the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment and those criteria, management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or the Exchange Act that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 of Form 10-K that is found in our 2015 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for the Company's 2015 Annual Meeting of Stockholders is incorporated by reference to our 2015 Proxy Statement. The 2015 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates.

Item 11. Executive Compensation

The information required by this Item 11 of Form 10-K is incorporated by reference to our 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 of Form 10-K is incorporated by reference to our 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 of Form 10-K is incorporated by reference to our 2015 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 of Form 10-K is incorporated by reference to our 2015 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of this report are as follows:

1. Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the "Index to Consolidated Financial Statements" in Part II, Item 8 of this Annual Report on Form 10-K.

2. Exhibits:

The documents listed in the Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this report, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

Pursuant to the requirement of Sections 13 or 15(d) 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.

WAGEWORKS, INC.

Date: February 26, 2015

By: /s/ Colm Callan
Colm Callan
Chief Financial Officer
(Principal Financial Officer)

/s/ Colm Callan
Colm Callan
Chief Financial Officer
(Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph L. Jackson and Richard T. Green, and each or any one of them, his or her lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/ S / JOSEPH L JACKSON **Joseph L. Jackson**	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2015
/ S / Colm Callan **Colm Callan**	Chief Financial Officer (Principal Financial Officer)	February 26, 2015
/ S / THOMAS A BEVILACQUA **Thomas A. Bevilacqua**	Director	February 26, 2015
/ S / BRUCE G BODAKEN **Bruce G. Bodaken**	Director	February 26, 2015
/ S / MARIANN BYERWALTER **Mariann Byerwalter**	Director	February 26, 2015
/ S / JEROME D GRAMAGLIA **Jerome D. Gramaglia.**	Director	February 26, 2015
/ S / JOHN W LARSON **John W. Larson**	Director	February 26, 2015
/ S / EDWARD C NAFUS **Edward C. Nafus**	Director	February 26, 2015

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Registrant	S-1	333-173709	3.2	07/19/2011
3.2	Amended and Restated Bylaws of Registrant	S-1	333-173709	3.4	07/19/2011
4.1	Specimen common stock certificate of Registrant	S-1	333-173709	4.1	07/19/2011
4.5	Stockholder Agreement by and among VantagePoint Venture Partners IV (Q), L.P., VantagePoint Venture Partners IV, L.P., VantagePoint Venture Partners IV Principals Fund, L.P. and Registrant	S-1	333-173709	4.5	07/19/2011
10.1*	Form of Indemnification Agreement entered into between Registrant, its affiliates and its directors and officers	S-1	333-173709	10.1	07/19/2011
10.2*	Amended and Restated 2010 Equity Incentive Plan	8-K	001-35232	10.1	04/17/2013
10.3*	Forms of Stock Option Agreements under the Amended and Restated 2010 Equity Incentive Plan	S-1	333-173709	10.3	07/19/2011
10.4*	2000 Stock Option/Stock Issuance Plan	S-1	333-173709	10.4	04/25/2011
10.5*	Form of Stock Option Agreement under the 2000 Stock Option/Stock Issuance Plan	S-1	333-173709	10.5	04/25/2011
10.6*	2012 Employee Stock Purchase Plan	10-K	001-35232	10.10D	02/27/2013
10.7*	Form of Subscription Agreement under 2012 Employee Stock Purchase Plan	S-1	333-173709	10.7	03/07/2012
10.8*	Second Amended and Restated Employment Agreement, dated as of November 23, 2010, between Registrant and Joseph L. Jackson	S-1	333-173709	10.8	06/08/2011
10.9*	Form of Amended and Restated Executive Severance Benefit Agreement Purchase Plan	S-1	333-173709	10.9	04/25/2011
10.10	Commercial Credit Agreement, between Registrant and Union Bank, N.A., dated as of August 31, 2010	S-1	333-173709	10.10	04/25/2011
10.10A	First Loan Modification Agreement, by and among Registrant, Union Bank, N.A. and MHM Resources, LLC, dated as of November 16, 2011	S-1	333-173709	10.10A	03/07/2012
10.10B	Second Loan Modification Agreement, by and among Registrant, Union Bank, N.A. and MHM Resources, LLC, dated as of February 14, 2012	S-1	333-173709	10.10B	03/07/2012
10.10C	Third Loan Modification Agreement, by and among Registrant, Union Bank, N.A. and MHM Resources, LLC, dated as of September 20, 2012	8-K	001-35232	10.1	09/24/2012
10.10D	Credit Agreement, by and among Registrant, Union Bank, N.A. and MHM Resources, LLC, dated as of December 31, 2012	10-K	001-35232	10.10D	02/27/2013
10.10E	First Amendment to Credit Agreement, by and among Registrant, MUFG Union Bank, N.A. (formerly Union Bank, N.A.), MHM Resources, LLC and Benefit Concepts, Inc. of Rhode Island, dated July 21, 2014)				
10.11	Sublease Agreement between Oracle USA, Inc. and Registrant, dated as of September 13, 2006	S-1	333-173709	10.11	04/25/2011
10.12	First Amendment to Sublease between Oracle USA, Inc. and Registrant, dated as of October 30, 2006	S-1	333-173709	10.12	04/25/2011

10.13	Commercial Building Lease, by and between Applied Buildings, LLC and HCAP Strategies, Inc., dated as of December 17, 2004	S-1	333-173709	10.13	04/25/2011
10.14	Assignment and Assumption of Lease, between, HCAP Strategies, Inc. and Registrant, dated as of May 16, 2005	S-1	333-173709	10.14	04/25/2011
10.15	Amendment to Commercial Building Lease, between Applied Buildings, LLC and Registrant, dated as of September 8, 2005	S-1	333-173709	10.15	04/25/2011
10.16	Lease, by and between Phoenix Investors #25, L.L.C. and Registrant, dated as of July 23, 2007	S-1	333-173709	10.16	04/25/2011
10.17	First Amendment to Lease, by and between Phoenix Investors #25, L.L.C. and Registrant, dated as of May 24, 2010	S-1	333-173709	10.17	04/25/2011
10.18	Second Amendment to Lease, by and between Phoenix Investors #25, L.L.C. and Registrant, dated as of August 31, 2010	S-1	333-173709	10.18	04/25/2011
10.25	Second Amendment to Sublease between Oracle America, Inc. and Registrant, dated as of May 1, 2011	S-1	333-173709	10.25	06/08/2011
10.26	Lease Agreement by and between Liberty Property Limited Partnership and Registrant, dated as of March 26, 2014				
10.27	Lease by and between Corporate Center Phase II Limited Partnership and CONEXIS Benefits Administrators, LP, dated as of August 26, 2004				
10.27A	First Amendment to Lease by and between Corporate Center Phase II Limited Partnership and CONEXIS Benefit Administrators, LP, dated as of December 1, 2004				
10.27B	Second Amendment to Lease by and between Corporate Center Phase II Limited Partnership and CONEXIS Benefit Administrators, LP, dated as of October 20, 2005				

10.27C	Third Amendment to Office Lease Agreement by and among NNN Las Colinas Highlands, LLC, NNN Las Colinas Highlands 1, LLC, NNN Las Colinas Highlands 2, LLC, NNN Las Colinas Highlands 3, LLC, NNN Las Colinas Highlands 4, LLC, NNN Las Colinas Highlands 5, LLC, NNN Las Colinas Highlands 6, LLC, NNN Las Colinas Highlands 7, LLC, NNN Las Colinas Highlands 8, LLC, NNN Las Colinas Highlands 9, LLC, NNN Las Colinas Highlands 10, LLC, NNN Las Colinas Highlands 11, LLC, NNN Las Colinas Highlands 12, LLC, NNN Las Colinas Highlands 13, LLC, NNN Las Colinas Highlands 14, LLC, NNN Las Colinas Highlands 15, LLC, NNN Las Colinas Highlands 16, LLC, NNN Las Colinas Highlands 17, LLC, NNN Las Colinas Highlands 18, LLC, NNN Las Colinas Highlands 19, LLC, NNN Las Colinas Highlands 20, LLC, NNN Las Colinas Highlands 21, LLC, NNN Las Colinas Highlands 22, LLC, NNN Las Colinas Highlands 23, LLC, NNN Las Colinas Highlands 24, LLC, NNN Las Colinas Highlands 25, LLC, NNN Las Colinas Highlands 26, LLC, NNN Las Colinas Highlands 27, LLC, NNN Las Colinas Highlands 28, LLC, NNN Las Colinas Highlands 29, LLC, NNN Las Colinas Highlands 30, LLC, NNN Las Colinas Highlands 31, LLC, Triple Net Properties Realty, Inc. and CONEXIS Benefit Administrators, LP, dated January 14, 2009				
10.27D	Assignment and Assumption of Lease by and among CONEXIS Benefits Administrators, LP, Word & Brown Insurance Administrators, Inc. and Registrant, dated as of July 31, 2014				
10.28*	Executive Bonus Plan	8-K	001-35232	10.2	04/17/2013
21.1	List of subsidiaries of Registrant				
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm				
24.1	Power of Attorney (contained in the signature page to this Annual Report)				
31.1	Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1**	Certification of the Principal Executive Officer and 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 Extension Schema				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF	XBRL Taxonomy Extension Definition Linkbase				
101.LAB	XBRL Taxonomy Extension Label Linkbase				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

* Indicates a management contract or compensatory plan or arrangement.

** The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of WageWorks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

Exhibit 10.10E

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "**Amendment**"), is dated as of July 21, 2014 (the "**Effective Date**") by and among **WAGEWORKS, INC.**, a Delaware corporation (the "**Borrower**"), **MHM RESOURCES, LLC**, a Delaware limited liability company ("**MHM**"), **BENEFIT CONCEPTS INC. OF RHODE ISLAND**, a Rhode Island corporation (together with MHM, each a "**Guarantor**" and collectively, the "**Guarantors**"), the several financial institutions from time to time party to the Credit Agreement (as defined below) as lenders (the "**Lenders**"), and **MUFG UNION BANK, N.A.** (formerly Union Bank, N.A.), as a Lender and as administrative agent for the Lenders (in such capacity, the "**Agent**") and as L/C Issuer.

BACKGROUND

A. Borrower, Guarantors, Lenders and Agent are parties to the Credit Agreement, dated as of December 31, 2012, as amended, modified, supplemented, extended or restated from time to time, (collectively, the "**Credit Agreement**"), pursuant to which the Lenders have agreed, subject to and on the terms and conditions set forth therein, to make certain loans and other credit accommodations to or for the benefit of Borrower.

B. Borrower has requested that Agent and Lenders agree to amend the Credit Agreement as set forth herein.

C. MUFG Union Bank, N.A., as Agent and Lender, is willing to amend the Credit Agreement on and subject to the terms set forth herein, and the parties desire to amend the Credit Agreement to effect such amendments in accordance with the terms, and subject to the conditions, set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Incorporation of Recitals: Definitions. Each of the above recitals is incorporated herein as true and correct and is relied upon by Agent and each Lender in agreeing to the terms of this Amendment. Any capitalized term used but not defined herein shall have the meaning ascribed thereto in the Credit Agreement.

2. Representations and Warranties. Each Loan Party represents and warrants to, and covenants and agrees for the benefit of, Agent and each Lender that:

a. All of the representations and warranties of each Loan Party set forth in the Credit Agreement and each other Loan Document to which such Loan Party is a party were true, correct and complete as of the date originally made, and are true, correct and complete in all material respects as of the date hereof (except to the extent such representations and warranties expressly refer to an earlier date, in which case they are true, correct and complete in all material respects as of such earlier date); provided that the foregoing materiality qualifications shall not apply to any representations or warranties that are qualified by materiality in the text thereof, which representations and warranties shall be true in all respects;

b. Each Loan Party has the power and authority to execute this Amendment, and the execution, delivery, and performance by such Loan Party of this Amendment and the other documents, instruments and agreements to which such Loan Party is a party delivered or to be delivered in connection herewith (i) are within the corporate or limited liability company powers of such Loan Party and have been duly authorized by all necessary corporate or limited liability company action on the part of such Loan Party, (ii) do not require any approval or consent of any Governmental Authority or any other third party consent, except those which have been duly obtained and are in full force and effect and those the failure of which to obtain could not be reasonably expected to have a Material Adverse Effect, (iii) do not and will not conflict with or violate any applicable Law or such Loan Party's Organization Documents, (iv) do not result in any breach of or constitute a default under any Contractual Obligation to which such Loan Party is a party, and (v) do not result in or require the creation or imposition of any Lien upon any of the assets or properties of any Loan Party or any of their respective Subsidiaries;

c. This Amendment and the other certificates, instruments, documents and agreements delivered or to be delivered by each Loan Party in connection herewith have been duly executed and delivered by such Loan Party and constitute the legal, valid, and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with their respective terms, except to the extent that (i) enforcement may be limited by Debtor Relief Law, (ii) enforcement may be subject to general principles of equity, and (iii) the availability of the remedies of specific performance and injunctive relief may be subject to the discretion of the court before which any proceedings for such remedies may be brought;

d. No event has occurred or failed to occur, and after and as a result of giving effect to this Amendment will occur, that is, or, with notice or lapse of time or both would constitute, a Default, an Event of Default, or a breach or failure of any condition under any Loan Document;

e. As of the date hereof, (i) Borrower has no Material Subsidiaries, or Subsidiaries that are required to be designated as Material Subsidiaries under the Loan Documents, other than Guarantors party hereto; and (ii) PBS is not a 5% Subsidiary; and

f. After and as a result of giving effect to this Amendment, no Loan Party has any offset, defense, claim, counterclaim, dispute or disagreement of any kind or nature whatsoever with respect to Agent or any Lender or with respect to its liabilities, obligations and indebtedness arising under or in connection with the Credit Agreement or any of the other Loan Documents.

3. Amendments to Credit Agreement.

a. Section 1.01 of the Credit Agreement is hereby amended by adding or amending and restating the following defined terms to read as follows:

"**Aggregate Commitments**" means the Commitments of all Lenders. As of the First Amendment Closing Date, the Aggregate Commitments shall be One Hundred Twenty-Five Million Dollars ($125,000,000).

"**Applicable Rate**" means, from time to time: (a) from the First Amendment Closing Date to the date on which Administrative Agent receives the financial statements and a Compliance Certificate pursuant to Sections 7.01 and 7.02 for the fiscal quarter ending June 30, 2014, the applicable percentages per annum specified for Pricing Level 3 in the pricing grid below, and (b) as of any date of determination thereafter, the applicable percentages per annum set forth in the pricing grid below determined by reference to the Consolidated Leverage Ratio, as

set forth in the most recent financial statements and Compliance Certificate received by Administrative Agent pursuant to Sections 7.01 and 7.02:

Pricing Level	Consolidated Leverage Ratio	Applicable Rate for Base Rate Loans:	Applicable Rate for Eurodollar Rate Loans:	Applicable Rate for L/C Fees:
1	Less than or equal to 0.50:1.00	0.00%	1.75%	1.00%
2	Greater than 0.50 to 1.00 and less than or equal to 1.00 to 1.00	0.00%	2.00%	1.00%
3	Greater than 1.00 to 1.00	0.25%	2.25%	1.00%

Adjustments in the Applicable Rate shall be implemented quarterly beginning with the fiscal quarter ending as of June 30, 2014, on a prospective basis, as of the first (1st) day of the first calendar month following the delivery to Administrative Agent of the financial statements and accompanying Compliance Certificate delivered pursuant to Sections 7.01 and 7.02 evidencing the need for an adjustment; provided, that if the annual audited financial statements for any fiscal year and accompanying Compliance Certificate delivered to Administrative Agent result in a change in the Applicable Rate from the quarterly financial statements previously delivered by Borrower to Administrative Agent, then Administrative Agent shall make such change effective upon the first (1st) day of the calendar month following the delivery to Administrative Agent of such annual audited financial statements. Failure to timely deliver the quarterly or annual financial statements and accompanying Compliance Certificates shall, in addition to any other remedy provided for in this Agreement or the other Loan Documents, result in an increase in the Applicable Rate to the highest level set forth in the foregoing grid, from the date on which such Compliance Certificate was required to be delivered, until the first (1st) day of the calendar month following the delivery of those financial statements and accompanying Compliance Certificate demonstrating that such an increase is not required. If an Event of Default has occurred and is continuing at the time any reduction in the Applicable Rate is to be implemented, that reduction shall be deferred until the first (1st) day of the calendar month following the date on which such Event of Default is waived or cured.

"**Consolidated Leverage Ratio**" means, for any date of determination, for Borrower and its consolidated Subsidiaries, a ratio of (i) Indebtedness (including without limitation all obligations in respect of letters of credit, all Earn-Out Obligations and all other deferred Acquisition-related obligations and liabilities that constitute consideration for any Acquisition) as of such date, to (ii) EBITDA for the period of twelve consecutive months (or four fiscal quarters) ending on such date. This ratio will be calculated at the end of each reporting period for which this Agreement requires Borrower to deliver financial statements (but no less frequently that quarterly), using the results of the twelve month (or four fiscal quarter) period ending with that reporting period.

"**First Amendment Closing Date**" means July 21, 2014.

"**Maturity Date**" means July 21, 2017; provided, however, that if such date is not a Business Day, the Maturity Date shall be the preceding Business Day.

b. Section 1.01 of the Credit Agreement is hereby amended by amending and restating the first paragraph of paragraph (c) the definition of "Permitted Acquisition" to read as follows:

"(c) for any Acquisition where the Aggregate Consideration paid or payable by Borrower and its Subsidiaries in connection with such Acquisition exceeds Fifty Million Dollars ($50,000,000) Borrower shall have delivered to Administrative Agent, at least five (5) days prior to the consummation of such Acquisition:"

c. Section 2.06(b)(i) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(i) If no Default or Event of Default shall have occurred and be continuing, upon written notice to Administrative Agent (each such notice, a "**Commitment Increase Notice**"), Borrower may from time to time prior to the Maturity Date, request an increase of the Aggregate Commitments (but not the L/C Sublimit) by an amount (for all such requests) not exceeding Twenty Five Million Dollars ($25,000,000); provided that, (i) any such request for an increase shall be in a minimum amount of Twenty Five Million Dollars ($25,000,000); and (ii) Borrower may make a maximum of one (1) such request. Any such Commitment Increase Notice delivered with respect to any proposed increase in the Commitment may offer one or more Lenders an opportunity to subscribe for its Applicable Percentage (with respect to the existing Commitment (prior to such increase)) of the increased Aggregate Commitments. Administrative Agent shall promptly, and in any event within five (5) Business Days after receipt of a Commitment Increase Notice, notify each Lender of such request. Each Lender desiring to increase its Commitment shall notify Administrative Agent in writing no later than ten (10) Business Days after receipt of notice from Administrative Agent. Any Lender that does not notify Administrative Agent within the time period specified above that it will, in its sole discretion, increase its Commitment will be deemed to have rejected such offer. Any agreement by a Lender to increase its Commitment shall be irrevocable.

d. Section 2.08 of the Credit Agreement is hereby amended by adding a new paragraph (d) to read as follows:

(d) If, for any reason (including inaccurate reporting on financial statements or a Compliance Certificate or any restatement of or other adjustment to the financial statements of Borrower), it is determined that a higher Applicable Rate should have applied to a period than was actually applied, then the proper Applicable Rate shall be applied retroactively and Borrower shall immediately pay to Administrative Agent, for the ratable benefit of Lenders, an amount equal to the difference between the amount of interest and fees that would have accrued using the proper margin and the amount actually paid, provided that notwithstanding the foregoing, such amounts shall be due and payable within five (5) Business Days following the written demand of the Administrative Agent and no Default or Event of Default shall be deemed to have occurred as a result of such non-payment until the expiration of such five (5) Business Day period. All such amounts payable by Borrower shall be due and payable on demand (or, after the occurrence of an actual or deemed entry of an order for relief with respect to Borrower under a Debtor Relief Law, automatically and without further action by Administrative Agent or any Lender). This paragraph shall not limit the rights of Administrative Agent or any Lender under any other provision of this Agreement or the other Loan Documents.

e. Section 2.15 of the Credit Agreement is hereby amended by amending and restating the last sentence of that section to read as follows:

"In addition, Borrower shall provide Cash Collateral in an amount not less than the applicable Minimum Collateral Amount not less than: (a) five (5) Business Days prior to the Maturity Date, and (b) five (5) Business Days prior to any cancellation or termination of the Commitments or this Agreement, and the provision of such Cash Collateral shall be a condition precedent to any such cancellation or termination."

f. Section 7.01(b) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(b) as soon as available, but in any event within forty five (45) days after the end of each of the fiscal quarters of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, for such fiscal quarter and for the portion of Borrower's fiscal year then ended, and the related consolidated statements of changes in shareholders' equity, and cash flows for the portion of Borrower's fiscal year then ended, in each case setting forth in comparative form, as applicable, the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, such consolidated statements to be certified by the chief executive officer, chief financial officer, treasurer or controller of Borrower as fairly presenting in all material respects the financial condition, results of operations, shareholders' equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year end audit adjustments and the absence of footnotes.

g. Section 7.13(b) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(b) **Consolidated Leverage Ratio**. Maintain a Consolidated Leverage Ratio for the four quarter period then ended, that is at all times less than or equal to 3.00 to 1.00.

h. Section 7.13(d) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(d) **Minimum Consolidated Net Worth**. Maintain at all times a minimum Consolidated Net Worth of not less than the sum of (i) $200,000,000, plus (ii) seventy-five percent (75%) of Consolidated Net Income (Loss) for each fiscal quarter ending on or after the First Amendment Closing Date (provided that the amount of this clause (ii) shall not in any event be less than $0.00), plus (iii) one hundred percent (100%) of the Net Cash Proceeds from any Equity Issuance (excluding any Net Cash Proceeds from the exercise of any employee stock options or the exercise of any warrants) after the First Amendment Closing Date.

i. Effective as of July 1, 2014, Union Bank, N.A. changed its name to MUFG Union Bank, N.A., and as such, all references to "Union Bank, N.A." in the Credit Agreement or any other Loan Document shall hereafter mean and refer to "MUFG Union Bank, N.A."

j. **Schedule 2.01** to the Credit Agreement is hereby amended, restated and replaced with **Schedule 2.01** attached hereto.

k. **Exhibit C** to the Credit Agreement is hereby amended, restated and replaced with **Exhibit C** attached hereto.

4. Conditions Precedent. Each Loan Party understands that this Amendment shall not be effective and shall have no force or effect until each of the following conditions precedent has been satisfied, or waived in writing by Agent (in Agent's sole discretion):

a. Each Loan Party shall have duly executed and delivered to Agent and each Lender this Amendment;

b. Borrower shall have executed and delivered to MUFG Union Bank, N.A. an amended and restated Note evidencing the amount of its Commitment reflected on **Schedule 2.01**;

c. Borrower shall have delivered to Agent:

i. copies of the Organization Documents of each Loan Party certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation or organization, where applicable, and certified by a secretary or assistant secretary of such Loan Party to be true and correct;

ii. such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Amendment and the other Loan Documents to which such Loan Party is a party;

iii. such documents and certifications as Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

iv. a favorable opinion of counsel to the Loan Parties addressed to Agent and each Lender, in form and substance reasonably satisfactory to Agent;

d. Borrower shall have paid to Agent, for the account of MUFG Union Bank, N.A., as Lender, an upfront fee in an amount equal Three Hundred Thirty Six Thousand Dollars ($336,000). Such upfront fee is for the credit facilities committed by Lender under the Agreement and is fully earned on the date of this Amendment. The upfront fee paid to Lender is solely for its own account and is nonrefundable for any reason whatsoever.

e. The representations and warranties of each Loan Party under the Credit Agreement, the other Loan Documents and this Amendment, as applicable, shall be true and correct in all material respects as of the date hereof (except to the extent such representations and warranties expressly refer to an earlier date, in which case they are true, correct and complete in all material respects as of such earlier date); provided that the foregoing materiality qualifications shall not apply to any representations or warranties that are qualified by materiality in the text thereof, which representations and warranties shall be true in all respects;

f. Agent shall have received in immediately available funds, all out-of-pocket costs and expenses (including reasonable attorneys' fees and costs) incurred by Agent in connection with this Amendment and the transactions contemplated hereby and invoiced to Borrower prior to the date on which this Amendment is otherwise to become effective; provided that the failure to invoice any such amounts to Borrower prior to such date shall not preclude Agent from seeking reimbursement of such amounts, or excuse any Loan Party from paying or reimbursing such amounts, following the effective date of this Amendment; and

g. Agent shall have received such other documents, and completion of such other matters, as Agent may reasonably deem necessary or appropriate in connection with this Amendment.

5. Ratification and Confirmation of Loan Documents. Except as expressly set forth in Section 3 hereof, the execution, delivery, and performance of this Amendment shall not alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, or agreements contained in the Credit Agreement or any other Loan Document, and shall not operate as a waiver of any right, power, or remedy of Agent or any Lender under the Credit Agreement or any other Loan Document. The Credit Agreement, all promissory notes, guaranties, security agreements, and all other instruments, documents and agreements entered into in connection with the Credit Agreement and each other Loan Document shall be and remain in full force and effect in accordance with their respective terms and hereby are ratified, reaffirmed and confirmed by Borrower and each other Loan Party in all respects.

6. No Waivers. This Amendment: (a) in no way shall be deemed to be a consent or an agreement on the part of Agent or any Lender to waive any covenant, liability or obligation of Borrower, any Guarantor or any third party or to waive any right, power, or remedy of Agent or any Lender; (b) in no way shall be deemed to imply a willingness on the part of Agent or any Lender to grant any similar or other future waivers or to agree to any future consents, amendments or modifications to any of the terms and conditions of the Credit Agreement or the other Loan Documents; (c) shall not in any way, prejudice, limit, impair or otherwise affect any rights or remedies of Agent or any Lender under the Credit Agreement or any of the other Loan Documents, including, without limitation, Agent's or any Lender's right to demand strict performance of each Loan Party's liabilities and obligations to Agent and the Lenders and the Obligations under the Loan Documents at all times; (d) in no way shall obligate Agent or any Lender to make any future amendments, waivers, consents or modifications to the Credit Agreement or any other Loan Document; and (e) is not a continuing waiver with respect to any failure to perform any Obligation. Each Loan Party acknowledges and agrees that: (i) except as expressly set forth herein, the Credit Agreement has not been amended or modified in any way by this Amendment, except as expressly provided herein, (ii) neither Agent nor any Lender waives any failure by Borrower or any other Loan Party to perform its Obligations under the Credit Agreement or any of the other Loan Documents, and (iii) Agent and each Lender is relying upon Borrower's and each other Loan Party's representations, warranties and agreements, as set forth herein and in the Loan Documents in entering into this Amendment. Nothing in this Amendment shall constitute a satisfaction of Borrower's or any other Loan Party's Obligations. This Amendment shall be deemed to be one of the Loan Documents.

7. Release. Borrower and each Guarantor hereby, for itself, its successors, heirs, executors, administrators and assigns (each a "**Releasing Party**" and collectively, the "**Releasing Parties**"), releases, acquits and forever discharges Agent and each Lender, and their respective directors, officers, employees, agents, attorneys, affiliates, successors, administrators and assigns ("**Released Parties**") of and from any and all claims, actions, causes of action, demands, rights, damages, costs, loss of service, expenses and compensation whatsoever which any Releasing Party might have because of anything done, omitted to be done, or allowed to be done by any of the Released Parties and in any way arising out of or

connected with the Credit Agreement or the other Loan Documents as of the date of execution of this Amendment, WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, including, without limitation, any specific claim raised by any Releasing Party, (the "**Released Matters**"). Releasing Parties each further agrees never to commence, aid or participate in (except to the extent required by order or legal process issued by a court or governmental agency of competent jurisdiction) any legal action or other proceeding based in whole or in part upon the Released Matters. In furtherance of this general release, Releasing Parties each acknowledges and waives the benefits of California Civil Code Section 1542 (and all similar ordinances and statutory, regulatory, or judicially created laws or rules of any other jurisdiction), which provides:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Releasing Parties each agree that this waiver and release is an essential and material term of this Amendment and that the agreements in this paragraph are intended to be in full satisfaction of any alleged injuries or damages in connection with the Released Matters. Releasing Parties each represent and warrant that it has not purported to convey, transfer or assign any right, title or interest in any Released Matter to any other person or entity and that the foregoing constitutes a full and complete release of the Released Matters. Releasing Parties each also understands that this release shall apply to all unknown or unanticipated results of the transactions and occurrences described above, as well as those known and anticipated. Releasing Parties each has consulted with legal counsel prior to signing this release, or had an opportunity to obtain such counsel and knowingly chose not to do so, and executes such release voluntarily, with the intention of fully and finally extinguishing all Released Matters. Notwithstanding anything in this Amendment, Borrower does not waive any of Agent's or any Lender's obligations under the terms of the Agreement as amended by this Amendment.

8. Miscellaneous. Each Loan Party acknowledges and agrees that the representations and warranties set forth herein are material inducements to Agent and the Lenders to deliver this Amendment. This Amendment shall be binding upon and inure to the benefit of and be enforceable by the parties hereto, and their respective permitted successors and assigns. This Amendment and the Credit Agreement shall be read together as one document. No course of dealing on the part of Agent, the Lenders or any of their respective officers, nor any failure or delay in the exercise of any right by Agent or the Lenders, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. The failure at any time to require strict performance by Borrower or any other Loan Party of any provision of the Loan Documents shall not affect any right of Agent or the Lenders thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of Agent and/or the Lenders, as applicable. No other Person shall be entitled to claim any right or benefit hereunder, including, without limitation, the status of a third party beneficiary hereunder other than Secured Parties. This Amendment shall be governed by and construed in accordance with the laws of the State of California without reference to conflicts of law rules. If any provision of this Amendment or any of the other Loan Documents shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that portion shall be deemed severed herefrom or therefrom, as applicable, and the remaining parts shall remain in full force as though the invalid, illegal or unenforceable portion had never been a part hereof or thereof, as applicable. This Amendment shall be construed without regard to any presumption or rule requiring that it be construed against the party causing this Amendment or any part hereof to be drafted. The headings used in this Amendment are for convenience only and shall be disregarded in interpreting the substantive provisions of this Amendment. This Amendment may be executed in any number of counterparts, including by

electronic or facsimile transmission, each of which when so delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument.

[*Signature Page Follows*]

IN WITNESS WHEREOF, Borrower, Guarantors, Agent and the Lenders have caused this Amendment to be executed as of the date first written above.

BORROWER: **WAGEWORKS, INC.**

By:
Name:
Its:

GUARANTORS: **MHM RESOURCES, LLC**

By:
Name:
Its:

BENEFIT CONCEPTS INC.
OF RHODE ISLAND

By:
Name:
Its:

IN WITNESS WHEREOF, Borrower, Guarantors, Agent and the Lenders have caused this Amendment to be executed as of the date first written above.

AGENT: MUFG UNION BANK, N.A., as Agent

By:
James B. Goudy
Title: Director

LENDER: MUFG UNION BANK, N.A., as Lender

By:
James B. Goudy
Title: Director

SCHEDULE 2.01

COMMITMENTS AND APPLICABLE PERCENTAGES

Lender		Commitment	Applicable Percentage
MUFG UNION BANK, N.A.	$	125,000,000	100.000000000%
Total	**$**	**125,000,000**	**100.000000000%**

EXHIBIT C

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, ____

To: MUFG UNION BANK, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of December 31, 2012 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "**Agreement**"; the terms defined therein being used herein as therein defined), among WAGEWORKS, INC., a Delaware corporation ("**Borrower**"), the Guarantors from time to time party thereto, the Lenders from time to time party thereto, and MUFG Union Bank, N.A., (formerly Union Bank, N.A.), as Administrative Agent and L/C Issuer.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the of Borrower, and that, as such, he/she is
authorized to execute and deliver this Certificate to Administrative Agent on the behalf of Borrower, and that:

*[Use following paragraph 1 for fiscal **year-end** financial statements]*

1. Borrower has delivered the year end audited financial statements required by Section 7.01(a) of the Agreement for the fiscal year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[*Use following paragraph 1 for fiscal **quarter-end** financial statements]*

1. Borrower has delivered the unaudited financial statements required by Section 7.01(b) of the Agreement for the fiscal quarter of Borrower ended as of the above date. Such financial statements fairly present in all material respects the financial condition, results of operations, stockholders' equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year end audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower during the accounting period covered by such financial statements.

3. A review of the activities of Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, Borrower performed and observed in all material respects each covenant and condition of the Loan Documents applicable to it, and no Default has occurred and is continuing.]

--or--

[to the best knowledge of the undersigned, during such fiscal period, the following covenants or conditions have not been performed or observed in all material respects and the following is a list of each such Default and its nature and status:]

4. The representations and warranties of Borrower contained in Article VI of the Agreement, and/or any representations and warranties of Borrower or any other Loan Party that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct in all material respects on and as of the date hereof, except that (i) if a qualifier relating to materiality, Material Adverse Effect or a similar concept applies, such representation and warranty is true and correct in all respects, (ii) to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (iii) for purposes of this Compliance Certificate, the representations and warranties contained in subsections (a) and (b) of Section 6.05 of the Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 7.01 of the Agreement, including the statements in connection with which this Compliance Certificate is delivered.

5. Set forth on **Annex I** attached hereto is a description of all Permitted Acquisitions undertaken during the period covered by this Certificate.

6. The financial covenant analyses and information set forth on **Schedule 1** attached hereto are true and accurate in all material respects on and as of the date of this Certificate.

*[Use the following paragraph 6 in connection with the delivery of fiscal **quarter-end** financial statements for the second fiscal quarter of any fiscal year.]*

[6. Attached hereto as **Schedule 2** is (i) a list of (A) all applications by any Loan Party, if any, for Copyrights, Patents or Trademarks made since [the Closing Date]* [the date of the prior Compliance Certificate]**, (B) all issuances of registrations or letters on existing applications by any Loan Party for Copyrights, Patents and Trademarks received since [the Closing Date]* [the date of the prior Compliance Certificate]**, (C) all Trademark Licenses, Copyright Licenses and Patent Licenses entered into by any Loan Party since [the Closing Date]* [the date of the prior Compliance Certificate]**, and (ii) the insurance binder or other evidence of insurance for any insurance coverage of any Loan Party or any Subsidiary that was renewed, replaced or modified during the period covered by the financial statements referenced in Paragraph 1 above.]

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, _____.

WAGEWORKS, INC.

By:

Name:
Title:

For the Quarter/Year ended _____("**Statement Date**")

SCHEDULE 1
to the Compliance Certificate
($ in 000's)

I. Section 7.13(a) –Liquidity Ratio

A. Liquidity

1.	unrestricted cash and Cash Equivalents	$
2.	plus marketable securities	$
3.	Total Liquidity (Line I.A.1. plus I.A.2):	$

B. Certain Liabilities

1.	customer deposits (consolidated basis):	$
2.	plus current portion of contingent, Acquisition-related obligations and liabilities (including Earn Out Obligations)	$
3.	Total Certain Liabilities (Line I.B.1. plus I.B.2):	$

C. Ratio (Line I.A.3 ÷ Line I.B.3): to 1.00
Minimum permitted: 1.00 to 1.00

II. Section 7.13(b) – Consolidated Leverage Ratio

A. Indebtedness

1.	Total Indebtedness	$

B. EBITDA (past 12 months)

1.	Consolidated Net Income (Loss):	$
2.	plus Consolidated Interest Expense:	$
3.	plus income taxes:	$
4.	plus depreciation and amortization:	$
5.	plus non-cash expenses:	$
6.	Total EBITDA (sum of II.A1 through II.A.5):	$

C. Ratio (Line II.A.1 ÷ Line II.B.6): to 1.00
Maximum permitted: 3.00 to 1.00

III. Section 7.13(c) – Debt Service Coverage Ratio

A. EBITDA (past 12 months)

1.	Consolidated Net Income (Loss):	$
2.	plus Consolidated Interest Expense:	$
3.	plus income taxes:	$
4.	plus depreciation and amortization:	$
5.	plus non-cash expenses:	$
6.	plus/minus EBITDA from Permitted Acquisitions (if any):	$
7.	Total EBITDA (sum of III.A1 through III.A.5 minus III.A.6 plus/minus III.A.7.):	$
8.	plus, operating lease payments	$
9.	minus, Distributions	$
10.	minus, payments made re Acquisition-related liabilities and Earn Out Obligations	$
11.	Adjusted EBITDA (III.A.7 plus III.A.8 minus III.A.9 minus III.A.10)	$

B. Debt Service

1.	25% of outstanding Loans (please explain on attachment):	$
2.	plus, Consolidated Interest Expense (past 12 months):	$
3.	plus, projected operating lease payments for next 12 months:	$
4.	plus, Consolidated Scheduled Funded Debt Payments for next 12 months:	$
5.	Total Debt Service (sum of III.B.1 through III.B.4)	$

C.	Ratio (Line III.A.12 ÷ Line III.B.5):		to 1.00
Minimum permitted:			1.25 to 1.00 *1.50 to 1.00* *(after 9/30/14)*

IV. Section 7.13(d) – Consolidated Net Worth

A.	Consolidated Net Worth	$	
B.	Minimum Required:		
1.	$200,000:	$	200,000
2.	plus, 75% of Consolidated Net Income (Loss) (but not less than $0):	$	
3.	plus,100% of Net Cash Proceeds from Equity Issuances after First Amendment Closing Date:	$	
	Minimum Required (sum of IV.B.1 + IV.B.2 + IV.B.3)	$	

For the Quarter/Year ended _____("**Statement Date**")

ANNEX I
To Compliance Certificate

Permitted Acquisitions

[*Please describe, if any*]

Exhibit 10.26

LEASE AGREEMENT

LIBERTY PROPERTY LIMITED PARTNERSHIP

Landlord

AND

WAGEWORKS, INC.

Tenant

AT

1850 West Rio Salado Parkway, Tempe, Arizona

THIS LEASE AGREEMENT is made by and between **LIBERTY PROPERTY LIMITED PARTNERSHIP,** a Pennsylvania limited partnership ("**Landlord**") and **WAGEWORKS, INC.**, a Delaware corporation ("**Tenant**"), and is dated as of the date on which this Lease has been fully executed by Landlord and Tenant (the "**Effective Date**").

1. Basic Lease Terms and Definitions.

(a) Premises: From and after the Commencement Date, consisting of approximately 76,162 rentable square feet, comprising the entire first floor (Suite 100) of the Building (the "**Premises**") as shown on Exhibit A.

(b) Building: The building, designated as Building I in the Project, to be constructed by Landlord in accordance with this Lease (the "**Building**"), is currently contemplated to consist of 154,152 rentable square feet, and is contemplated to have an address of 1850 West Rio Salado Parkway, Tempe, Arizona.

(c) Term: From and after the Commencement Date, Eighty-Seven (87) months (plus any partial month from the Commencement Date until the first day of the next full calendar month during the Term). The Term may be extended as provided in Section 30.

(d) Commencement Date: The later of (i) October 1, 2014 (the "**Estimated Completion Date**"), or (ii) the date of Substantial Completion (as hereinafter defined) of the Base Building Work and Tenant Improvements, but not later than the date Tenant takes possession of the Premises.

(e) Minimum Annual Rent: Beginning on the Rent Commencement Date, Minimum Annual Rent shall be payable in monthly installments as follows:

Months	Rentable Square Feet	Monthly Rent	Annual Rent
1-3	+/-76,162	$ 0.00	$ 0.00
4-12	+/-76,162	$ 96,789.21	$ 1,161,470.50
13-24	+/-76,162	$ 99,454.88	$ 1,193,458.54
25-36	+/-76,162	$ 102,184.02	$ 1,226,208.20
37-48	+/-76,162	$ 104,976.62	$ 1,259,719.48
49-60	+/-76,162	$ 107,896.17	$ 1,294,754.00
61-72	+/-76,162	$ 110,879.18	$ 1,330,550.14
73-84	+/-76,162	$ 113,925.66	$ 1,367,107.90
85-87	+/-76,162	$ 117,035.61	$ 1,404,427.28

****The foregoing notwithstanding, Minimum Annual Rent does not include sales and rental tax, which shall be the obligation of Tenant.

(f) Annual Operating Expenses: From and after the Commencement Date, estimated to be $239,805.72 (based on $3.15 per rentable square foot per year), payable in monthly installments of $19,983.81, subject to adjustment as provided in this Lease (including as a result of the GPLET Transaction and expiration of the GPLET Transaction) and, if applicable, as the rentable square footage of the Premises changes during the Term.

(g) Tenant's Share: From and after the Commencement Date, (i) with respect to the Property, 49.41% and (ii) with respect to Liberty Center at Rio Salado (the "**Project**"), as determined in accordance with Section 6(a) (also see Rider 1).

(h) Use: General and administrative office consistent with the character and zoning criteria for the Project (the "**Permitted Use**").

(i) Addresses For Notices:

Landlord:	Tenant:
Liberty Property Limited Partnership 2390 E. Camelback Rd., Suite 318 Phoenix, Arizona 85016 Attention: Senior Vice President/City Manager	Before the Commencement Date: WageWorks, Inc. 1100 Park Place, 4th Floor San Mateo, CA 94403 Attention: General Counsel
With a copy to:	On or after the Commencement Date: Premises
Liberty Property Limited Partnership 500 Chesterfield Parkway Malvern, PA 19355 Attention: Legal Department	WageWorks, Inc. 1100 Park Place, 4th Floor San Mateo, CA 94403 Attention: General Counsel

(j) Security Deposit: Tenant shall provide a Security Deposit equal to $117,036 on or prior to the Commencement Date.

(k) Tenant Improvement Allowance: Landlord will provide Tenant a Tenant Improvement Allowance not to exceed $2,840,480, in addition to test-fit allowance not to exceed $7,500.

(l) Additional Defined Terms: See Rider 1 for the definitions of certain other capitalized terms.

(m) Contents: The following are attached to and made a part of this Lease:

Rider 1 – Additional DefinitionsExhibits:

A – Plan showing Premises
B – Building Rules
C – Estoppel Certificate Form
D – Base Building Shell Specifications
E – Space Plan [to be attached and incorporated herein once completed]
F – Tenant Improvement Plans [to be attached and incorporated herein once completed]

G – Signage
H – Covered/Reserved Parking Spaces

2. Premises. Landlord leases to Tenant and Tenant leases from Landlord the Premises, together with the right in common with others to use the Common Areas. Tenant accepts the Premises, Building and Common Areas "AS IS," without relying on any representation, covenant or warranty by Landlord other than as expressly set forth in this Lease. The rentable square footage of the Premises shall be determined based upon the final space plan; provided, however, upon completion of the final space plan for the Premises but prior to the Effective Date, the actual rentable area of the Premises may be measured, at the request of Tenant, in accordance with "American National Standard ASNI/BOMA Z65.1-1996: Standard Method for Measuring Floor Area in Office Buildings" issued by the Building Owners and Managers Association International ("**BOMA Standard**") and, if so measured, shall be certified to such BOMA Standard by Landlord's architect. Tenant shall bear the total cost of any such measurement, including, without limitation, the cost of the Landlord's architect's fees incurred in connection with such measurement. If such measurement is timely requested by Tenant, the Landlord's architect's measurement of the Premises using the BOMA Standard shall be set forth in Section 1 of the Lease. By executing this Lease, Tenant conclusively affirms the area of the Premises as set forth in Section 1 and all calculations derived therefrom.

3. Use. Tenant shall occupy and use the Premises only for the Permitted Use specified in Section 1 above. Tenant shall not permit to occur any conduct or condition that might endanger, disturb or otherwise interfere with any other Building occupant's normal operations or with the management of the Building. Tenant may use the Common Areas only for their intended purposes. Landlord shall have exclusive control of all Common Areas at all times.

4. Term; Possession. The Term of this Lease shall commence on the Commencement Date and shall end on the Expiration Date, unless sooner terminated in accordance with this Lease. If Landlord is delayed in delivering possession of all or any portion of the Premises to Tenant as of the Commencement Date, Tenant will take possession on the date Landlord delivers possession, which date will then become the Commencement Date (and the Expiration Date will be extended so that the length of the Term remains unaffected by such delay). Landlord shall not be liable for any loss or damage to Tenant resulting from any delay in delivering possession due to any circumstances outside of Landlord's reasonable control.

5. Rent; Taxes. From and after the Commencement Date, Tenant agrees to pay to Landlord, without demand, deduction or offset (unless otherwise provided herein), Minimum Annual Rent and Annual Operating Expenses for the Term. Tenant shall pay the Monthly Rent, in advance, on the first day of each calendar month during the Term, at Landlord's address designated in Section 1 above unless Landlord designates otherwise. If the Commencement Date is not the first day of a calendar month, that partial month shall be added to the first full calendar month of the Term, with the second month of the Term commencing on the 1st day of the second full calendar month following the Commencement Date. If the Commencement Date is not the first day of a calendar month, the Monthly Rent for that partial month shall be apportioned on a per diem basis and shall be added to the Monthly Rent for the first full calendar month of the Term, all of which shall be paid on or before the Commencement Date, less the first month of free rent. Tenant shall pay Landlord a service and handling charge equal to 3% of any amount of Rent not

paid within five (5) days after the date due. In addition, any Rent, including such charge, not paid within five (5) days after the due date will bear interest at the Interest Rate from the date due to the date paid. Tenant shall pay before delinquent all taxes levied or assessed upon, measured by, or arising from: (a) the conduct of Tenant's business; (b) Tenant's leasehold estate; or (c) Tenant's property. Additionally, Tenant shall pay to Landlord all sales, use, transaction privilege, or other excise tax that may at any time be levied or imposed upon, or measured by, any amount payable by Tenant under this Lease.

6. Operating Expenses.

(a) The amount of the Annual Operating Expenses set forth in Section 1(f) above represents Tenant's Share of the estimated Operating Expenses for the first full calendar year of the Term. Tenant's Share of Operating Expenses arising from common services and amenities provided to or for the benefit of the Project will be based on (i) relative land area of the individual parcels comprising the Project for purposes of determining tenants' relative shares of expenses related to real estate taxes and association fees (or, if no association then exists, expenses of a nature that would typically be covered by association fees), and (ii) relative rentable square footage of the individual buildings from time to time constructed within the Project for all other expense items, in any event allocated by Landlord in an equitable manner among the tenants in the Project. Landlord may adjust such amount no more than once per calendar year if the estimated Annual Operating Expenses for that particular calendar year increase or decrease. Landlord may also invoice Tenant separately no more than once per year for Tenant's Share of any extraordinary or unanticipated and non-customary Operating Expenses. By April 30th of each year (and as soon as practical after the expiration or termination of this Lease or, at Landlord's option, after a sale of the Property), Landlord shall provide Tenant with a statement of Operating Expenses ("**Landlord's Statement**") for the preceding calendar year or part thereof. Within 180 days after delivery of the statement to Tenant, Landlord or Tenant shall pay to the other party the amount of any overpayment or deficiency then due from one to the other or, at Landlord's option, Landlord may credit Tenant's account for any overpayment. Landlord's and Tenant's obligation to pay any overpayment or deficiency due the other pursuant to this Section shall survive the expiration or termination of this Lease. Notwithstanding any other provision of this Lease to the contrary, Landlord may, in its reasonable discretion, redetermine no more than once per year the method of computing and allocating Operating Expenses, including the method of allocating Operating Expenses to various types of space within the Building, to reflect any disparate levels of services provided to different types of space, and in such event, Landlord shall provide to Tenant a written explanation documenting the need for any such redetermination.

(b) So long as no monetary Event of Default by Tenant has occurred and remains uncured, Tenant, or its representative, shall have the right, at Tenant's sole cost and expense, to inspect Landlord's books and records relating to the Landlord's Statement for the purpose of verifying the information contained therein (the "**Tenant Audit**"), provided that (i) Tenant shall have sent notice to Landlord, in writing, no later than one hundred eighty (180) days after Tenant's receipt of the Landlord's Statement to be verified, of its desire to conduct the Tenant Audit (the "**Audit Notice**"), (ii) the Audit Notice identifies with specificity the particular item(s) in the Landlord's Statement that the Tenant believes is/are incorrect, and (iii) Tenant has paid all amounts previously charged to Tenant under the Landlord's Statement in full. The Tenant Audit

shall be conducted during regular business hours at a location acceptable to Landlord, by Tenant's personnel and/or an independent firm of certified public accountants that is not being compensated by Tenant on a contingency fee basis. Landlord shall deliver copies of the relevant books and records to Tenant by courier or overnight mail at Tenant's notice address set forth in this Lease or such other address as Tenant may designate to Landlord in writing. The Tenant Audit shall commence by no later than the 90th day after Landlord's receipt of the Audit Notice, and shall be completed within ninety (90) days after timely commencement of the Tenant Audit, subject to Landlord's reasonable cooperation. A copy of the results of the Tenant Audit shall be delivered to Landlord within fifteen (15) days after the completion of the Tenant Audit. If Tenant fails to timely request or commence the Tenant Audit, or the results of the Tenant Audit are not timely delivered to Landlord in strict compliance with this Section, or Tenant fails to strictly follow any of the procedures set forth in this Section, the applicable Landlord's Statement shall be deemed to have been approved and accepted by Tenant as correct. The Tenant Audit shall be limited strictly to those items in the then current Landlord's Statement, and Tenant shall not be entitled to inspect any of Landlord's books and records that apply to any Landlord's Statement for a prior period. No subtenant has any right to conduct a Tenant Audit and no assignee shall conduct a Tenant Audit for any period during which such assignee was not in possession of the Premises unless such assignee has agreed in writing to be responsible for any additional Operating Expenses determined to be owed for such prior period. Once having conducted a Tenant Audit with respect to a particular Landlord's Statement, Tenant shall have no right to conduct another Tenant Audit of the same Landlord's Statement. Tenant acknowledges and agrees that all records reviewed under this Section 6 constitute confidential information of Landlord, which shall not be disclosed to anyone other than (A) the auditor, accountants, attorneys and other professionals engaged by Tenant and directly involved in the Tenant Audit, (B) the employees of Tenant who have a need to know and who receive the results of the Tenant Audit, (C) any permitted successor, assignee or subtenant of Tenant, and (D) as otherwise may be required by law. In the event that the results of the Tenant Audit reveal that Tenant has overpaid its obligations for a prior period and is due a credit, Landlord shall credit the amount due against Tenant's next installment(s) of estimated Operating Expense, or provide a refund at Tenant's discretion. Tenant will not have the right to terminate the Lease on account of an overpayment. In the event that, as a result of the Tenant Audit, it is ascertained that Tenant has been underbilled for a prior period, the amount of such underbilling shall be paid by Tenant to Landlord with Tenant's next installment of estimated Operating Expenses. In the event that the Tenant Audit shows that Tenant has overpaid Operating Expenses with respect to the Landlord's Statement in question by five percent (5%) or more, Landlord shall reimburse Tenant for the reasonable out-of-pocket costs incurred by Tenant with respect to the Tenant Audit.

7. Services. Tenant shall pay for water, sewer, gas, electricity, power, telephone and other communication services and any other utilities supplied to the Premises and be responsible for its own janitorial services. Except to the extent that the parties mutually agree that Landlord shall provide any such services and invoice Tenant for the cost or include the cost in Operating Expenses, Tenant shall obtain such service in its own name (and each such provider shall be mutually acceptable to Landlord and Tenant) and timely pay all charges directly to the provider. Within thirty (30) days following written request from Landlord, Tenant shall provide Landlord with copies of all invoices received for such utilities and services and evidence of the payment thereof. Landlord shall not be in default on account of any interruption in such services, unless such interruption in service results directly from the actions of Landlord or its contractors.

Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's operations at the Premises, including coordinating with Tenant regarding the timing of such services and scheduling for intrusive work to be performed outside of business hours. Landlord shall have the exclusive right to select, and to change, the companies providing services or utilities to the Building or the Premises if Landlord elects to provide such services. Landlord will do this on in an open book method sharing with the Tenant the competitive process to insure competitive pricing (if applicable). Any wiring, cabling or other equipment necessary to connect Tenant's telecommunications equipment shall be Tenant's responsibility and, at Tenant's cost, shall be installed in a manner approved by Landlord. In the event Tenant's consumption of any utility or other service included in Operating Expenses is excessive when compared with other occupants of the Building, Landlord shall provide Tenant notice and supporting documentation of such excessive use and may invoice Tenant separately for, and Tenant shall pay, the cost of Tenant's excessive consumption, as demonstrated by Landlord.

8. Insurance; Waivers; Indemnification.

(a) Landlord shall maintain insurance against loss or damage to the Building or the Property with coverage for perils as set forth under the "Causes of Loss-Special Form" or equivalent property insurance policy in an amount equal to the full insurable replacement cost of the Building (excluding coverage of Tenant's personal property and any Alterations by Tenant), and such other insurance, including Annual Rent and Annual Operating rent loss coverage, as Landlord may reasonably deem appropriate or as any Mortgagee may require.

(b) Tenant, at its expense, shall keep in effect commercial general liability insurance, including blanket contractual liability insurance, covering Tenant's use of the Property, with such coverages and limits of liability as Landlord may reasonably require, but not less than a $1,000,000 combined single limit with a $3,000,000 general aggregate limit (which general aggregate limit may be satisfied by an umbrella liability policy) for bodily injury or property damage; however, such limits shall not limit Tenant's liability hereunder. The policy shall name Landlord and, so long as Landlord is Liberty Property Limited Partnership or an entity affiliated therewith, Liberty Property Trust, and any Mortgagee(s), as additional insureds, shall be written on an "occurrence" basis and not on a "claims made" basis and shall be endorsed to provide that it is primary to and not contributory to any policies carried by Landlord and to provide that it shall not be cancelable or reduced without at least thirty (30) days prior notice to Tenant. Tenant shall provide Landlord with at least ten (10) days notice of any cancellation or reduction of any policy to Landlord. The insurer shall be authorized to issue such insurance, licensed to do business and admitted in the state in which the Property is located and rated at least A VII in the most current edition of *Best's Insurance Reports*. Tenant shall deliver to Landlord on or before the Commencement Date or any earlier date on which Tenant accesses the Premises, and at least thirty (30) days after the date of each policy renewal, a certificate of insurance evidencing such coverage.

(c) Landlord and Tenant each waives, and releases the other from and against, all claims for recovery against the other for any loss or damage to the property of such party arising out of fire or other casualty coverable by a standard "Causes of Loss-Special Form" property insurance policy with, in the case of Tenant, such endorsements and additional coverages as are considered good business practice in Tenant's business, even if such loss or damage shall be

brought about by the fault or negligence of the other party or its Agents; provided, however, such waiver by Landlord shall not be effective with respect to Tenant's liability described in Sections 9(b) and 10(d) below. This waiver and release is effective regardless of whether the releasing party actually maintains the insurance described above in this subsection and is not limited to the amount of insurance actually carried, or to the actual proceeds received after a loss. Each party shall have its insurance company that issues its property coverage waive any rights of subrogation, and shall have the insurance company include an endorsement acknowledging this waiver, if necessary. Tenant assumes all risk of damage of Tenant's property within the Property, including any loss or damage caused by water leakage, fire, windstorm, explosion, theft, act of any other tenant, or other cause.

(d) Tenant shall not be permitted to satisfy any of its insurance obligations set forth in this Lease through any self-insurance or self-insured retention in excess of $25,000.

(e) Subject to subsection (c) above, and except to the extent caused by the negligence or willful misconduct of Landlord or its Agents, Tenant will indemnify, defend, and hold harmless Landlord and its Agents from and against any and all claims, actions, damages, liability and expense (including fees of attorneys, investigators and experts) which may be asserted against, imposed upon, or incurred by Landlord or its Agents and arising out of or in connection with loss of life, personal injury or damage to property in or about the Premises or arising out of the occupancy or use of the Property by Tenant or its Agents or occasioned wholly or in part by any act or omission of Tenant or its Agents, whether prior to, during or after the Term. Tenant's obligations pursuant to this subsection shall survive the expiration or termination of this Lease.

9. Maintenance and Repairs.

(a) Landlord shall Maintain (i) all Building footings, foundations, structural steel columns and girders at Landlord's sole expense; and (ii) the Building roof and exterior walls; and in the event there are multiple tenants in the Building, Landlord shall also Maintain (iii) the Building Systems; and (iv) the Common Areas. Costs incurred by Landlord under the foregoing clauses (ii), (iii) and (iv) will be included in Operating Expenses, provided that to the extent any heating, ventilation and air conditioning system, or other Building System, equipment or fixture serves the Premises exclusively, If Tenant becomes aware of any condition that is Landlord's responsibility to repair, Tenant shall promptly notify Landlord of the condition. If Landlord fails to complete any of its maintenance obligations under this Lease within thirty (30) days after the receipt by Landlord of written notice from Tenant of any such failure (except in the event of an emergency, in which event only reasonable prior notice shall be required), or, if such maintenance cannot reasonably be completed within such thirty (30) day period, such longer period as may be reasonably required for such completion (provided that Landlord commences the maintenance within such thirty (30) day period and diligently pursues same to completion), then, subject to and in accordance with the provisions of Section 22(g), Tenant may complete any such maintenance at Landlord's cost. Landlord shall pay Tenant any sums paid or costs incurred by Tenant (together with an administrative fee of ten percent (10%) thereof) in curing the default, plus interest at the Interest Rate from the respective dates of Tenant's incurring such costs within thirty (30) days after Tenant has invoiced Landlord therefor. If Landlord fails to reimburse Tenant within thirty (30) days after receipt of such invoice, then unless Landlord delivers written notice to Tenant within such thirty (30) day period that Landlord disputes in

good faith all or any part of the reimbursement sought by Tenant or the necessity of any of the Maintenance performed by Tenant, Tenant shall be entitled to offset up to the full amount of each month's installment of Minimum Annual Rent until Tenant has been reimbursed for the full amount.

(b) Except as provided in subsection (a) above, Tenant at its sole expense shall Maintain the Premises and all fixtures and equipment in the Premises. All repairs and replacements by Tenant shall utilize materials and equipment which are comparable to those originally used by Landlord in constructing the Building and Premises. Alterations, repairs and replacements to the Property, including the Premises, made necessary because of Tenant's Alterations or installations, any use or circumstances special or particular to Tenant, or any act or omission of Tenant or its Agents shall be made by Landlord or Tenant as set forth above, but at the sole expense of Tenant to the extent not covered by any applicable insurance proceeds paid to Landlord.

10. Compliance.

(a) Upon the Commencement Date, the Building and Common Areas shall be delivered in a condition that is compliant with all applicable Laws, including the ADA. Thereafter, Tenant will, at its expense, promptly comply with all Laws subsequently pertaining to the Premises or Tenant's use or occupancy. Tenant will pay any taxes or other charges by any authority on Tenant's property or trade fixtures or relating to Tenant's use of the Premises. Tenant shall be responsible for compliance with the ADA, and any other Laws regarding accessibility, with respect to the Premises, unless such Alteration is necessary due to compliance issues arising from or related to Landlord's failure to deliver the Building and Common Areas as required under this paragraph.

(b) Tenant will comply, and will cause its Agents to comply, with the Building Rules. Landlord may adopt and Tenant shall comply with reasonable rules and regulations to promote energy efficiency, sustainability and environmental standards for the Property, as the same may be changed from time to time upon reasonable notice to Tenant.

(c) Tenant agrees not to do anything or fail to do anything which will increase the cost of Landlord's insurance or which will prevent Landlord from procuring policies (including public liability) from companies and in a form satisfactory to Landlord. If any breach of the preceding sentence by Tenant causes the rate of fire or other insurance to be increased, Tenant shall pay the amount of such increase as additional Rent within 30 days after being billed.

(d) Tenant agrees that (i) no activity will be conducted on the Premises that will use or produce any Hazardous Materials, except for activities that are part of the ordinary course of Tenant's business and are conducted in a manner complying with all Environmental Laws ("**Permitted Activities**"); (ii) the Premises will not be used for storage of any Hazardous Materials, except for materials used in the Permitted Activities which are properly stored in a manner and location complying with all Environmental Laws; (iii) no portion of the Premises or Property will be used by Tenant or Tenant's Agents for disposal of Hazardous Materials; (iv) Tenant will deliver to Landlord copies of all Material Safety Data Sheets and other written information prepared by manufacturers, importers or suppliers of any chemical; and (v) Tenant

will immediately notify Landlord of any violation by Tenant or Tenant's Agents of any Environmental Laws or the release or suspected release of Hazardous Materials in, under or about the Premises, and Tenant shall immediately deliver to Landlord a copy of any notice, filing or permit sent or received by Tenant with respect to the foregoing. Landlord shall indemnify, defend and hold Tenant and its Agents harmless for, from and against all claims, costs or liabilities (including reasonable attorneys' fees) related to Hazardous Materials which were not caused by Tenant, and Tenant shall indemnify, defend and hold Landlord and its Agents harmless for, from and against all claims, costs or liabilities (including reasonable attorneys' fees) related to Hazardous Materials which were caused by Tenant. Each party's obligations pursuant to this subsection shall survive the expiration or termination of this Lease.

11. Signs. Subject to compliance with applicable City of Tempe code and other applicable Laws, Tenant will have the right to prominent building monument and lobby door signage as more particularly described on Exhibit G. Landlord will grant Tenant the right to rooftop signage (visible from the air), subject to applicable City of Tempe code and other applicable Laws, and work with Tenant, at no cost to Landlord, to evaluate and price the potential for rooftop signage. Tenant shall not place any signs on the Property without the prior consent of Landlord, other than signs that are located wholly within the interior of the Premises and not visible from the exterior of the Premises. Tenant shall maintain all signs installed by Tenant in good condition. Tenant shall remove its signs at the termination of this Lease, shall repair any resulting damage, and shall restore the Property to its condition existing prior to the installation of Tenant's signs.

12. Alterations; Roof Rights.

(a) Except for non-structural Alterations that (i) do not exceed $25,000 in the aggregate, (ii) are not visible from the exterior of the Premises, (iii) do not affect any Building System or the structural strength of the Building, (iv) do not require penetrations into the floor, ceiling or walls, and (v) do not require work within the walls, below the floor or above the ceiling, Tenant shall not make or permit any Alterations in or to the Premises without first obtaining Landlord's consent, which consent shall not be unreasonably withheld. With respect to any Alterations made by or on behalf of Tenant that require Landlord's consent: (i) not less than ten (10) days prior to commencing any Alteration, Tenant shall deliver to Landlord the plans, specifications and necessary permits for the Alteration, together with certificates evidencing that Tenant's contractors and subcontractors have adequate insurance coverage naming Landlord and, so long as the Landlord is Liberty Property Limited Partnership or an entity affiliated therewith, Liberty Property Trust, as additional insureds, (ii) Tenant shall obtain Landlord's prior written approval of any contractor or subcontractor, (iii) the Alteration shall be constructed with new materials, in a good and workmanlike manner, and in compliance with all Laws and the plans and specifications delivered to, and, if required above, approved by Landlord, (iv) the Alteration shall be performed in accordance with Landlord's reasonable requirements relating to sustainability and energy efficiency, (v) Tenant shall pay Landlord all reasonable costs and expenses in connection with Landlord's review of Tenant's plans and specifications, and of any supervision or inspection of the construction Landlord deems necessary, not to exceed $5,000 and (vi) upon Landlord's request Tenant shall, prior to commencing any Alteration, provide Landlord reasonable security against liens arising out of such construction. Any Alteration by Tenant shall be the property of Tenant until the expiration

or termination of the Term of this Lease; at that time without payment by Landlord the Alteration shall remain on the Property and become the property of Landlord unless Landlord gives notice to Tenant prior to installation to remove it, in which event Tenant will remove it, will repair any resulting damage and will restore the Premises to the condition existing prior to Tenant's Alteration. Tenant shall not be required to remove any Alterations made by Tenant if Tenant makes such request at the time it requests Landlord's approval of such Alterations and Landlord approves such request. Tenant may install its trade fixtures, furniture and equipment in the Premises, provided that the installation and removal of them will not affect any structural portion of the Property, any Building System or any other equipment or facilities serving the Building or any occupant.

(b) Tenant shall have the right to install telecommunications equipment and satellite equipment on the roof of the Building subject to Landlord's reasonable approval and provided such equipment is for the sole purpose of conducting Tenant's business and, in Landlord's reasonable judgment, will not invalidate any then existing warranties.

13. Mechanics' Liens. Tenant promptly shall pay for any labor, services, materials, supplies or equipment furnished to Tenant in or about the Property. Tenant shall keep the Property free from any liens arising out of any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to Tenant. Tenant shall take all steps permitted by law in order to avoid the imposition of any such lien. Should any such lien or notice of such lien be filed against the Property or any portion thereof, Tenant shall discharge the same by bonding or otherwise within fifteen (15) days after Tenant obtains notice that the lien or claim is filed regardless of the validity of such lien or claim.

14. Right of Entry. Tenant shall permit Landlord and its Agents to enter the Premises at all reasonable times following reasonable notice (except in an emergency) to inspect, Maintain, or make Alterations to the Premises or Property. Tenant shall also permit Landlord and its Agents to enter the Premises at mutually agreed upon times following reasonable notice and subject to escort by a Tenant representative, to exhibit the Premises for the purpose of sale or financing, and, during the last twelve (12) months of the Term, to exhibit the Premises to any prospective tenant. Landlord will make reasonable efforts not to inconvenience Tenant in exercising such rights, but Landlord shall not be liable for any reasonable interference with Tenant's occupancy resulting from Landlord's entry.

15. Damage by Fire or Other Casualty. If the Premises or Common Areas shall be damaged or destroyed by fire or other casualty, Tenant shall promptly notify Landlord, and Landlord, subject to the conditions set forth in this Section, shall repair such damage and restore the Premises or Common Areas to substantially the same condition in which they were immediately prior to such damage or destruction, but not including the repair, restoration or replacement of the fixtures, equipment, or Alterations installed by or on behalf of Tenant. Landlord shall notify Tenant within 30 days after the date of the casualty if Landlord anticipates that the restoration will take more than 180 days from the date of the casualty to complete, and in such event, either Landlord or Tenant (unless the damage was caused by Tenant) may terminate this Lease effective as of the date of casualty by giving notice to the other within thirty (30) days after Landlord's notice. If a casualty occurs during the last twelve (12) months of the Term, Landlord may terminate this Lease unless Tenant has the right to extend the Term for at least three more

years and does so extend the Term within thirty (30) days after the date of the casualty. Tenant will receive an abatement of Minimum Annual Rent and Annual Operating Expenses to the extent the Building and/or Premises are rendered untenantable as a result of the casualty.

16. Condemnation. If (a) all of the Premises are Taken, (b) any part of the Premises is Taken and the parties mutually agree that the remainder is insufficient for the reasonable operation of Tenant's business, or (c) any of the Property is Taken, and, in Landlord's opinion, it would be impractical or the condemnation proceeds are insufficient to restore the remainder, then this Lease shall terminate as of the date the condemning authority takes possession. If this Lease is not terminated, Landlord shall restore the Building to a condition as near as reasonably possible to the condition prior to the Taking, the Minimum Annual Rent shall be abated for the period of time all or a part of the Premises is untenantable in proportion to the square foot area untenantable, and this Lease shall be amended appropriately. The compensation awarded for a Taking shall belong to Landlord. Except for any relocation benefits to which Tenant may be entitled, Tenant hereby assigns all claims against the condemning authority to Landlord, including, but not limited to, any claim relating to Tenant's leasehold estate.

17. Quiet Enjoyment. Landlord covenants that Tenant, upon performing all of its covenants, agreements and conditions of this Lease, shall have quiet and peaceful possession of the Premises as against anyone claiming by or through Landlord, subject, however, to the terms of this Lease.

18. Assignment and Subletting.

(a) Except as provided in subsection (b) below, Tenant shall not enter into nor permit any Transfer of Tenant's interest in the Lease, voluntarily or by operation of law, without the prior consent of Landlord, which consent shall not be unreasonably withheld. Without limitation, Tenant agrees that Landlord's consent shall not be considered unreasonably withheld if (i) the proposed transferee is an existing tenant in the Project and either (A) was contacted by Landlord or contacted Landlord regarding leasing space in the Project prior to being contacted by Tenant regarding a Transfer of this Lease, or (B) such tenant in question is downsizing from their current space within the Project, or (ii) the business or business reputation of the proposed transferee is unacceptable to Landlord, or (iii) the creditworthiness of the proposed transferee is unacceptable to Landlord (such consideration to be applicable only if Tenant will not remain liable under this Lease following the Transfer), or (iv) Landlord has comparable space in the Building available for lease by the proposed transferee or (v) Tenant is in default under the Lease or any act or omission has occurred which would constitute a Tenant default with the giving of notice and/or the passage of time. A consent to one Transfer shall not be deemed to be a consent to any subsequent Transfer. In no event shall any Transfer relieve Tenant from any obligation under this Lease. Landlord's acceptance of Rent from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Any Transfer not in conformity with this Section 18 shall be void at the option of Landlord.

(b) Landlord's consent shall not be required in the event of any Transfer by Tenant to an Affiliate provided that (i) the Affiliate has a tangible net worth at least equal to that of Tenant as of the Effective Date, (ii) Tenant provides Landlord notice of the Transfer at least fifteen (15) days prior to the Effective Date, together with current public financial statements of the Affiliate,

and (iii) in the case of an assignment or sublease, Tenant delivers to Landlord an assumption agreement reasonably acceptable to Landlord executed by Tenant and the Affiliate, together with a certificate of insurance evidencing the Affiliate's compliance with the insurance requirements of Tenant under this Lease.

(c) The provisions of subsection (a) above notwithstanding, if Tenant proposes to Transfer all of its interest in the Premises (other than to an Affiliate), Landlord may terminate this Lease, either conditioned on execution of a new lease between Landlord and the proposed transferee or without that condition. If Tenant proposes to enter into a Transfer of less than all of its interest in the Premises (other than to an Affiliate), Landlord may amend the Lease to remove the portion of the Premises to be transferred, either conditioned on execution of a new lease between Landlord and the proposed transferee or without that condition. If this Lease is not so terminated or amended, Tenant shall pay to Landlord, immediately upon receipt, 50% of the excess, after the deduction of marketing costs, commissions, tenant improvements, legal fees and free rent, of (i) all compensation received by Tenant for the Transfer over (ii) the Minimum Annual Rent allocable to the Premises transferred.

(d) If Tenant requests Landlord's consent to a Transfer, Tenant shall provide Landlord, at least fifteen (15) days prior to the proposed Transfer, current financial statements of the transferee certified by an executive officer of the transferee, a complete copy of the proposed Transfer documents, and any other information Landlord reasonably requests. Immediately following any approved assignment or sublease, Tenant shall deliver to Landlord an assumption agreement reasonably acceptable to Landlord executed by Tenant and the transferee, together with a certificate of insurance evidencing the transferee's compliance with the insurance requirements of Tenant under this Lease. Tenant agrees to reimburse Landlord for reasonable attorneys' fees in connection with the processing and documentation of any Transfer for which Landlord's consent is requested, which shall not exceed $5,000, unless such requested Transfer includes a request for, and results in, a substantial modification of the Lease terms.

19. Subordination; Mortgagee's Rights.

(a) Tenant accepts this Lease subject and subordinate to any Mortgage now or in the future affecting the Premises, provided that Tenant's right of possession of the Premises shall not be disturbed by the Mortgagee so long as Tenant is not in default under this Lease. This clause shall be self-operative, but within ten (10) days after request, Tenant shall execute and deliver any further instruments confirming the subordination of this Lease and any further instruments of attornment that the Mortgagee may reasonably request. However, any Mortgagee may at any time subordinate its Mortgage to this Lease, without Tenant's consent, by giving notice to Tenant, and this Lease shall then be deemed prior to such Mortgage without regard to their respective dates of execution and delivery; provided that such subordination shall not affect any Mortgagee's rights with respect to condemnation awards, casualty insurance proceeds, intervening liens or any right which shall arise between the recording of such Mortgage and the execution of this Lease.

(b) No Mortgagee shall be (i) liable for any act or omission of a prior landlord, (ii) subject to any rental offsets or defenses against a prior landlord, (iii) bound by any amendment of this Lease made without the Mortgagee's written consent, or (iv) bound by

payment of Monthly Rent more than one month in advance or liable for any other funds paid by Tenant to Landlord unless such funds actually have been transferred to the Mortgagee by Landlord.

(c) The provisions of Sections 15 and 16 above notwithstanding, Landlord's obligation to restore the Premises after a casualty or condemnation shall be subject to the consent and prior rights of any Mortgagee.

20. Tenant's Certificate; Financial Information. Within ten (10) days after Landlord's request from time to time, (a) Tenant shall execute, acknowledge and deliver to Landlord, for the benefit of Landlord, Mortgagee, any prospective Mortgagee, and any prospective purchaser of Landlord's interest in the Property, an estoppel certificate in the form of attached Exhibit C (or other form requested by Landlord), modified as necessary to accurately state the facts represented, and (b) Tenant shall furnish to Landlord, Landlord's Mortgagee, prospective Mortgagee and/or prospective purchaser reasonably requested financial information. Landlord agrees to keep any private financial information provided to it by Tenant confidential (except for disclosure to the parties listed in this subsection (b)), and any Mortgagee, prospective Mortgagee and/or prospective purchaser with which Landlord shares such information shall be informed by Landlord of the obligation to keep such information confidential.

21. Surrender.

(a) On the date on which this Lease expires or terminates, Tenant shall return possession of the Premises to Landlord in good condition, except for ordinary wear and tear, and except for casualty damage or other conditions that Tenant is not required to remedy under this Lease. Prior to the expiration or termination of this Lease, Tenant shall remove from the Property all furniture, trade fixtures, equipment, wiring and cabling (unless Landlord directs Tenant otherwise upon at least sixty (60) days' prior written notice), and all other personal property installed by Tenant or its assignees or subtenants. Tenant shall repair any damage resulting from such removal and shall restore the Property to good order and condition. Any of Tenant's personal property not removed as required shall be deemed abandoned, and Landlord, at Tenant's expense, may remove, store, sell or otherwise dispose of such property in such manner as Landlord may see fit and/or Landlord may retain such property or sale proceeds as its property. If Tenant does not return possession of the Premises to Landlord in the condition required under this Lease, Tenant shall pay Landlord all resulting damages Landlord may suffer.

(b) If Tenant remains in possession of the Premises after the expiration or termination of this Lease, Tenant's occupancy of the Premises shall be that of a tenancy at will. Tenant's occupancy during any holdover period shall otherwise be subject to the provisions of this Lease (unless clearly inapplicable), except that the Monthly Rent shall be, for the first three (3) months, one hundred and twenty-five percent (125%) of the Monthly Rent payable for the last full month immediately preceding the holdover and, thereafter, one hundred and fifty percent (150%) of the Monthly Rent payable for the last full month immediately preceding the holdover. No holdover or payment by Tenant after the expiration or termination of this Lease shall operate to extend the Term or prevent Landlord from immediate recovery of possession of the Premises by summary proceedings or otherwise. Any provision in this Lease to the contrary notwithstanding, any holdover by Tenant shall constitute a default on the part of Tenant under this Lease entitling

Landlord to exercise, without obligation to provide Tenant any notice or cure period, all of the remedies available to Landlord in the event of a Tenant default, and Tenant shall be liable for all damages, including consequential damages, that Landlord suffers as a result of the holdover.

22. Defaults; Remedies.

(a) It shall be an Event of Default:

(i) If Tenant does not pay in full when due any and all Rent and, except as provided in Section 22(c) below, Tenant fails to cure such default on or before the date that is five (5) business days after Landlord gives Tenant notice of default;

(ii) If Tenant enters into or permits any Transfer in violation of Section 18 above;

(iii) If Tenant fails to observe and perform or otherwise breaches any other material provision of this Lease, and, except as provided in Section 22(c) below, Tenant fails to cure the default on or before the date that is thirty (30) days after Landlord gives Tenant notice of default; provided, however, if the default cannot reasonably be cured within thirty (30) days following Landlord's giving of notice, Tenant shall be afforded additional reasonable time to cure the default if Tenant begins to cure the default within thirty (30) days following Landlord's notice and continues diligently in good faith to completely cure the default; or

(iv) If Tenant becomes insolvent or makes a general assignment for the benefit of creditors or offers a settlement to creditors, or if a petition in bankruptcy or for reorganization or for an arrangement with creditors under any federal or state law is filed by or against Tenant, or a bill in equity or other proceeding for the appointment of a receiver for any of Tenant's assets is commenced, or if any of the real or personal property of Tenant shall be levied upon; provided that any proceeding brought by anyone other than Landlord or Tenant under any bankruptcy, insolvency, receivership or similar law shall not constitute an Event of Default until such proceeding has continued unstayed for more than 60 consecutive days.

(b) If an Event of Default occurs, Landlord shall have the following rights and remedies:

(i) Landlord, without any obligation to do so, may elect to cure the default on behalf of Tenant, in which event Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord (together with an administrative fee of ten percent (10%) thereof) in curing the default, plus interest at the Interest Rate from the respective dates of Landlord's incurring such costs, which sums and costs together with interest at the Interest Rate shall be deemed additional Rent;

(ii) To enter and repossess the Premises, by breaking open locked doors if necessary, and remove all persons and all or any property, by action at law or otherwise, without being liable for prosecution or damages. Landlord may, at Landlord's option, make reasonable Alterations and repairs in order to relet the Premises and relet all or any part(s) of the Premises for Tenant's account. Tenant agrees to pay to Landlord on demand any deficiency (taking into account all costs incurred by Landlord) that may arise by reason of such reletting. In the event of

reletting without termination of this Lease, Landlord may at any time thereafter elect to terminate this Lease for such previous breach

(iii) Subject to Landlord's good faith obligation to mitigate damages to the extent imposed under applicable Laws, to accelerate the whole or any part of the Rent for the balance of the Term and declare the same to be immediately due and payable, and for purposes of acceleration of Annual Operating Expenses, the amount to be accelerated shall be based upon the assumption that Annual Operating Expenses for each Lease Year of the balance of the Term would be equal to the amount of Annual Operating Expenses which were payable by Tenant in the Lease Year immediately preceding the acceleration); provided, however, Tenant shall have the right, in any judicial proceedings brought to collect same, to assert a credit for the fair rental value of the Premises for the balance of the Term, Tenant to have the burden of proving such credit. The fair rental value of the Premises shall be net of the costs which would be reasonably incurred by Landlord in releasing the Premises, including without limitation, reasonable demolition and fit-out costs, brokerage commissions and legal fees and expenses. The amount determined to be payable to Landlord hereunder shall be reduced to present value at the rate of six percent (6%) per annum at the time of actual payment; and

(iv) To terminate this Lease and the Term without any right on the part of Tenant to save the forfeiture by payment of any sum due or by other performance of any condition, term or covenant broken.

(a) Any provision to the contrary in this Section 22 notwithstanding, (i) Landlord shall not be required to give Tenant the notice and opportunity to cure provided in Section 22(a) above more than twice in any consecutive 12-month period, and thereafter Landlord may declare an Event of Default without affording Tenant any of the cure rights provided under this Lease, and (ii) Landlord shall not be required to give notice prior to exercising its rights under Section 22(b) if Tenant fails to comply with the provisions of Sections 13, 20 or 27 or in an emergency.

(b) No waiver by Landlord of any breach by Tenant shall be a waiver of any subsequent breach, nor shall any forbearance by Landlord to seek a remedy for any breach by Tenant be a waiver by Landlord of any rights and remedies with respect to such or any subsequent breach. Efforts by Landlord to mitigate the damages caused by Tenant's default shall not constitute a waiver of Landlord's right to recover damages hereunder. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy provided herein or by law, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the total amount due Landlord under this Lease shall be deemed to be other than on account, nor shall any endorsement or statement on any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of Rent due, or Landlord's right to pursue any other available remedy.

(c) If either party commences an action against the other party arising out of or in connection with this Lease, the prevailing party shall be entitled to have and recover from the

other party reasonable attorneys' fees, costs of suit, investigation expenses and discovery costs, including costs of appeal.

(d) Landlord and Tenant waive the right to a trial by jury in any action or proceeding based upon or related to, the subject matter of this Lease.

(e) Landlord shall not be in default under this Lease unless Landlord fails to commence performance of the obligations required of Landlord within thirty (30) days after receipt of written notice by Tenant to Landlord specifying that Landlord has failed to perform such obligation, provided, however, that if the nature of Landlord's obligation is such that more than the specified cure period is required for performance, then Landlord shall not be in default if Landlord commences performance within the specified cure period and thereafter diligently prosecutes the same to completion. In the event Landlord does not commence performance within the period provided herein, then, upon not less than five (5) days additional prior written notice from Tenant to Landlord after the end of the cure period that Tenant intends to perform the obligation on Landlord's behalf, Tenant shall have the right, but not the obligation, to take such action as is reasonably necessary under the circumstances to perform such obligation. All work done in accordance herewith must be performed at a reasonable and competitive cost and expense (taking into account the circumstances of the obligation). To the extent such work performed by Tenant is Landlord's responsibility under this Lease, Landlord shall reimburse Tenant, within thirty (30) days after Landlord's receipt of a reasonably documented invoice therefor, for any reasonable sums paid or reasonable costs incurred by Tenant in curing the default (together with an administrative fee of ten percent (10%) thereof), plus interest at the Interest Rate from the respective dates of Tenant's incurring such costs.

23. Tenant's Authority . Tenant represents and warrants to Landlord that: (a) Tenant is duly formed, validly existing and in good standing under the laws of the state under which Tenant is organized, and qualified to do business in the state in which the Property is located, and (b) the person(s) signing this Lease are duly authorized to execute and deliver this Lease on behalf of Tenant.

24. Liability of Landlord. The word "Landlord" in this Lease includes the Landlord executing this Lease as well as its successors and assigns, each of which shall have the same rights, remedies, powers, authorities and privileges as it would have had it originally signed this Lease as Landlord. Any such person or entity, whether or not named in this Lease, shall have no liability under this Lease after it ceases to hold title to the Premises, except for obligations already accrued (whether known or unknown at the time such person or entity ceases to hold title to the Premises), and, as to any unapplied portion of Tenant's Security Deposit, Landlord shall be relieved of all liability upon transfer of such portion to its successor in interest. Tenant shall look solely to Landlord's successor in interest for the performance of the covenants and obligations of the Landlord hereunder which subsequently accrue. Landlord shall not be deemed to be in default under this Lease unless Tenant gives Landlord notice specifying the default and Landlord fails to cure the default within a reasonable period following Tenant's notice. In no event shall Landlord be liable to Tenant for any loss of business or profits of Tenant. Neither Landlord nor any principal of Landlord nor any owner of the Property, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of this Lease

or the Premises. Tenant shall look solely to the interest of Landlord in the Property for the satisfaction of any claim by Tenant against Landlord.

25. Liability of Parties. Except as otherwise expressly set forth herein, in no event shall either party be liable for any consequential, punitive or special damages of any kind.

26. Miscellaneous.

(a) The captions in this Lease are for convenience only, are not a part of this Lease and do not in any way define, limit, describe or amplify the terms of this Lease.

(b) This Lease represents the entire agreement between the parties hereto and there are no collateral or oral agreements or understandings between Landlord and Tenant with respect to the Premises or the Property. No rights, easements or licenses are acquired in the Property or any land adjacent to the Property by Tenant by implication or otherwise except as expressly set forth in this Lease. This Lease shall not be modified in any manner except by an instrument in writing executed by the parties. The masculine (or neuter) pronoun and the singular number shall include the masculine, feminine and neuter genders and the singular and plural number. The word "including" followed by any specific item(s) is deemed to refer to examples rather than to be words of limitation. The word "person" includes a natural person, a partnership, a corporation, a limited liability company, an association and any other form of business association or entity. Both parties having participated fully and equally in the negotiation and preparation of this Lease, this Lease shall not be more strictly construed, nor any ambiguities in this Lease resolved, against either Landlord or Tenant.

(c) Each covenant, agreement, obligation, term, condition or other provision contained in this Lease shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, not dependent on any other provision of this Lease unless otherwise expressly provided. All of the terms and conditions set forth in this Lease shall apply throughout the Term unless otherwise expressly set forth herein.

(d) If any provisions of this Lease shall be declared unenforceable in any respect, such unenforceability shall not affect any other provision of this Lease, and each such provision shall be deemed to be modified, if possible, in such a manner as to render it enforceable and to preserve to the extent possible the intent of the parties as set forth herein. This Lease shall be construed and enforced in accordance with the laws of the state in which the Property is located.

(e) This Lease shall be binding upon and inure to the benefit of Landlord and Tenant and their respective heirs, personal representatives and permitted successors and assigns. All persons liable for the obligations of Tenant under this Lease shall be jointly and severally liable for such obligations.

(f) Tenant shall not record this Lease or any memorandum with any county recorder's office without Landlord's prior consent.

27. Notices. Any notice, consent or other communication under this Lease shall be in writing and addressed to Landlord or Tenant at their respective addresses specified in Section 1 above (or to such other address as either may designate by notice to the other) with a copy to any

Mortgagee or other party designated by Landlord. Each notice or other communication shall be deemed given if sent by prepaid overnight delivery service or by certified mail, return receipt requested, postage prepaid or in any other manner, with delivery in any case evidenced by a receipt, and shall be deemed to have been given on the day of actual delivery to the intended recipient or on the business day delivery is refused. The giving of notice by Landlord's attorneys, representatives and agents under this Section shall be deemed to be the acts of Landlord.

28. Security Deposit. Upon Lease Commencement, Tenant shall deposit with Landlord the Security Deposit to be retained by Landlord as cash security for the faithful performance and observance by Tenant of the provisions of this Lease. Tenant shall not be entitled to any interest on the Security Deposit. Landlord shall have the right to commingle the Security Deposit with its other funds. Landlord may use the whole or any part of the Security Deposit for the payment of any amount as to which Tenant is in default or to compensate Landlord for any loss or damage it may suffer by reason of Tenant's default under this Lease. If Landlord uses all or any portion of the Security Deposit as herein provided, within ten (10) days after demand, Tenant shall pay Landlord cash in an amount equal to that portion of the Security Deposit used by Landlord. If Tenant complies fully and faithfully with all of the provisions of this Lease, the Security Deposit shall be returned to Tenant no later than thirty (30) days after the Expiration Date and surrender of the Premises to Landlord in accordance with the terms and conditions of this Lease.

29. Parking. Landlord agrees that during the Term, Tenant shall have the non-exclusive right, in common with other occupants in the Building (except as applies to covered parking spaces as set forth below), to use the parking spaces (as indicated on Exhibit H) located on the Land, which shall consist of six (6) parking spaces for each 1,000 rentable square feet leased. Of the total number of parking spaces allocated to Tenant, 65 of those spaces shall be covered and reserved parking spaces at a monthly fee of $45.00 per parking space, such fee to commence on the first day of the fourth full calendar month of the Term.

30. Early Occupancy. Tenant and its authorized agents, employees and contractors shall at all reasonable times within thirty (30) days of the Commencement Date, or at such other times as mutually agreed upon the parties, and solely for the purpose of installing furniture, fixtures and equipment for Tenant's use and occupancy of the Premises, have the right, at Tenant's sole risk, expense and responsibility, to occupy the Premises, provided that in so doing Tenant shall not interfere with or delay the work to be performed by Landlord pursuant to the terms of this Lease. In no event may Tenant conduct business in the Premises during such early access period.

Landlord's approval: _____ _____
City Manager Senior Vice President, Regional Manager

31. Option to Extend.

(a) Provided that Landlord has not given Tenant notice of default more than two (2) times during any twelve (12)-month period, and provided that there then exists no uncured Event of Default by Tenant under this Lease, nor any event that with the giving of notice and/or the passage of time would constitute an Event of Default, and provided that Tenant is the sole

occupant of the Premises, Tenant shall have the right and option to extend the Term of this Lease for two (2) additional periods of sixty (60) months each, exercisable by giving Landlord prior written notice, on or before that date that is nine (9) months prior to the then current Expiration Date, but not prior to the date that is 18 months prior to the then current Expiration Date, of Tenant's election to extend the Term of this Lease; it being agreed that time is of the essence and that this option may be exercised by and any successor to Tenant's entire interest in the Premises through a Transfer permitted under Section 18.

(b) Such extensions shall be under the same terms and conditions as provided in this Lease except as follows:

(i) each additional term shall begin on the day after the then current Expiration Date and thereafter the Expiration Date shall be deemed to be the date that is five (5) years after the then current Expiration Date;

(ii) all references to the Term in this Lease shall be deemed to mean the Term as extended pursuant to this Section;

(iii) there shall be only one (1) further option to extend following the first renewal, and no further option to extend after the second renewal;

(iv) the Minimum Annual Rent for each year of the additional term shall be equal to the fair market rental value of the Premises and annual increases in fair market rental value as determined based on comparable buildings in the surrounding market (including rent, concessions, tenant improvements, free rent and broker commissions) (collectively, the "**FMR**") applicable at the time Tenant exercises such option (but in no event prior to the date that is six (6) months before the then current Expiration Date).

(c) Within thirty (30) days after Landlord receives notice of Tenant's exercise of the option to extend the Term of this Lease, Landlord will give notice to Tenant (the "**Rent Notice**") of Landlord's opinion of the FMR. If Tenant does not respond to the Rent Notice in writing within thirty (30) days after receiving it, Landlord's opinion of the FMR shall be deemed accepted as the Minimum Annual Rent due for each Lease Year of the extension period. If, during such thirty (30) day period, Tenant gives Landlord notice that Tenant contests Landlord's determination of the FMR (an "**Objection Notice**"), which notice must contain therein Tenant's opinion of the FMR, the parties will attempt to arrive at a mutually agreeable Minimum Annual Rent for each Lease Year of the extension period. When the parties come to an agreement, they will both execute an amendment to this Lease establishing the Minimum Annual Rent for each Lease Year of the extension period.

(d) If Landlord and Tenant cannot agree as to the FMR within fifteen (15) days after Landlord's receipt of the Objection Notice, the FMR shall be determined by appraisal. Within ten (10) days after the expiration of such fifteen (15) day period, Landlord and Tenant shall give written notice to the other setting forth the name and address of an appraiser designated by the party giving notice. All appraisers shall be independent brokers, who are a member in good standing of the Society of Industrial and Office Realtors ("**SIOR**") with experience in real estate activities, including at least ten (10) years' experience in valuing similar space in the Phoenix,

Arizona area. If either party shall fail to give notice of such designation within the time period provided, then the party who has designated its appraiser (the "**Designating Party**") shall notify the other party (the "**Non-Designating Party**") in writing that the Non-Designating Party has an additional ten (10) days to give notice of its designation, otherwise the appraiser, if any, designated by the Designating Party shall conclusively determine the FMR. If two appraisers have been designated, such appraisers shall attempt to agree upon the FMR. If the two appraisers do not agree on the FMR within twenty (20) days of their designation, the two appraisers shall designate a third appraiser. If the two appraisers shall fail to agree upon the identity of a third appraiser within five (5) business days following the end of such twenty (20) day period, then either Landlord or Tenant may apply to the American Arbitration Association, or any successor thereto having jurisdiction, for the settlement of the dispute as to the designation of the third appraiser and the American Arbitration Association shall designate a third appraiser in accordance with the Real Estate Valuation Arbitration Rules of the American Arbitration Association. The three appraisers shall conduct such hearings as they may deem appropriate, shall make their determination of the FMR in writing and shall give notice to Landlord and Tenant of such determination within twenty (20) days after the appointment of the third appraiser. If the three appraisers cannot agree upon the FMR, each appraiser shall submit in writing to Landlord and Tenant the FMR as determined by such appraiser. The FMR for the purposes of this paragraph shall be equal to the arithmetic average of the two closest determinations of FMR submitted by the appraisers. Each party shall pay its own fees and expenses in connection with any appraiser selected by such party under this paragraph, and the parties shall share equally all other expenses and fees of the arbitration, including the fees and expenses charged by the third appraiser. The FMR as determined in accordance with the provisions of this Section shall be final and binding upon Landlord and Tenant.

32. Expansion Rights: Tenant shall have the right to lease space on the second floor of the Building as follows:

Beginning with execution of this Lease and continuing until the first anniversary of the Commencement Date (the "**ROFR Period**"), Tenant shall have the right to lease all or a portion of the second floor of the Building as Landlord receives a letter of intent from a third party to lease some or all of the second floor of the Building ("**Offered Space**"), which letter of intent Landlord is prepared to accept (the "**Offer**"). In such a case, Landlord shall give written notice to Tenant of the Offer and Tenant shall have a period of seven (7) business days in which to exercise Tenant's right to lease the Offered Space. If Tenant notifies Landlord in writing within such seven (7) business day period that Tenant does not elect to lease the Offered Space, or if Tenant does not respond in writing to the Offer within such seven (7) business day period, then, in either of the above instances, Landlord may lease the Offered Space to the third party on the basis of the Offer. If Tenant exercises its right to lease the Offered Space, effective on the delivery date specified in the Offer, the Offered Space shall automatically be included in the Premises and be subject to all the terms and conditions of this Lease, subject to the following:

(a) The term of the lease for the Offered Space shall be coterminous with the Term, and any rent abatement, tenant improvement allowance or other applicable terms and conditions shall be apportioned on a straight line, pro rata basis.

(b) Tenant's Share of Annual Operating Expenses will be recalculated based on the total rentable square footage of the Premises, as increased by the Offered Space.

(c) Tenant's monthly installment of Minimum Annual Rent for the Offered Space will be recalculated based on the total rentable square footage of the Premises, as increased by the Offered Space.

(d) Tenant shall receive an improvement allowance on the same terms as provided in the original lease but prorated as provided in subsection 31(a).

(e) Landlord and Tenant shall, prior to the beginning of the term for the Offered Space, execute a written amendment to the Lease confirming the inclusion of the Offered Space, the recalculated Minimum Annual Rent and the other applicable terms.

Landlord's approval: _____ _____

City Manager Senior Vice President, Regional Director]

33. GPLET Provisions. Notwithstanding anything to the contrary in this Lease, Landlord and Tenant acknowledge and agree that, upon receipt of a Certificate of Occupancy or promptly thereafter, Landlord will enter into a ground lease agreement (the "**Ground Lease**") with the City of Tempe, Arizona (the "**City**") whereby the Landlord will convey fee title to the Land to the City, and lease back the land from the City (the "**GPLET Transaction**"). Upon consummation of the GPLET Transaction, this Lease shall become a sublease subject to the terms of the Ground Lease, and Tenant covenants, at no material out-of-pocket expense to Tenant, to take all reasonable actions requested by Landlord in connection therewith.

34. Construction of the Building.

(a) The Building and all site work and other improvements to be constructed in connection therewith (the "**Base Building Work**") shall be constructed by Landlord and Wespac Construction (the "**Contractor**") and subcontractors substantially in accordance with the description of improvements (the "**Base Building Shell Specifications**") attached hereto as Exhibit D. The Base Building Work and the Common Areas shall be constructed by Landlord, at Landlord's cost and expense, in a good and workmanlike manner and shall substantially comply, at the time of Substantial Completion thereof, with (i) all Laws applicable to the general use of the Building, and (ii) the Base Building Shell Specifications. Landlord shall be responsible for obtaining all necessary building permits and other governmental permits and approvals necessary for construction of the Base Building Work. Tenant shall cooperate with Landlord in Landlord's efforts to obtain such permits and other approvals.

(b) Landlord shall have the right, from time to time, to make changes/field adjustments in and to the Base Building Plans to the extent that the same shall be necessary or desirable in order to adjust to actual field conditions or to cause the Base Building Work to comply with Laws and any applicable requirements of public authorities and/or requirements of insurance bodies or as Landlord otherwise deems appropriate. All such changes/field adjustments shall be noted on the applicable plans or documents.

(c) Landlord shall use commercially reasonable efforts to cause the Base Building Work to be Substantially Completed (as hereinafter defined) and ready for use and occupancy by Tenant on or before October 1, 2014 (the "**Estimated Completion Date**"), subject to Excusable Delays (as hereinafter defined). As used in this Lease, "**Substantial Completion**" shall mean the date that (i) Landlord has delivered to Tenant a copy of the certificate of occupancy or temporary certificate of occupancy relating to the Base Building Work and Tenant Improvements or other similar instrument issued by the applicable governmental authority having jurisdiction, and (ii) Landlord has substantially completed all of the Base Building Work and Tenant Improvements substantially in accordance with the Base Building Plans and Tenant Improvement Plans, as the case may be. PROVIDED, HOWEVER, that the Estimated Completion Date shall be extended for additional periods of time equal to the time lost by reason of delays caused by Tenant or its Agents, change orders, strikes, governmental restrictions and limitations, delays in governmental permitting, unavailability or delays in obtaining materials, war or other national emergency, acts of terrorism, accidents, floods, fire damage or other casualties, adverse weather conditions, or any cause similar or dissimilar to the foregoing beyond the reasonable control of Landlord or Landlord's Contractor (collectively, "**Excusable Delays**").

(d) If Landlord is unable to achieve Substantial Completion on or before twenty (20) days after the Estimated Completion Date occurs, Tenant shall be entitled (i) beginning on the 21st day after the anticipated Completion Date through and including the 90th day after the Estimated Completion Date, to a "day for day" rent credit in an amount equal to 1/30th of the monthly installment of Minimum Annual Rent for each day until Landlord achieves Substantial Completion ("**Initial Rent Credit**"), and (ii) beginning on the 91st day after the Estimated Completion Date, to a rent credit in an amount equal to 150% of the Initial Rent Credit for each day until Landlord achieves Substantial Completion. If Landlord does not achieve Substantial Completion before the date which is one hundred eighty (180) days after the Estimated Completion Date, then Tenant shall have the right to terminate this Lease. In the event Substantial Completion is delayed due to a failure of Tenant to perform its obligations under this Lease or due to changes to the Tenant Improvement Plans initiated by Tenant, the duration of Tenant's free rent period shall be reduced by the number of days delay caused by Tenant.

(e) On the Commencement Date, Landlord shall deliver the Premises to Tenant with all building systems and subsystems, structural elements of the Premises and the foundation in good working condition and repair. Landlord will warrant the operating systems of the Premises (e.g. HVAC, electrical, roof, plumbing, etc.) through the first anniversary of the Commencement Date and will, at its sole cost without pass through to Tenant, replace or repair any inoperable or damaged building system. All extended manufacturers' warranties will be passed through to the benefit of Tenant.

(f) Tenant shall have access to the Building 24-hours per day, 7-days per week, 365-days per year. Tenant shall be permitted to install and maintain its own security systems for the Premises to include, but not be limited to, card readers, cameras, on-site security guards, etc. If requested by Landlord prior to the expiration of the Term, Tenant shall remove all security systems and restore/repair any damage caused by installation, removal and/or use of such security system.

35. Tenant Improvements; Completion, Tenant Allowance; Test-fit Allowance.

(a) Landlord, through its Contractor and subcontractors, shall complete construction, at Tenant's sole expense (which may also include Tenant's expenses for consultants, legal fees, equipment, telephone/data installation, space planning and design, trade fixtures, furniture and/or signage) ("**Tenant's TI Costs**"), of the improvements agreed upon between Landlord and Tenant (the "**Tenant Improvements**") as described in the construction drawings, plans and specifications to be mutually approved by Landlord and Tenant (the "**Tenant Improvement Plans**") using Landlord's building standard and otherwise in accordance with this Section.

(b) Tenant will immediately notify Landlord if Tenant desires to make any changes to the Tenant Improvements and Tenant Improvement Plans. If Landlord approves the revisions, Landlord or Contractor will notify Tenant of the anticipated additional cost and delay in completing the Tenant Improvements that would be caused by such revisions, which shall be solely Tenant's responsibility and at Tenant's expense. If Landlord reasonably disapproves the revisions, Landlord will notify Tenant of the reasons for disapproval and cooperate with Tenant to resolve the disagreements; provided, however, that if such disagreements are not resolved within five (5) business days thereafter, such changes will not be made. Tenant will approve or disapprove the increased cost and delay within five (5) business days after such notice, and failure to give such notice within five (5) business days will be deemed disapproval. If Tenant approves, Landlord will prepare, and Landlord and Tenant will execute, a change order describing the revisions and the anticipated additional cost and delay. If Tenant disapproves, or is deemed to disapprove, the changes will not be made unless Landlord and Tenant can agree upon a resolution within five (5) business days thereafter. Any delay relating to a request for revisions or a change order, or if the actual delay is caused by Landlord needing to perform such change order, is an Excusable Delay. Landlord may require Tenant to deposit such estimated additional cost with Landlord before the change order work is performed.

(c) Landlord may withhold its approval of change orders, or other work requested by Tenant, which Landlord reasonably determines may require work which: (i) exceeds or adversely affects the structural integrity of the Building; (ii) adversely affects, or exceeds the capacity of, any part of the heating, ventilating, air conditioning, plumbing, mechanical, electrical, communication or other systems of the Building; (iii) will increase the cost of operation or maintenance of any of the systems of the Property; (iv) does not conform to applicable building codes, policies or procedures or is not approved by any governmental authority with jurisdiction over the Premises; (v) is not a building standard item or an item of equal or higher quality; (vi) may detrimentally affect the uniform appearance of the Property; or (vii) is reasonably disapproved by Landlord for any other reason.

(d) Not later than fifteen (15) days after the date of Substantial Completion of the Tenant Improvements, Landlord and Tenant will inspect the Premises and work together in good faith to develop a "punch list" of any Tenant Improvement items which were either not properly completed or are in need of repair. Landlord will complete (or repair, as the case may be) the items listed on the punch list with commercially reasonable diligence and speed. If Tenant does not inspect the Premises with Landlord within such period, Tenant will be deemed to have accepted the Premises as delivered.

(e) Landlord shall construct the Tenant Improvements in the Premises in accordance with the Tenant Improvement Plans and shall contribute an allowance of up to $2,840,480.00 ("**Tenant Improvement Allowance**") toward the actual amount of Tenant's TI Costs. If the actual TI Costs exceed the amount of the Tenant Improvement Allowance, the excess shall be paid by Tenant. After Landlord has fully disbursed the Tenant Improvement Allowance, and on or before the 25th day of each month thereafter, Landlord shall submit to Tenant (i) an itemization of the Tenant Improvements completed during the preceding month; (ii) a statement of the total amount invoiced by Contractor for such Tenant Improvements, and (iii) invoices, receipts and payment applications establishing the costs of construction incurred by Landlord and covered by the current application for payment. Tenant shall pay the invoice within thirty (30) days after receipt.

(f) Landlord agres to a test-fit which shall be paid outside of the Tenant Improvement Allowance, the cost of which test-fit shall not exceed $7,500. Tenant shall have the right to choose their preferred architect.

36. Brokers; Recognition and Indemnity.

(a) Tenant and Landlord represent and warrant to each other that Jones Lang LaSalle is the only broker or finder that either has had any dealings, negotiations or consultations relating to the Premises or this transaction and that no other broker or finder called the Premises to Tenant's attention for lease or took any part in any dealings, negotiations or consultations relating to the Premises or this Lease. Such named broker is entitled to a commission from Landlord pursuant to separate agreement.

(b) Tenant agrees to be responsible for, indemnify, defend and hold harmless Landlord for, from and against all costs, fees (including, without limitation, attorney's fees), expenses, liabilities and claims incurred or suffered by Landlord arising from any breach by Tenant of Tenant's foregoing representation and warranty. Landlord agrees to be responsible for, indemnify, defend and hold harmless Tenant for, from and against all costs, fees (including, without limitation, attorney's fees), expenses, liabilities and claims incurred or suffered by Tenant arising from any breach by Landlord of Landlord's foregoing representation and warranty.

Landlord and Tenant have executed this Lease on the respective date(s) set forth below.

	Landlord:
	LIBERTY PROPERTY LIMITED PARTNERSHIP
	By: Liberty Property Trust, Sole General Partner
Date signed:	By:
	Name:
	Title:
Date signed:	**Tenant:**
	WAGEWORKS, INC., a Delaware corporation
Witness/Attest:	By:
Name:	Name:
Title:	Title:

Rider 1 to Lease Agreement

(Multi-Tenant Office)

ADDITIONAL DEFINITIONS

"ADA" means the Americans with Disabilities Act of 1990 (42 U.S.C. § 1201 et seq.), as amended and supplemented from time to time.

"Affiliate" means (i) any entity controlling, controlled by, or under common control of, Tenant, (ii) any successor to Tenant by merger, consolidation or reorganization, and (iii) any purchaser of all or substantially all of the assets of Tenant as a going concern.

"Agents" of a party means such party's employees, agents, representatives, contractors, licensees or invitees.

"Alteration" means any addition, alteration or improvement to the Premises or Property, as the case may be.

"Building Rules" means the rules and regulations attached to this Lease as Exhibit B as they may be amended from time to time.

"Building Systems" means any electrical, mechanical, structural, plumbing, heating, ventilating, air conditioning, sprinkler, life safety or security systems serving the Building.

"Common Areas" means all areas and facilities as provided by Landlord from time to time for the use or enjoyment of all tenants in the Building or Property, including, if applicable, lobbies, hallways, restrooms, elevators, driveways, sidewalks, parking, loading and landscaped areas.

"Environmental Laws" means all present or future federal, state or local laws, ordinances, rules or regulations (including the rules and regulations of the federal Environmental Protection Agency and comparable state agency) relating to the protection of human health or the environment.

"Event of Default" means a default described in Section 22(a) of this Lease.

"Hazardous Materials" means pollutants, contaminants, toxic or hazardous wastes or other materials the removal of which is required or the use of which is regulated, restricted, or prohibited by any Environmental Law.

"Interest Rate" means interest at the rate of prime, plus one percent (1%), annually.

"Land" means the lot or plot of land on which the Building is situated or the portion thereof allocated by Landlord to the Building.

"Laws" means all laws, ordinances, rules, orders, regulations, guidelines and other requirements of federal, state or local governmental authorities or of any private association or contained in

any restrictive covenants or other declarations or agreements, now or subsequently pertaining to the Property or the use and occupation of the Property.

"Lease Year" means the period from the Commencement Date through the succeeding 12 full calendar months (including for the first Lease Year any partial month from the Commencement Date until the first day of the first full calendar month) and each successive 12-month period thereafter during the Term.

"Maintain" means to provide such maintenance, repair and, to the extent necessary and appropriate, replacement, as may be needed to keep the subject property in good condition and repair. Maintenance also includes utilizing such building-performance assessment tools and energy-optimizing practices that Landlord in its discretion reasonably deems necessary and appropriate for planning, designing, installing, testing, operating and maintaining the Building Systems and Common Areas in an energy efficient manner and providing a safe and comfortable work environment, with a view toward achieving improved overall building performance and minimizing the Building's impact on the environment.

"Monthly Rent" means the monthly installment of Minimum Annual Rent plus the monthly installment of estimated Annual Operating Expenses plus the monthly fee for covered parking payable by Tenant under this Lease.

"Mortgage" means any mortgage, deed of trust or other lien or encumbrance on Landlord's interest in the Property or any portion thereof, including without limitation any ground or master lease if Landlord's interest is or becomes a leasehold estate.

"Mortgagee" means the holder of any Mortgage, including any ground or master lessor if Landlord's interest is or becomes a leasehold estate.

"Normal Business Hours" means 8:00 a.m. to 6:00 p.m., Monday through Friday, except for the following: New Year's Day, Memorial Day, Independence Day (July 4), Labor Day, Thanksgiving Day and Christmas Day.

"Operating Expenses" means all costs, fees, charges and expenses incurred or charged by Landlord in connection with the ownership, operation, maintenance and repair of, and services provided to, and rights and benefits otherwise afforded to the Property including, but not limited to: (i) the charges at standard retail rates for any services provided by Landlord pursuant to Section 7 of this Lease, but subject to clause (xv) below; (ii) the cost of insurance carried by Landlord pursuant to Section 8 of this Lease together with the cost of any deductible paid by Landlord in connection with an insured loss; (iii) Landlord's cost to Maintain the Property pursuant to Section 9 of this Lease, including, without limitation, Landlord's costs to Maintain the HVAC system; (iv) the cost of trash collection; (v) to the extent not otherwise payable by Tenant pursuant to Section 5 of this Lease, all levies, taxes (including real estate taxes, sales taxes and gross receipt taxes and amounts paid by Landlord in lieu of any of the foregoing such as rent under the GPLET Ground Lease), assessments, liens, license and permit fees, together with the reasonable cost of contesting any of the foregoing, which are applicable to the Term, and which are imposed by any authority or under any Law, or pursuant to any recorded covenants or agreements, upon or with respect to the Property, or any improvements thereto, or

directly upon this Lease or the Rent or upon amounts payable by any subtenants or other occupants of the Premises, or against Landlord because of Landlord's estate or interest in the Property; (vi) the annual amortization (over their estimated GAAP life or payback period, whichever is longer) of the costs of capital replacements or improvements that provide economic benefit; (vii) a management and administrative fee equal to 3.5% of the Minimum Annual Rent; (viii) costs to process the certification or re-certification of the Building pursuant to any applicable environmental rating system (such as Energy Star or LEED) including applying, reporting, tracking and related reasonable consultant's fees associated therewith; and (ix) the Property's allocable share of expenses arising from common services and amenities provided to or for the benefit of the overall office center of which the Property is a part ("**Liberty Center at Rio Salado**" or the "**Project**"), such expenses to be allocated to (i) the individual parcels comprising the Project based on the relative land area of such individual parcels and (ii) relative rentable square footage of the individual buildings from time to constructed within the Project, in any event allocated by Landlord in an equitable manner among the tenants in the Project. The foregoing notwithstanding, Operating Expenses will not include: (i) depreciation on the Building; (ii) financing and refinancing costs (except as provided above), interest on debt or amortization payments on any mortgage, or rental under any ground or underlying lease (excluding GPLET); (iii) leasing commissions, advertising expenses (including tenant parties and gifts) real estate licenses and other industry certifications, tickets to special events, finder's fees, and referral fees, tenant improvements or other costs directly related to the leasing of the Property; (iv) income, excess profits or corporate capital stock tax imposed, inheritance and estate taxes, other business taxes and assessments, franchise and gift taxes, and all other Real Estate Taxes relating to a period payable or assessed outside the term of the Lease;, unless such tax or any similar tax is levied or assessed in lieu of all or any part of any taxes includable in Operating Expenses above; (v) costs associated with the operation of the business of the entity which constitutes Landlord or Landlord's affiliated organizations or Landlord's managing agent (as distinguished from the costs of the operations of the Building/Project) including, but not limited to, any entity's general corporate overhead and general administrative expenses, legal, risk management or other departmental costs of off-site personnel, corporate and/or partnership accounting and legal costs, asset management fees, administrative fees, health/sports club dues, employee parking and transportation charges, placement/recruiting expenses for employees whether they are assigned to the Building/Project or not, employee training programs, costs of any business licenses, all costs associated with start-up or move of a management office due to sale of the building, change of management companies or leasing and any other costs that would normally be considered included in a management fee; (vi) wages, salaries, fees, fringe benefits, and any other form of compensation paid to any executive employee of Landlord and/or Landlord's managing agent above the grade of Senior Property Manager, provided, however, all wages, salaries and other compensation otherwise allowed to be included in Operating Costs shall also exclude any portion of such costs related to any employee's time devoted to other efforts unrelated to the maintenance and operation of the Building/Project; (vii) costs of defending any lawsuits, bad debt loss, rent loss or any reserves thereof; (viii) any office rental and any parking charges, either actual or not, for the Landlord's and/or Landlord's managing agent's management, engineering, maintenance, security, parking or other vendor personnel; (ix) any cost of any service or items sold or provided to tenants or other occupants for which Landlord or Landlord's managing agent has been or is entitled to be reimbursed by such tenants or other occupants for such service or has been or is entitled to be reimbursed by insurance or

otherwise compensated by parties other than tenants of the Building/Project to include replacement of any item covered by a warranty; (x) all advertising and promotional costs including any form of entertainment expenses, dining expenses, any costs relating to tenant or vendor relation programs but excluding any cost associated with life safety information or education services which are provided to the tenants of the Building/Project; (xi) any fines, costs, late charges, liquidated damages, penalties, tax penalties or related interest charges, imposed on Landlord or Landlord's managing agent; (xii) any costs, fees, dues, contributions or similar expenses for political, charitable, industry association or similar organizations, as well as the cost of any newspaper, magazine, trade or other subscriptions, excepting the Building's/Project's annual membership dues in the local Building Owners and Managers Association ("**BOMA**"); (xiii) any compensation or benefits paid to or provided to clerks, attendants or other persons in commercial concessions operated by or on behalf of the Landlord; or (xiv) any reserves of any kind. Landlord shall prepay real estate taxes during any discount period, and Tenant shall be entitled to the benefit of any such prepayment. Landlord shall have the right to directly perform (by itself or through an affiliate) any services provided under this Lease provided that the Landlord's charges included in Operating Expenses for any such services shall not exceed competitive market rates for comparable services; (xv) any amount paid by Landlord or Landlord's managing agent to a subsidiary or affiliate of Landlord or Landlord's managing agent, or to any party as a result of a non-competitive selection process, for management or other services to the Building/Project, or for supplies or other materials, to the extent the cost of such services, supplies, or materials exceed the cost that would have been paid had the services, supplies or materials been provided by parties unaffiliated with the Landlord or Landlord's managing agent on a competitive basis by reputable, professional firms customarily engaged in providing such services; (xvi) any cost incurred in connection with upgrading the Building/Project to comply with insurance requirements, life safety codes, ordinances, statutes, or other laws in effect prior to the Commencement Date, including without limitation the Americans With Disabilities Act (or similar laws, statutes, ordinances or rules imposed by the State, County, City, or other agency where the Building/Project is located), including penalties or damages incurred as a result of non-compliance; (xvii) costs, other than those incurred in ordinary maintenance and repair, for sculptures, paintings, fountains or other objects of art or the display of such items; (xviii) any cost incurred in or properly attributable to a year prior to the year in which the Commencement Date occurs, including, but not limited to, amortization of Capital Expenditures, taxes incurred for prior years but billed and paid after the Commencement Date; (xix) **e**xpenses in connection with services or other benefits which are provided solely for the benefit of another tenant or occupant of the Building/Project within the space leased exclusively by such other tenant or occupant and which do not benefit Tenant; (xx) special assessments or special taxes imposed by a governmental or quasi-governmental authority and initiated as a means of financing improvements to the Building/Project and the surrounding areas thereof; and (xxi) (a) **t**he cost of any insurance coverage, whether or not required by the holder of any mortgage on the Property which is related, in whole or in part, to (A) property or casualty insurance coverage in amounts greater than the replacement cost of the Property, or (B) lease enhancement insurance or other credit enhancement-related insurance; (b) to the extent Landlord incurs any losses covered by the insurance Landlord is required to carry pursuant to the terms of this Lease, Operating Expenses may only include those commercially reasonable deductibles paid by Landlord but not, in any event, in excess of an aggregate of $50,000.00; (c) any increase in the cost of Landlord's insurance caused by a specific use of another tenant or by Landlord.

"Phase I Report" means that certain Report on Phase I Environmental Site Assessment, dated as of November 13, 2013, issued by Speedie & Associates.

"Property" means the Land, the Building, the Common Areas, and all appurtenances to them.

"Rent" means the Minimum Annual Rent, Annual Operating Expenses and any other amounts payable by Tenant to Landlord under this Lease.

"Taken" or "Taking" means acquisition by a public authority having the power of eminent domain by condemnation or conveyance in lieu of condemnation.

"Tenant's Share" means, with respect to the Property, the percentage obtained by dividing the rentable square feet of the Premises by the rentable square feet of the Building, and with respect to Liberty Center Rio Salado, as set forth in Section 6(a) of this Lease, all as set forth in Section 1 of this Lease.

"Transfer" means (i) any assignment, transfer, pledge or other encumbrance of all or a portion of Tenant's interest in this Lease, (ii) any sublease, license or concession of all or a portion of Tenant's interest in the Premises, or (iii) any transfer of a controlling interest in Tenant.

EXHIBIT A

PREMISES

EXHIBIT B

BUILDING RULES

1. Any sidewalks, lobbies, passages, elevators and stairways shall not be obstructed or used by Tenant for any purpose other than ingress and egress from and to the Premises. Landlord shall in all cases retain the right to control or prevent access by all persons whose presence, in the judgment of Landlord, shall be prejudicial to the safety, peace or character of the Property.

2. The toilet rooms, toilets, urinals, sinks, faucets, plumbing or other service apparatus of any kind shall not be used for any purposes other than those for which they were installed, and no sweepings, rubbish, rags, ashes, chemicals or other refuse or injurious substances shall be placed therein or used in connection therewith or left in any lobbies, passages, elevators or stairways.

3. Tenant shall not impair in any way the fire safety system and shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord, any governmental agency or any insurance company insuring the Building, including without limitation the insurer's Red Tag Permit System, Hot Work Permit System and all other fire protection impairment procedures (attached hereto). No person shall go on the roof without Landlord's prior written permission.

4. Skylights, windows, doors and transoms shall not be covered or obstructed by Tenant, and Tenant shall not install any window covering which would affect the exterior appearance of the Building, except as approved in writing by Landlord. Tenant shall not remove, without Landlord's prior written consent, any shades, blinds or curtains in the Premises.

5. Without Landlord's prior written consent, Tenant shall not hang, install, mount, suspend or attach anything from or to any sprinkler, plumbing, utility or other lines. If Tenant hangs, installs, mounts, suspends or attaches anything from or to any doors, windows, walls, floors or ceilings, Tenant shall spackle and sand all holes and repair any damage caused thereby or by the removal thereof at or prior to the expiration or termination of the Lease.

6. Tenant shall not change any locks nor place additional locks upon any doors, with the exception of Tenant's security system.

7. Tenant shall not use nor keep in the Building any matter having an offensive odor, nor explosive or highly flammable material, nor shall any animals other than handicap assistance dogs in the company of their masters be brought into or kept in or about the Property.

8. If Tenant desires to introduce electrical, signaling, telegraphic, telephonic, protective alarm or other wires, apparatus or devices, Landlord shall direct where and how the same are to be placed, and except as so directed, no installation boring or cutting shall be permitted. Landlord shall have the right to prevent and to cut off the transmission of excessive or dangerous current of electricity or annoyances into or through the Building or the Premises

and to require the changing of wiring connections or layout at Tenant's expense, to the extent that Landlord may deem necessary, and further to require compliance with such reasonable rules as Landlord may establish relating thereto, and in the event of non-compliance with the requirements or rules, Landlord shall have the right, subject to reasonable notice, to cut wiring or to do what it considers necessary to remove the danger, annoyance or electrical interference with apparatus in any part of the Building. All wires installed by Tenant must be clearly tagged at the distributing boards and junction boxes and elsewhere where required by Landlord, with the number of the office to which said wires lead, and the purpose for which the wires respectively are used, together with the name of the concern, if any, operating same. No machinery of any kind other than customary small business machines shall be allowed in the Premises. Tenant shall not use any method of heating, air conditioning or air cooling other than that provided by Landlord.

9. Tenant shall not place weights anywhere beyond the safe carrying capacity of the Building which is designed to normal office building standards for floor loading capacity. Landlord shall have the right to exclude from the Building heavy furniture, safes and other articles which may be hazardous or to require them to be located at designated places in the Premises.

10. The use of rooms as sleeping quarters is strictly prohibited at all times.

11. Tenant shall have the right, at Tenant's sole risk and responsibility, to use only **Tenant's Share of** the parking spaces at the Property **as set forth in the Lease**. Tenant shall comply with all parking regulations promulgated by Landlord from time to time for the orderly use of the vehicle parking areas, including without limitation the following: Parking shall be limited to automobiles, passenger or equivalent vans, motorcycles, light four wheel pickup trucks and (in designated areas) bicycles. Parked vehicles shall not be used for vending or any other business or other activity while parked in the parking areas. Vehicles shall be parked only in striped parking spaces, except for loading and unloading, which shall occur solely in zones marked for such purpose, and be so conducted as to not unreasonably interfere with traffic flow within the Property or with loading and unloading areas of other tenants. Employee and tenant vehicles shall not be parked in spaces marked for visitor parking or other specific use. All vehicles entering or parking in the parking areas shall do so at owner's sole risk and Landlord assumes no responsibility for any damage, destruction, vandalism or theft. Tenant shall cooperate with Landlord in any measures implemented by Landlord to control abuse of the parking areas, including without limitation access control programs, tenant and guest vehicle identification programs, and validated parking programs, provided that no such validated parking program shall result in Tenant being charged for spaces to which it has a right to free use under its Lease. Each vehicle owner shall promptly respond to any sounding vehicle alarm or horn, and failure to do so may result in temporary or permanent exclusion of such vehicle from the parking areas. Any vehicle which violates the parking regulations may be cited, towed at the expense of the owner, temporarily or permanently excluded from the parking areas, or subject to other lawful consequence. Bicycles are not permitted in the Building.

12. Tenant and its Agents shall not smoke in the Building or at the Building entrances and exits.

13. Tenant shall provide Landlord with a written identification of any vendors engaged by Tenant to perform services for Tenant at the Premises (examples: security guards/monitors, telecommunications installers/maintenance), and all vendors shall be subject to Landlord's reasonable approval. No mechanics shall be allowed to work on the Building or Building Systems other than those engaged by Landlord. Tenant **shall be solely responsible, at its expense, for janitorial services to the Premises**. Tenant assumes all responsibility for protecting its Premises from theft and vandalism and Tenant shall see each day before leaving the Premises that all lights are turned out and that the windows and the doors are closed and securely locked.

14. Tenant shall comply with any move-in/move-out rules provided by Landlord and with any rules provided by Landlord governing access to the Building outside of Normal Business Hours. Throughout the Term, no furniture, packages, equipment, supplies or merchandise of Tenant will be received in the Building, or carried up or down in the elevators or stairways, except during such hours as shall be designated by Landlord, and Landlord in all cases shall also have the exclusive right to prescribe the method and manner in which the same shall be brought in or taken out of the Building.

15. Tenant shall not place oversized cartons, crates or boxes in any area for trash pickup without Landlord's prior approval. Landlord shall be responsible for trash pickup of normal office refuse placed in ordinary office trash receptacles only. Excessive amounts of trash or other out-of-the-ordinary refuse loads will be removed by Landlord upon request at Tenant's expense.

16. Tenant shall comply with the following sustainability requirements:

Tenant shall provide within thirty (30) days after Landlord's request from time to time, reasonably requested energy and water consumption data and related information in connection with Tenant's use of the Premises and all construction, maintenance, repairs, cleaning, trash disposal and recycling relating to the Premises performed by or on behalf of Tenant — all to be used for purposes of monitoring and improving building efficiencies.

Low/No VOC Paint. Tenant shall use only interior paints and coatings (including primers) meeting the environmental requirements of the current Green Seal™ Environmental Standard For Paints And Coatings - GS-11.

Green Cleaning Products. All cleaning products used in the Premises must be certified under the current Green Seal™ Environmental Standard for Industrial and Institutional Cleaners — GS-37.

Recycling. The following items must be recycled according to local capabilities, guidelines and regulations: (i) Paper; (ii) Cardboard; (iii) Plastics; (iv) Aluminum Cans/Metals; and (v) Glass.

17. Tenant shall cause all of Tenant's Agents to comply with these Building Rules.

18. Landlord reserves the right to rescind, suspend or modify any rules or regulations and to make such other rules and regulations as, in Landlord's reasonable judgment, may from time to time be needed for the safety, care, maintenance, operation and cleanliness of the Property. Notice of any action by Landlord referred to in this section, given to Tenant, shall have the same force and effect as if originally made a part of the foregoing Lease. New rules or regulations will not, however, be unreasonably inconsistent with the proper and rightful enjoyment of the Premises by Tenant under the Lease.

19. These Building Rules are not intended to give Tenant any rights or claims in the event that Landlord does not enforce any of them against any other tenants or if Landlord does not have the right to enforce them against any other tenant and such nonenforcement will not constitute a waiver as to Tenant.

EXHIBIT C

TENANT ESTOPPEL CERTIFICATE

Please refer to the documents described in Schedule 1 hereto, (the "**Lease Documents**") including the "Lease" therein described; all defined terms in this Certificate shall have the same meanings as set forth in the Lease unless otherwise expressly set forth herein. The undersigned Tenant hereby certifies that it is the tenant under the Lease. Tenant hereby further acknowledges that it has been advised that the Lease may be collaterally assigned in connection with a proposed financing secured by the Property and/or may be assigned in connection with a sale of the Property and certifies both to Landlord and to any and all prospective mortgagees and purchasers of the Property, including any trustee on behalf of any holders of notes or other similar instruments, any holders from time to time of such notes or other instruments, and their respective successors and assigns (the "**Beneficiaries**") that as of the date hereof:

1. The information set forth in attached Schedule 1 is true and correct.

2. Tenant is in occupancy of the Premises and the Lease is in full force and effect, and, except by such writings as are identified on Schedule l, has not been modified, assigned, supplemented or amended since its original execution, nor are there any other agreements between Landlord and Tenant concerning the Premises, whether oral or written.

3. All conditions and agreements under the Lease to be satisfied or performed by Landlord have been satisfied and performed.

4. Tenant is not in default under the Lease Documents, Tenant has not received any notice of default under the Lease Documents, and, to Tenant's knowledge, there are no events which have occurred that, with the giving of notice and/or the passage of time, would result in a default by Tenant under the Lease Documents.

5. Tenant has not paid any Rent due under the Lease more than 30 days in advance of the date due under the Lease and Tenant has no rights of setoff, counterclaim, concession or other rights of diminution of any Rent due and payable under the Lease except as set forth in Schedule 1.

6. To Tenant's knowledge, there are no uncured defaults on the part of Landlord under the Lease Documents, Tenant has not sent any notice of default under the Lease Documents to Landlord, and there are no events which have occurred that, with the giving of notice and/or the passage of time, would result in a default by Landlord thereunder, and that at the present time Tenant has no claim against Landlord under the Lease Documents.

7. Except as expressly set forth in Part G of Schedule 1, there are no provisions for any, and Tenant has no, options with respect to the Premises or all or any portion of the Property.

8. No action, voluntary or involuntary, is pending against Tenant under federal or state bankruptcy or insolvency law.

9. The undersigned has the authority to execute and deliver this Certificate on behalf of Tenant and acknowledges that all Beneficiaries will rely upon this Certificate in purchasing the Property or extending credit to Landlord or its successors in interest.

10. This Certificate shall be binding upon the successors, assigns and representatives of Tenant and any party claiming through or under Tenant and shall inure to the benefit of all Beneficiaries.

IN WITNESS WHEREOF, Tenant has executed this Certificate this ____ day of _____, 20___.

_____
Name of Tenant

By:_____
Title: _____

SCHEDULE 1 TO TENANT ESTOPPEL CERTIFICATE

Lease Documents, Lease Terms and Current Status

A. Date of Lease:

B. Parties:

1. Landlord:

2. Tenant:

C. Premises:

D. Modifications, Assignments, Supplements or Amendments to Lease:

E. Commencement Date:

F. Expiration of Current Term:

G. Option Rights:

H. Security Deposit Paid to Landlord: $

I. Current Minimum Annual Rent: $

J. Current Annual Operating Expenses: $

K. Current Total Rent: $

L. Square Feet Demised:

EXHIBIT D

Base Building Shell Specifications

GENERAL DESCRIPTION

The Facility will be approximately 76,162 Rentable sq. ft. located on a parcel at Liberty Center at Rio Salado in Tempe, AZ.

1st Floor Office	76,162 Rentable Square Feet
TOTAL	76,162 Rentable Square Feet
Or	
2nd Floor Office	77,990 Rentable Square Feet
TOTAL	77,990 Rentable Square Feet

The design of the facility will be by registered architects and engineers. The design will include base building architectural, civil, mechanical, plumbing, fire protection, electrical and landscape plans. These plans will be in sufficient detail to allow issuance of a building permit by local authorities. Landlord shall provide plans, specifications, elevations & renderings of proposed building for Deloitte review.

Landlord shall provide, at its sole cost and expense, the base building as defined below, in addition to any Tenant Allowance allocated to the Tenant, all in good condition and proper working order.

DIVISION 1 - GENERAL CONDITIONS

The project will be supplied with a full time superintendent to manage the day-to-day operation of the construction. He will have a field office and equipment adequate to construct this facility.

All work to be compliant with governing local and national codes and ordinances.

DIVISION 2 - SITEWORK

Earthwork

- Mass Grading – Provide mass grading of the entire site.
- Landlord is to comply with all geotechnical report requirements and recommendations including compaction, stabilization, soil removal, etc.

Site Utilities

- Domestic Water, Sewer, Fire Line, Storm Water and Drywells.

Masonry

- Provide 3’ gabion and berm screen walls at front parking lot. All work to be coordinated with final Landscape design and governing codes and ordinances.
- Provide 6’ high masonry walls at trash enclosures with gates. Enclosures to be sized for waste dumpster and recycling dumpster.

Pavement

- Automobile Parking – Provide six per thousand automobile parking stalls with handicapped parking as required by code.
- Non-handicapped parking stall dimensions to be in accordance with local code.

- Paving to be 2" asphalt over 4" ABC at parking stalls and 3" asphalt over 6" ABC at fire lanes. Some areas to have a concrete curb and gutter, majority will be cast in place curb only. Striping and handicapped parking signage provided by Landlord

Landscaping

- Landscape and irrigation to be included to match the standards set at the Liberty Center.

DIVISION 3 - CONCRETE

Site Concrete

- All sidewalks to be grey color.
- All parking lot concrete curbs will be gray concrete and per MAG standards.

Cast-In-Place Concrete

- Concrete Floor Slabs - Provide 4" thick, un-reinforced concrete, steel trowel finish leveled to a tolerance of ¼" over 10 feet cumulative on minimum 4" ABC.
- All floor surfaces to be in a reasonable condition ready to receive floor covering by tenant. Concrete floor to saw cut in both directions at a spacing recommended by the structural engineer.
- Provide 30" wide steel reinforced concrete trenched foundations, or as required by the Geotechnical Report, under all precast concrete walls.
- Provide 5'x5' steel reinforced concrete foundations, or as required by the Geotechnical Report under all columns.

Concrete Sealer

- Provide VoComp20 floor sealer. Sealer will be provided at all exposed concrete slabs.

DIVISION 5 – METALS

Structural Steel

- Steel structure to be a combination of prime painted long span bar joists, beams and wide flange columns or truss girders and tube columns. Roof deck to be 22-gauge, galvanized factory primed, standard ribbed deck. Column spacing to be approximately 30' (north-south) x 40' (east-west). Clear height shall be as per base building design.
- All Structural Steel design to be as per final structural design with the above criteria as a minimum.
- Provide building canopies which will be steel and painted.

Miscellaneous Steel

- Provide roof hatch and steel platform with prefabricated ladder and handrail (ship's ladder) leading to roof from 2nd Floor.

DIVISION 6 – CARPENTRY

Intentionally left blank.

DIVISION 7 - THERMAL AND MOISTURE PROTECTION

Roofing

- Roof to be a white foam roof with rigid insulation (R-value equal to 30) meeting LEED requirements for reflectivity. This system is to be applied in accordance with manufacturer's specifications, and shall carry a manufacturer's ten (10) year warranty.

Exterior Wall Insulation

- None to be included in T.I.

DIVISION 8 - DOORS AND WINDOWS

Doors/Frames/Hardware

- Provide hollow metal and aluminum/glass doors in exterior walls for building ingress and egress for shell condition.
- Provide hollow metal door in hollow metal frames for all base building rooms (electric rooms, janitor's closets, etc.).

Glass/Glazing

- Glass to be 1" insulated, low e, high performance, tinted glass. Frames and mullions to be clear anodized.

DIVISION 9 - FINISHES

Base Building Rooms

- Landlord shall provide complete and finished all core building areas, including restrooms, stair wells, and primary electrical room.
- Building Lobby: The lobby to include all framing, hard (drywall) ceiling, drywall, porcelain tile flooring, wood veneer wainscot paneling, vinyl wall covering (type II) above wainscoting and in hallways, solid wood factory stained double entry doors with metal painted frames and light fixtures.
- Restrooms: Restrooms shall include all framing, drywall, ceilings, porcelain tile flooring, porcelain tile on wet and adjacent perpendicular walls, granite counter tops, vinyl wall covering (type II) above ceramic tile wall, automatic sensor sinks, non-metal or laminate toilet partitions (ceiling hung), plumbing fixtures and light fixtures.
- All other rooms to have painted drywall finish.

Building Perimeter Walls

- To be part of Tenant Improvement Allowance.

Ceilings

- Tenant will provide all acoustic and drywall ceilings except in base building rooms being constructed by the Landlord.

Drywall - Paint/Decorating

- Fire riser room and electrical rooms will be framed with metal studs and drywall. Walls will extend to 6" above tenant provided ceilings. Walls will be fire taped only.
- Exterior faces of exterior walls are to be painted in a color approved by the owner. Up to two accent stripes are included. Exterior wall material and painting subject to approval of Tenant.

- Exterior hollow metal doors and frames are to be painted to match the field color of the tilt wall panels, inside and out.

DIVISION 10 – SPECIALTIES
Provide complete restroom accessories.

DIVISION 11 – EQUIPMENT
Intentionally Blank

DIVISION 12 – FURNISHINGS
Intentionally Blank

DIVISION 13 - SPECIAL CONSTRUCTION
Intentionally Blank

DIVISION 14 - CONVEYING SYSTEMS
Intentionally Blank

DIVISION 15 - MECHANICAL HVAC
Base building HVAC System shall be an air cooled VAV Rooftop system with multiple main RTU's on the roof provided and installed by landlord. All air cooled RTU's shall be DX systems with electric reheat provided by VAV terminal units located at the perimeter zones within the space provided by tenant. Each RTU shall be provided complete with a VFD, direct drive motor, air economizer, and double wall construction and VAV relief fan. Main units to be based on and able to provide the following:

i. Zoning, low and medium pressure duct & distribution, diffusers, VAV's and controls by Tenant. Ductwork will be stubbed to underside of deck and include the main medium pressure duct loop feeding the entire floor by landlord only.

ii. Landlord to provide web based Building Automation System that will be expanded through Tenant's installation of air distribution system at Landlord's cost.

Provide all screening of the rooftop units as required by the municipality.

Plumbing

- Provide one sanitary feed from 5' outside the exterior wall stubbed into the building and connected to restrooms with stub outs for future Tenant connection.
- Provide six (6) hose bibs – one per exterior façade of the building and two on the roof on east and west sides.
- Provide complete restrooms as required by code.
- Provide water fountains as required by code for actual office occupancy.

Fire Protection

- Provide a fire protection lead in from 5' outside the exterior wall stubbed into the sprinkler riser room location.
- Provide sprinkler system throughout the facility in accordance with NFPA standards and installed per Tenant plans. System to be FM compliant.

DIVISION 16 – ELECTRICAL

All interior lighting, except in Base Building Rooms, to be provided by Tenant.
Landlord to provide a minimum 2000-ampere, 277/480-volt, 3-phase, 4-wire main electrical service.
Total capacity and system installed to meet the following minimum criteria:

- Provide feeds, distribution and house panels for building. All conductors including panel bus bars are to be copper.
- Emergency Lighting for Tenant Design - To be installed throughout building to conform to local code.
- Exterior Lighting to meet code.
- Provide 277 volt connection for exterior building-mounted or monument signage.
- Primary & Secondary conduits.
- A total of four (4) 4" telecommunication conduits stubbed into the building to right of way of property.

Fire Alarm

- Landlord is responsible for a complete, fully expandable fire alarm system for Tenant Occupancy.

DIVISION 17 – LEED Certification

The core and shell building will be designed and constructed in accordance with the U.S. Green Building Council guidelines and will pursue a LEED Core & Shell certified rating.

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EXHIBIT E

Space Plan

[to come]

EXHIBIT F

Tenant Improvement Plans

[to be attached and incorporated herein once completed]

EXHIBIT G

Signage

EXHIBIT H

Covered/Reserved Parking Spaces

Exhibit 10.27

11/02 SOG(BY)-INS
Revised 10/03

LEASE

CORPORATE CENTER PHASE II LIMITED PARTNERSHIP,
a Delaware limited partnership
Landlord

and

CONEXIS BENEFITS ADMINISTRATORS, L.P. ,
a Texas limited partnership
Tenant

TABLE OF CONTENTS
(continued)

GROSS (BY) OFFICE LEASE
REFERENCE PAGES

BUILDING:	Las Colinas Highlands
LANDLORD:	Corporate Center Phase II Limited Partnership, a Delaware limited partnership
LANDLORD'S ADDRESS:	c/o RREEF Management Company 1406 Halsey Way, Suite 110 Carrollton, Texas 75007 Attn: District Manager - Las Colinas
WIRE INSTRUCTIONS AND/OR ADDRESS FOR RENT PAYMENT:	Bank of America Middle Market Banking, #1459 333 South Hope Street, Suite 1300 Los Angeles, California 90071 Attn: Debbie Green
LEASE REFERENCE DATE:	August 2, 2004
TENANT:	Conexis Benefits Administrators , L.P., a Texas limited partnership
TENANT'S NOTICE ADDRESS:	Conexis Benefits Administrators , L.P. 721 South Parker, Suite 300 Orange, California 92868 Attn: Ivonne Roca Vice President of Human Resources
GUARANTOR:	Word and Brown Insurance Administrators, Inc.
PREMISES ADDRESS:	6191 N. State Highway 161 Suites 300 and 400 Irving, Texas 75038
PREMISES RENTABLE AREA:	Approximately 88,035 rentable sq. ft. (for outline or Premises see floor plans attached at Exhibit A) made up as follows:

"Initial Premises":	3rd Floor	29,345 rsf
	4th Floor	29,345 rsf
		58,690 rsf
"First Must Take Space":	2nd Floor	13,476 rsf
"Second Must Take Space":	2nd Floor	15,869 rsf

INITIAL PREMISES SCHEDULED COMMENCEMENT DATE:	November 1, 2004
FIRST MUST-TAKE SPACE SCHEDULED COMMENCEMENT DATE:	November l, 2006
SECOND MUST-TAKE SPACE SCHEDULED COMMENCEMENT DATE:	November 1, 2007

TERM OF LEASE: Approximately eleven (11) years, zero (0) months and zero (0) days beginning on the Commencement Date and ending on the Termination Date. The period from the Commencement Date to the last day of the same month is the "Commencement Month."

TERMINATION DATE: October 31, 2015 or in the event that the Commencement Date does not start on the Initial Premises Scheduled Commencement Date (see Article 2), then, the last day of the 132"d full calendar month after (if the Commencement Month is not a full calendar month), or from and including (if the Commencement Month is a full calendar month), the Commencement Month

ANNUAL RENT and MONTHLY INSTALLMENT OF RENT
FOR INITIAL PREMISES (Article 3):

Period		Rentable Square	Annual Rent	Annual Rent	Monthly Installment
from	through	Footage	Per Square Foot		of Rent
11/1/04	10/31/05	58,690	$0.00 + E	$0.00	$0.00
11/1/05	10/31/06	58,690	$17.25 + E	$1,012,402.50	$84,366.88
11/1/06	10/31/07	58,690	$17.75 + E	$1,041,747.50	$86,812.29
11/1/07	10/31/08	58,690	$18.25 + E	$1,071,092.50	$89,257.71
11/1/08	10/31/09	58,690	$19.00 + E	$1,1 15,110.00	$92,925 .83
11/1/09	10/31/10	58,690	$19.50 + E	$1,144,455.00	$95,371.25
11/11/10	10/31/11	58,690	$20.00 + E	$1,173,800.00	$97,816.67
11/1/11	10/31/12	58,690	$20.00 + E	$1,173,800.00	$97,816.67
11/1/12	10/31/13	58,690	$20.50 + E	$1,203, 145.00	$100,262.08
11/1/13	10/31/14	58,690	$20.50 + E	$1,203,145.00	$100,262.08
11/1/14	10/31/15	58,690	$21.00 + E	$1,232,490.00	$102,707.50

* +E = plus Electric

ANNUAL RENT and MONTHLY INSTALLMENT OF RENT FOR FIRST
MUST-TAKE SPACE (Article 3):

Period		Rentable Square	Annual Rent	Annual Rent	Monthly Installment
from	through	Footage	Per Square Foot		of Rent
11/1/06	10/31/07	13,476	$18.00 + E	$242,568.00	$20,214.00
11/1/07	10/31/08	13,476	$18.50 + E	$249,306.00	$20,775.50
11/1/08	10/31/09	13,476	$19.25 + E	$259,413.00	$21,617.75
11/1/09	10/31/10	13,476	$19.75 + E	$266, 151.00	$22,179.25
11/1/10	10/31/11	13,476	$20.25 + E	$272,889.00	$22,740.75
11/1/11	10/31/12	13,476	$20.25 + E	$272,889.00	$22,740.75
11/1/12	10/31/13	13,476	$20.75 + E	$279,627 .00	$23,302.25
11/1/13	10/31/14	13,476	$20.75 + E	$279,627.00	$23, 302.25
11/1/14	10/31/15	13,476	$21.25 + E	$286,365.00	$23,863.75

ANNUAL RENT and MONTHLY INSTALLMENT OF
RENT FOR SECOND MUST-TAKE SPACE (Article 3):

Period		Rentable Square Footage	Annual Rent Per Square Foot	Annual Rent	Monthly Installment of Rent
from	through				
11/1/07	10/31/08	15,869	$18.75 + E	$297,543.75	$24,795.31
11/1/08	10/31/09	15,869	$19.50 + E	$309,445.50	$25,787.13
11/1/09	10/31/10	15,869	$20.00 + E	$317,380.00	$26,448.33
11/1/10	10/31/11	15,869	$20.50 + E	$325,314.50	$27,109.54
11/1/11	10/31/12	15,869	$20.50 + E	$325,314.50	$27,109.54
11/1/12	10/31/13	15,869	$21.00 + E	$333,249.00	$27,770.75
11/1/13	10/31/14	15,869	$21.00 + E	$333,249.00	$27,770.75
11/1/14	10/31/15	15,869	$21.50 + E	$341, 183.50	$28,431.96

BASE YEAR (EXPENSES):	January 1, 2004 to December 31, 2004
BASE YEAR (INSURANCE):	January 1, 2004 to December 31, 2004
BASE YEAR (TAXES):	Taxes for January 1, 2004 to December 31, 2004
TENANT'S PROPORTIONATE SHARE:	29.32% which shall be increased to 36.05% on the FMTS Commencement Date (as defined in Section 2.2) and which shall be further increased to 43.98% on the SMTS Commencement Date (as defined in Section 2.2) (88,035 SF out of 200,167 SF)
SECURITY DEPOSIT:	N/A
ASSIGNMENT/SUBLETTING FEE:	$1,000.00
AFTER-HOURS HVAC COST:	$50.00 per hour (with a two (2) hour minimum), subject to change at any time
PARKING	See Article 30 on Parking
REAL ESTATE BROKER DUE COMMISSION:	CB Richard Ellis, Inc. and Cushman & Wakefield of Texas, Inc.
TENANT'S SIC CODE:	6411
BUILDING BUSINESS HOURS:	Monday through Friday 7:00 a.m. to 6:00 p.m. Saturday 8:00 a.m. to 1:00 p.m.
AMORTIZATION RATE:	Twelve percent (12%) per annum

The Reference Pages information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Pages information and the Lease, the Lease shall control. This Lease includes Exhibits A through E, all of which are made a part of this Lease.

LANDLORD:

CORPORATE CENTER PHASE II LIMITED PARTNERSHIP, a Delaware limited partnership

By: Colinas Corporate Center Phase II LLC, a Delaware limited liability company, its General Partner

By: RREEF Management Company, a Delaware corporation, its agent

By: _____

Name: Jay Jehle

Title: Vice President

By: _____

Name: Kim Boudreau

Title: District Manager

Dated: 8/26, 2004

TENANT:

CONEXIS BENEFITS ADMINISTRATORS, L.P., a Texas limited partnership

By: CONEXIS, LLC, a Delaware limited liability company, its General Partner

By: _____

Name: RAYMOND D. GODEKE

Title: PRESIDENT

Dated: 8/24, 2004

LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises in the Building as set forth and described on the Reference Pages. The Premises are depicted on the floor plan attached hereto as Exhibit A, and the Building is depicted on the site plan attached hereto as Exhibit A-1 . The Reference Pages, including all terms defined thereon, are incorporated as part of this Lease.

1. USE AND RESTRICTIONS ON USE.

1.1 The Premises are to be used solely for general office purposes, associated call center and other high density office applications necessary for Tenant to operate it s business. Landlord makes no representation or warranty, express or implied, regarding the suitability of the Premises for such use. All implied warranties with respect to the Premises, including but not limited to those of merchantability and fitness for a particular purpose are expressly negated and waived. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, or disturb them, or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose, or commit any waste, or overload the Building's structure or systems. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy (including, without limitation, federal, state and local laws regarding access for handicapped or disabled persons, such as the Americans With Disabilities Act of 1990, as amended ("ADA") and all regulations promulgated thereunder), and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in the Building or appurtenant land, caused or permitted by, or resulting from the specific use by, Tenant, or in or upon, or in connection with, the Premises, all at Tenant's sole expense. Tenant, at its sole cost and expense, shall be solely responsible for making any modifications or alterations to the Premises, subject to compliance with Article 6 of this Lease, in order to comply with federal, state or local ADA requirements. Tenant, at its sole cost and expense, shall comply with all ASHRAE and BOMA indoor air quality requirements applicable to the Premises, and with federal, state and local indoor air quality requirements applicable to the Premises; if, as a result of Tenant' s use thereof, supplemental heating, ventilation and air conditioning units are required to the Premises at any time during the Term, then Tenant, at its sole cost and expense, shall install the same, subject to compliance with Article 6 of this Lease. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to person s in or about the Building or any part thereof.

1.2 Landlord represents and warrants to Tenant, that, as of date of its execution of this Lease, to Landlord's knowledge, the Premises and the common areas of the Building are substantially in compliance with Environmental Laws (defined below). Tenant shall not, and shall not direct, suffer or permit any of its agents, contractors, employees, licensees or invitees (collectively, the "Tenant Entities") to at any time handle, use, manufacture, store or dispose of in or about the Premises or the Building any (collectively "Hazardous Materials") flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives or any substance subject to regulation by or under any federal, state and local laws and ordinances relating to the protection of the environment or the keeping, use or disposition of environmentally hazardous materials, substances, or wastes, presently in effect or hereafter adopted, all amendments to any of them, and all rules and regulations issued pursuant to any of such laws or ordinances (collectively "Environmental Laws"), nor shall Tenant suffer or permit any Hazardous Materials to be used in any manner not fully in compliance with all Environmental Laws, in the Premises or the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Material s. Notwithstanding the foregoing, Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover and the like) to the extent customary and necessary for the use of the Premises for general office purposes; provided that Tenant shall always handle , store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises, Building and appurtenant land or the environment. Tenant shall protect, defend, indemnify and hold each and all of the Landlord Entities (as defined in Article 31) harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of any actual or asserted failure of Tenant to fully comply with all applicable Environmental Laws, or the presence, handling, use or disposition in or from the Premises of any Hazardous Materials by Tenant or any Tenant Entity (even though permissible under all applicable Environmental Laws or the provisions of this Lease), or by reason of any actual or asserted failure of Tenant to keep,

observe, or perform any provision of this Section 1.2. This indemnity shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

1.3 Tenant and the Tenant Entities will be entitled to the non-exclusive use of the common areas of the Building as they exist from time to time during the Term, including the parking facilities, subject to Landlord 's rules and regulations regarding such use. However , in no event will Tenant or the Tenant Entities park more vehicles in the parking facilities than Tenant's Proportionate Share of the total parking spaces available for common use without written approval of Landlord. Landlord agrees to provide spaces on an as needed basis, if available, which spaces shall be subject to (i) Article 30 of this Lease and (ii) payment by Tenant of the then prevailing monthly parking rent for parking spaces in the Building. The foregoing shall not be deemed to provide Tenant with an exclusive right to any parking spaces or any guaranty of the availability of any particular parking spaces or any specific number of parking spaces.

2. TERM.

2.1 The Term of this Lease shall begin on the date ("Commencement Date") which shall be the later of the Initial Premises Scheduled Commencement Date as shown on the Reference Pages and the date that Landlord shall tender possession of the Initial Premises to Tenant, and shall terminate on the date as shown on the Reference Pages ("Termination Date"), unless sooner terminated by the provisions of this Lease. The Term for the First Must-Take Space shall begin on the date (the "FMTS Commencement Date") which shall be the later of the First Must-Take Space Scheduled Commencement Date as shown on the Reference Pages and the date Landlord shall tender possession of the First Must-Take Space and reference to "Premises" under this Lease shall thereupon mean the Initial Premises as expanded by the First Must Take Space. The Term for the Second Must-Take Space shall begin on the date (the "SMTS Commencement Date") which shall be the later of the Second Must-Take Space Scheduled Commencement Date as shown on the Reference Pages and the date Landlord shall tender possession of the Second Must-Take Space and reference to "Premises" under this Lease shall thereupon mean the Initial Premises as expanded by the First Must-Take Space and the Second Must-Take Space.

2.2 Landlord shall tender possession of the Initial Premises, the First Must-Take Space and the Second Must- Take Space, as applicable, with all the work to be performed by Landlord pursuant to the attached Exhibit B, Exhibit B-1 and Exhibit B-2, as applicable, substantially completed as anticipated thereunder. Tenant shall deliver a punch list of items not completed within thirty (30) days after Landlord tenders possession of the Initial Premises, the First Must-Take Space and the Second Must-Take Space, as applicable, and Landlord agrees to proceed with due diligence to perform its obligations regarding such items.

2.3 As and when required by Landlord, Tenant shall, at Landlord's request, execute and deliver a memorandum agreement or agreements provided by Landlord generally in the form of Exhibit C attached hereto, setting forth the actual Commencement Date, and/or, as applicable, the actual FMTS Commencement Date and/or the actual SMTS Commencement Date, Tenant 's Proportionate Share, the Termination Date and, if necessary, a revised rent schedule or schedules. Should Tenant fail to do so within thirty (30) days after Landlord's request, the information set forth in such memorandum or memoranda provided by Landlord shall be conclusively presumed to be agreed and correct.

2.4 Tenant agrees that in the event of the inability of Landlord to deliver possession of (a) the Initial Premises on the Initial Premises Scheduled Commencement Date, or (b) the First- Must Take Space on the First Must-Take Space Scheduled Commencement Date, or (c) the Second Must-Take Space on the Second Must-Take Space Scheduled Commencement Date, for any reason, Landlord shall not be liable for any damage resulting from such inability, but Tenant shall not be liable for any rent payable for the applicable space until the time when Landlord can, after notice to Tenant, deliver possession of the applicable space to Tenant, so that for example, if Landlord for whatever reason is unable to deliver the First Must-Take Space on the First Must-Take Space Scheduled Commencement Date, Tenant shall continue to be liable for payment of rent for the Initial Premises but shall not be liable for payment of rent for the First Must-Take Space pending delivery of possession of the First Must-Take Space to Tenant. No such failure to give possession on the applicable scheduled commencement date shall affect the other obligations of Tenant under this Lease. Notwithstanding anything in this Lease to the contrary it is agreed that a "Tenant Delay" for purposes of this Lease shall mean any delay by Landlord in delivering possession of the applicable space which is as a result of: (a) Tenant's unreasonable failure to agree to plans and specifications and/or construction cost estimates or bids; (b) Tenant 's request for materials, finishes or installations other than Landlord 's standard except those, if any, that Landlord shall have expressly agreed to furnish without extension of time agreed by Landlord; (c) Tenant's change in any plans or specifications; or, (d) performance or completion by a party employed by Tenant (each of the foregoing, a "Tenant Delay"). If any delay is the result of a Tenant Delay, the Commencement Date or, as applicable, the FMTS Commencement Date or the SMTS Commencement Date, as the case may

be, and the payment of rent under this Lease for the Initial Premises, or, as applicable, the First Must-Take Space or the Second Must-Take Space, as the case may be shall be accelerated by the number of days of such Tenant Delay. If any delay is not a Tenant Delay, and is caused solely and entirely by Landlord's negligent or willful failure to comply with the time periods specified in Exhibit B, Exhibit B-1 and Exhibit B-2 for issue by Landlord of its response in connection with the approval of plans, drawings, and specifications following delivery to Landlord of properly prepared and detailed plans, drawings, and specifications, and all information required by Landlord in connection therewith (a "Landlord Delay"), and if such Landlord Delay solely and entirely causes a delay in the occurrence of the Commencement Date, or the FMTS Commencement Date or the SMTS Commencement Date, as applicable, then, in such event only, Tenant shall be allowed a per diem abatement of rent for each day's delay so caused. If Landlord is unable to deliver possession of the Initial Premises within one hundred twenty (120) days after the Initial Premises Scheduled Commencement Date (other than as a result of strikes, shortages of materials, labor disputes, act of God, or similar matters beyond the reasonable control of Landlord and Tenant is notified by Landlord in writing as to such delay), Tenant shall have the option to terminate this Lease unless said delay is as a result of a Tenant Delay or any negligent or willful misconduct on the part of Tenant or any Tenant Entity.

2.5 In the event Landlord permits Tenant, or any agent, employee or contractor of Tenant, to enter, use or occupy the Initial Premises prior to the Commencement Date, or the First Must-Take Space prior to the FMTS Commencement Date or the Second Must-Take Space prior to the SMTS Commencement Date, such entry, use or occupancy shall be subject to all the provisions of this Lease other than the payment of rent for the applicable space, including, without limitation, Tenant's compliance with the insurance requirements of Article 1 1. Said early possession shall not advance the Termination Date.

3. RENT.

3.1 Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term, except that the first full month's rent shall be paid upon the execution of this Lease and shall be offset against rent when it actually first becomes due under the Lease. Provided there is no Event of Default by Tenant under this Lease, payment of rent for the Initial Premises shall be abated for the first year of the Term as set forth in the Initial Premises rent schedule on the Reference Pages. The Monthly Installment of Rent in effect at any time shall be one-twelfth (1/12) of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon the number of days in such month. Said rent shall be paid to Landlord, without deduction or offset and without notice or demand, at the Rent Payment Address, as set forth on the Reference Pages, or to such other person or at such other place as Landlord may from time to time designate in writing. Unless specified in this Lease to the contrary, all amounts and sums payable by Tenant to Landlord pursuant to this Lease shall be deemed additional rent.

3.2 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid when due and payable pursuant to this Lease, a late charge shall be imposed in an amount equal to the greater of: (a) Fifty Dollars ($50.00), or (b) five percent (5%) of the unpaid rent or other payment. The amount of the late charge to be paid by Tenant shall be reassessed and added to Tenant's obligation for each successive month until paid. The provisions of this Section 3.2 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Landlord 's remedies pursuant to Article 19 of this Lease in the event said rent or other payment is unpaid after date due.

4. RENT ADJUSTMENTS.

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 Lease **Year:** Each fiscal year (as determined by Landlord from time to time) falling partly or wholly within the Term.

4.1.2 Expenses: All costs of operation, maintenance, repair, replacement and management of the Building (including the amount of any credits which Landlord may grant to particular tenants of the Building in lieu of providing any standard services or paying any standard costs described in this Section 4.1.2 for similar tenants), as determined in accordance with generally accepted accounting principles, including the following costs by way of illustration, but not limitation: water and sewer charges; utility costs, including, but not limited to, the cost of heat, light, power, steam,

gas; waste disposal; the cost of janitorial services; the cost of security and alarm services (including any central station signaling system); costs of cleaning, repairing, replacing and maintaining the common areas, including parking and landscaping, window cleaning costs; labor costs; costs and expenses of managing the Building including management and/or administrative fees; air conditioning maintenance costs; elevator maintenance fees and supplies; material costs; equipment costs including the cost of maintenance, repair and service agreements and rental and leasing costs; purchase costs of equipment; current rental and leasing costs of items which would be capital items if purchased; tool costs; licenses, perm its and inspection fees; wages and salaries; employee benefits and payroll taxes; accounting and legal fees; any sales, use or service taxes incurred in connection therewith. In addition, Landlord shall be entitled to recover, as additional rent (which, along with any other capital expenditures constituting Expenses, Landlord may either include in Expenses or cause to be billed to Tenant along with Expenses and Taxes but as a separate item), Tenant's Proportionate Share of: (i) an allocable portion of the cost of capital improvement items which are reasonably calculated to reduce operating expenses; (ii) the cost of fire sprinklers and suppression systems an d other life safety systems; and (iii) other capital expenses which are required under any governmental laws, regulations or ordinances which were not applicable to the Building at the time it was constructed; but the costs described in this sentence shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with generally accepted accounting principles, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time. Expenses shall not include Taxes, Insurance Costs, depreciation or amortization of the Building or equipment in the Building except as provided herein, loan principal payments, costs of alterations of tenants' premises, leasing commissions, interest expenses on long-term borrowings or advertising costs.

4.1.3 Taxes: Real estate taxes and any other taxes, charges and assessments which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements , fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of tax payments made by such lessor; and all fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in any way seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year. Taxes shall not include any corporate franchise, or estate, inheritance or net income tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building or any taxes to be paid by Tenant pursuant to Article 28.

4. I.4 Insurance Costs: Any and all insurance charges of or relating to all insurance: policies and endorsements deemed by Landlord to be reasonably necessary or desirable and relating in any manner to the protection, preservation, or operation of the Building or any part thereof. Landlord shall carry insurance equal to ninety five (95%) of the replacement value of the Building.

4.2 If in any Lease Year, (i) Expenses paid or incurred shall exceed Expenses paid or incurred in the Base Year (Expenses) and/or (ii) Taxes paid or incurred by Landlord in any Lease Year shall exceed the amount of such Taxes which became due and payable in the Base Year (Taxes), and/or (iii) Insurance Costs paid or incurred by Landlord in any Lease Year shall exceed the amount of such Insurance Costs which became due and payable in the Base Year (Insurance), Tenant shall pay as additional rent for such Lease Year Tenant's Proportionate Share of each such excess amount.

4.3 The annual determination of Expenses and Insurance Costs shall be made by Landlord and shall be binding upon Landlord and Tenant, subject to the provisions of this Section 4.3. During the Term, Tenant may review, at Tenant's sole cost and expense, the books and records supporting such determination in an office of Landlord, or Landlord' s agent, during normal business hours, upon giving Landlord five (5) days advance written notice within sixty (60) days after receipt of such determination , but in no event more often than once in any one (1) year period, subject to execution of a confidentiality agreement acceptable to Landlord, and provided that if Tenant utilizes an independent accountant to perform such review it shall be one of national standing which is reasonably acceptable to Landlord, is not compensated on a contingency basis and is also subject to such confidentiality agreement. If Tenant fails to object to Landlord's determination of Expenses and Insurance Costs within ninety (90) days after receipt, or if any such objection fails to state with specificity the reason for the objection, Tenant shall be deemed to have approved such determination and shall have no further right to object to or contest such determination. In the event that during all or any portion of an y Lease Year or Base Year, the Building is not fully rented and occupied Landlord shall make an appropriate adjustment in occupancy-related Expenses for such year for the purpose of avoiding distortion of the amount of such Expenses to be attributed to Tenant by reason of variation in total occupancy of the Building, by employing consistent and sound accounting and management principles to determine Expenses that would have been paid or incurred by Landlord had the Building been at least ninety-five percent (95%) rented and occupied, and the amount so determined shall be deemed to have been Expenses for such Lease Year.

4.4 Prior to the actual determination thereof for a Lease Year, Landlord may from time to time estimate Tenant 's liability for Expenses, Insurance Costs and/or Taxes under Section 4.1.4, Article 6 and Article 28 for the Lease Year or portion thereof. Landlord will give Tenant written notification of the amount of such estimate and Tenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Tenant pursuant hereto.

4.5 When the above mentioned actual determination of Tenant 's liability for Expenses, Insurance Costs and/or Taxes is made for any Lease Year and when Tenant is so notified in writing, then:

4.5.1 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses, Insurance Costs and/or Taxes for the Lease Year is less than Tenant 's liability for Expenses, Insurance Costs an d/or Taxes, then Tenant shall pay such deficiency to Landlord as additional rent in one lump sum within thirty (30) days of receipt of Landlord 's bill therefor; and

4.5.2 If the total additional rent Tenant actually paid pursuant to Section 4.3 on account of Expenses, Insurance Costs and/or Taxes for the Lease Year is more than Tenant's liability for Expenses, Insurance Costs and/or Taxes, then Landlord shall credit the difference against the then next due payments to be made by Tenant under this Article 4, or, if the Lease has terminated, refund the difference in cash. Tenant shall not be entitled to a credit by reason of actual Expenses and/or Taxes and/or Insurance Costs in any Lease Year being less than Expenses and/or Taxes and/or Insurance Costs in the Base Year (Expenses and/or Taxes and/or Insurance).

4.6 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Expenses, Insurance Costs and Taxes for the Lease Year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

5. INTENTIONALLY DELETED.

6. ALTERATIONS.

6.1 Except for those, if any, specifically provided for in Exhibit B to this Lease, Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 7, without the prior written consent of Landlord. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for such alterations, additions and improvements . Landlord 's consent shall not be unreasonably withheld with respect to alterations which (i) are not structural in nature, (ii) are not visible from the exterior of the Building, (iii) do not affect or require modification of the Building's electrical, mechanical, plumbing, HVAC or other systems, and (iv) in aggregate do not cost more than $5.00 per rentable square foot of that portion of the Premises affected by the alterations in question.

6.2 In the event Landlord consents to the making of any such alteration, addition or improvement by Tenant, the same shall be made by using either Landlord' s contractor or a contractor reasonably approved by Landlord, in either event at Tenant's sole cost and expense. If Tenant shall employ any contractor other than Landlord 's contractor and such other contractor or any subcontractor of such other contractor shall employ any non-union labor or supplier, Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor un ions concerning the wage, hours, terms or conditions of the employment of any such labor. In any event Landlord may charge Tenant a construction management fee not to exceed five percent (5%) of the cost of such work to cover its overhead as it relates to such proposed work, plus third-party costs actually incurred by Landlord in connection with the proposed work and the design thereof, with all such amounts being due five (5) days after Landlord's demand.

6.3 All alterations, additions or improvements proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations, using Building standard materials where applicable, and Tenant shall, prior to construction , provide the additional insurance required under Article 11 in such case, and also all such assurances to Landlord as Landlord shall reasonably require to assure payment of the costs thereof, including but not limited to, notices of non-responsibility, waivers of lien, surety company performance bonds and funded construction escrows and to protect Landlord and the Building and appurtenant land against any loss from any mechanic 's, materialmen's or other liens. Tenant

shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Landlord's election said sums shall be paid in the same way as sums due under Article 4. Landlord may, as a condition to its consent to any particular alterations or improvements, require Tenant to deposit with Landlord the amount reasonably estimated by Landlord as sufficient to cover the cost of removing such alterations or improvements and restoring the Premises, to the extent required under Section 26.2.

6.4 Tenant's name shall be included in the Building lobby directory and on one (I) panel on the existing multi- tenant monument sign. In addition, and subject to compliance with all governmental laws, ordinances and regulations applicable thereto and all restrictions by the Las Colinas Association or any replacement or equivalent thereof, Tenant may install its name on the Building in a location to be first approved by Landlord and Las Colinas Association, but in any event, no higher than the first level of the Building. Tenant must obtain Landlord's prior written consent for the design, graphics and installation of such signage. In no event shall Landlord ever be obliged to obtain or pursue any revision of any code, ordinances and/or restrictions that currently prohibit a second sign on the Building. All signage referenced hereunder shall be at Tenant 's cost and expense and may be paid from any of the tenant improvement allowances given to Tenant under the attached Exhibit B, Exhibit B-1 and Exhibit B-2.

6.5 Tenant may, at its own cost and expense, install and maintain its own card-key access system and other security system designed to protect the Premises from unauthorized entry, provided that Tenant first submits plans and specifications for the installation of such system(s) and obtains Landlord's prior written consent therefor. Upon installation of any such permitted system, Tenant shall provide Landlord with card-keys or the equivalent thereof for purposes of access to the Premises by Landlord, its agents, employees and contractors as permitted under this Lease.

7. **REPAIR.**

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Exhibit B if attached to this Lease and except that Landlord shall repair and maintain the structural port ions of the Building, including the basic plumbing, air conditioning, heating and electrical systems installed or furnished by Landlord. Landlord shall be responsible for ADA compliance for the common areas of the Building, except that any costs or expense incurred by Landlord for ADA alterations or improvements to the common areas of the Building necessitated solely by Tenant's ADA alterations or improvements to the Premises shall be charged to Tenant and payable on demand by Tenant as additional rent hereunder. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, except as set forth in the punch list to be delivered pursuant to Section 2.2. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease.

7.2 Tenant shall, at all times during the Term , keep the Premises, including the generator installed therein for Tenant's exclusive use as referenced in Exhibit B, and all systems (including supplemental heating, air-conditioning and ventilation systems) installed therein by Tenant, in good condition and repair excepting damage by fire, or other casualty, and in compliance with all applicable governmental laws, ordinances and regulations, promptly complying with all governmental orders and directives for the correction, prevention and abatement of any violations or nuisances in or upon, or connected with, the Premises, all at Tenant 's sole expense.

7.3 Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

7.4 Except as provided in Article 22, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Except to the extent, if any, prohibited by law, Tenant waives the right to make repairs at Landlord 's expense under any law, statute or ordinance now or hereafter in effect.

8.LIENS. Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant fails, within ten (10) days following the imposition of any such lien, to either cause the same to be released of record or provide Landlord with insurance against the same issued by a major

title insurance company or such other protection against the same as Landlord shall accept (such failure to constitute an Event of Default), Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith shall be payable to it by Tenant within five (5) days Landlord 's demand.

9. ASSIGNMENT AND SUBLETTING.

9. 1 Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, such consent not to be unreasonably withheld, conditioned or delayed and said restrictions shall be binding upon any and all assignees of the Lease and subtenants of the Premises. In the event Tenant desires to sublet, or perm it such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least twenty (20) days but no more than one hundred twenty (1 0) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment and copies of financial reports and other relevant financial information of the proposed subtenant or assignee.

7.2 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant, and any guarantor of Tenant's obligations under the Lease, shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Notwithstanding the generality of the foregoing, upon a subletting of the Premises, permitted or otherwise, Tenant shall comply with the population density restriction in Section I.I of this Lease with respect to the retained portion of the Premises and the sublessee shall comply with such restriction with respect to the subleased portion of the Premises. Upon the occurrence of an Event of Default , if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

7.3 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event of any proposed subletting of part only of a floor within the Premises, to recapture the portion of the Premises to be sublet, as of the date the subletting is to be effective. The option shall be exercised, if at all, by Landlord giving Tenant written notice within fifteen (15) days following Landlord's receipt of Tenant's written notice as required above. However, if Tenant notifies Landlord, within five (5) days after receipt of Landlord's termination notice, that Tenant is rescinding its proposed sublease, the termination notice shall be void and the Lease shall continue in full force and effect. If Landlord recaptures under this Section only a portion of the Premises, the rent to be paid from time to time during the unexpired Term shall abate proportionately based on the proportion by which the approximate square footage of the remaining portion of the Premises shall be less than that of the Premises as of the date immediately prior to such recapture. Tenant shall, at Tenant's own cost and expense, discharge in full any outstanding commission obligation which may be due and owing as a result of the Premises, or part thereof, being recaptured pursuant to this Section 9.3 and rented by Landlord to the proposed tenant or any other tenant.

7.4 In the event that Tenant sells, sublet s, assigns or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to fifty percent (50%) of any Increased Rent (as defined below), less the Costs Component (as defined below), when and as such Increased Rent is received by Tenant. As used in this Section, "Increased Rent" shall mean the excess of (i) al l rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. The "Costs Component" is that amount which, if paid monthly, would fully amortize on a straight-line basis, over the entire period for which Tenant is to receive Increased Rent, the reasonable costs incurred by Tenant for leasing commissions and tenant improvements in connection with such sublease, assignment or other transfer.

7.5 Notwithstanding any other provision hereof, it shall be considered reasonable for Landlord to withhold its consent to any assignment of this Lease or sublease of any portion of the Premises if at the time of either Tenant's notice of the proposed assignment or sublease or the proposed commencement date thereof, there shall exist any uncured default of

Tenant or matter which will become a default of Tenant with passage of time unless cured, or i f the proposed assign ee or sublessee is an entity: (a) with which Landlord is already i n negotiation; (b) is already an occupant of the Building unless Landlord is unable to provide the amount of space required by such occupant; (c) is a governmenta l agency; (d) is incompatible with the character of occupancy of the Building; (e) with which the payment for the sublease or assignment is determin ed in whole or in part based upon its net income or profits; or (f) would subject the Premises to a use which would:

(i) involve increased personnel or wear upon the Building; (ii) violate any exclusive right granted to another tenant of the Building; (iii) require any addition to or modification of the Premises or the Building in order to comply with building code or other governm ental requirements; or, (iv) involve a violation of Section I .! or 1.2. Tenant expressly agrees that for the purposes of any statutory or other requirement of reasonableness on the part of Landlord, Landlord's refusal to consent to any assignment or sublease for any of the reasons described in this Section 9.5, shall be conclusively deemed to be reasonable.

7.6 Upon any request to assign or sublet, Tenant will pay to Landlord the Assignment/Subletting Fee plus, on demand, a sum equal to all of Landlord's costs, comprising reasonable attorney's fees, a management administration fee, architect's/engineer 's fees (if applicable) and financial analysis fees (if appl icable) incurred in investigating and considering any proposed o r purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord 's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article 9 shall be void.

7.7 If Tenant is a corporation, limited liability compan y, partnership or trust, any transfer or transfers of or change or changes within any twelve (12) month period in the number of the outstanding voting shares of the corporation or limited liability company, the general partnership interests in the partnership or the identity of the persons or entities controlling the activities of such partnership or trust resulting in the persons or entities owning or controlling a majority of such shares, partnership interests or activities of such partnership or trust at the beginning of such period no longer having such ownership or control shall be regarded as equivalent to an assignment of this Lease to the persons or entities acquiring such ownership or control and shall be subject to all the provisions of this Article 9 to the same extent and for all intents and purposes as though such an assignment. The foregoing shall not apply to a public offering registered to the Securities and Exchange Commission or any trading of shares thereafter, provided however that, any change in the control of ownership of Tenant shall be subject to all the provisions of this Article 9.

7.8 Notwit hstand ing the foregoing, Tenant may transfer all or part of its interest in this Lease or all or part of the Premises (a "Permitted Transfer") to the following types of entities (a "Permitted Transferee") without the written consent of Landlord:

(I)) any parent, subsidiary or affiliate of Tenant provided that the Tangible Net Worth of such entity is not less than the Tangible Net Worth of Tenant as of the Commencement Date;

(2) any corporation, limited partnership, limited liability partner ship, limited liability company or other business entity in which or with which Tenant, or its corporate successors or assigns, is merged or consolidated, in accordance with applicable statutory provisions govern ing merger and consolidation of business entities, so long as (A) Tenant's oblig- ations hereunder are assumed by the entity surviving such merger or created by such consolidation; and (B) the Tangible Net Worth of the surviving or created entity is not less than the Tangible Net Worth of Tenant as of the Commencement Date; or

(3) any corporation, limited partnership, limited liability partnership, limited liability compan y or other business entity acquiring all or substantially all of Tenant's assets if such entity's Tangible Net Worth after such acquisition is not less than the Tangible Net Worth of Tenant as of the Commencement Date.

Tenant shall promptly notify Landlord of any such Permitted Transfer. Tenant shall remain liable for the performance of all of the obligations of Tenant hereunder, or if Tenant no longer exists because of a merger, consolidation, or acquisition, the surviving or acquiring entity shall expressly assum e in writing the obligations of Tenant hereunder. Additional ly, the Permitted Transferee shall comply with all of the terms and cond itions of th is Lease, including the Perm itted Use. Withou t the necessity of any additional document being executed by Guarantor, Guarantor shall remain liable for the performance of al l of the obligations of Guarantor under the guaranty executed by Guarantor under Art icle 44 of this Lease. Notwithstanding the foregoing, Tenant covenants and agrees to cause Guarantor to execute and deliver within ten (I 0) days of Landlord's request such further instruments evidencing Guarantor's acknowledgment of the Permitted Transfer and the ratification of the guaranty as may be required by Landlord . With in at least thirty (30) days after the effective date of

any Permitted Transfer, Tenant shall furnish Landlord with copies of the instrument effecting any of the foregoing Permitted Transfers and documentation establishing Tenant's satisfaction of the requirements set forth above applicable to any such Permitted Transfers. The occurrence of a Permitted Transfer shall not waive Landlord's rights as to any subsequent transfers. "Tangible Net Worth" means the excess of total assets over total liabil ities, in each case as determined in accordance with generally accepted accounting principles consistently applied ("GAAP"), exclud ing, however, from the determination of total assets all assets wh ich would be classified as intangible assets under GAAP including, without limitation, goodwill, licenses, patents, trademarks, trade names, copyrights, and franchises. Any subsequent transfer by a Permitted Transferee shall be subject to the terms of this Article 9.

10. INDEMNIFICATION. None of the Lan dlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or a ny injury to any person in or about the Premises or the Building by or from any cause whatsoever (incl uding without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbi ng works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Except to the extent attributable to the gross negl igence or willful misconduct of Landlord or any Landlord Entity, Tenant shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant or any Tenant Entity to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. Landlord shall protect, indemnify and hold Tenant harmless from and against any and all loss, claims, liability or costs (including court costs and attorney' s fees) incurred by reason of any damage to any property or any injury (including but not limited to death) to any person occurrin g in, or on or about the common areas to the extent that such injury or damage shall be proximately caused 1.Jy the in tentional sole negligence or willful misconduct of Landlord or its agents, servants or employees. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination.

11. INSURANCE.

1 1 .1 Tenant shall keep in force throughout the Term: (a) a Commercial General Liability insurance policy or policies to protect the Landlord Entities against any liabil ity to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than
$1,000,000 per occurrence and not less than $2,000,000 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury and property damage liability and $1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than
$1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute with Employers Liability with limits of $500,000 each accident, $500,000 disease policy limit, $500,000 disease--each employee; {d) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations, additions, improvements, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement val ue of the property so insured; and, (e) Business Interruption Insurance with limit of liability representing loss of at least approximately six (6) months of income.

11.2 The aforesaid policies shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds (General Liability) and loss payee (Property-Special Form); (c) be issued by an insurance company with a min i mum Best 's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be canceled unless thirty
(30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; a certificate of Liabil ity insurance on ACORD Form 25 and a certi ficate of Property insurance on ACORD Form 27 shall be delivered to Landlord by Tenant upon the Commencement Date and at least fairty (30) days prior to each renewal of said insurance.

11 .3 Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protecti on must extend to and include injuries to persons and damage to property arising in

connection with such Work, without limitation including liability under any applicable structural work act, and such other insurance as Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

12. **WAIVER OF SUBROGATION.** So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss in sured by fire, extended coverage, All Risks or other insurance now or hereafter existing for the benefit of the respective party but only to the extent of the net insurance proceeds payable under such pol icies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. SERVICES AND UTILITIES.

13.1 Provided Tenant sha ll not be in default under this Lease, and subject to the other provisions of this Lease, Landlord agrees to furnish to the Premises during Building Business Hours (specified on the Reference Pages) on generally recognized business days (but exclusive in any event of Sundays and national and local legal holidays), the following services and utilities subject to the rules and regulations of the Building prescribed from time to time: (a) water suitable for normal office use of the Premises; (b) heat and air conditioning required in Landlord' s judgment for the use and occupation of the Premises during Building Business Hours; (c) cleaning and janitorial service five (5) days per week only; (d) elevator service by nonattended automatic elevators, if applicable; and, (e) equipment to bring to the Premises electricity for lighting, convenience outlets and other normal office use. To the extent that Tenant is not billed directly by a public util ity, Tenant shall pay, within five (5) days of Landlord 's demand, for all electricity used by Tenant in the Premises. The charge shall be at the rates charged for such services by the local public utility. Alternatively, Landlord may elect to include electricity costs in Expenses. Landlord reserves the right to install electric and/or water meters in the Premises or any part thereof. The cost of such meters shall be at Tenant's expense. Notwithstanding anything to the contrary contained in this Lease, provided there is no Event of Default under the Lease, electricity charges for the Initial Premise shall be abated for the first year of Term as set forth in the Initial Premises rent schedule on the Reference Pages. In the absence of Landlord's gross negligence or willful misconduct, Landlord shall not be liable for, and Tenant shall not be entitled to, any abatement or reduction of rental by reason of Landlord's failure to furnish any of the foregoing, unless such failure shall persist for an unreasonable time after written notice of such failure is given to Landlord by Tenant and provided further that Landlord shall not be liable when such fail ure is caused by accident, breakage, repairs, labor disputes of any character, energy usage restrictions or by any other cause, sim ilar or dissimilar, beyond the reasonable control of Landlord. Landlord shall use reasonable efforts to remedy any interruption in the furnishing of services and utilities.

13.2 Should Tenant require any additional work or service, as described above, including services furnished outside ordinary business hours specified above, Landlord may, on terms to be agreed, upon reasonable advance notice by Tenant, furnish such additional service an d Tenant agrees to pay Landlord such charges as may be agreed upon, including any tax imposed thereon, but in no event at a charge less than Landlord's actual cost plus overhead for such additional service and, where appropriate, a reasonable allowance for depreciation of any systems being used to provide such service. The current charge for after-hours HVAC service, which is subject to change at any time, is specified on the Reference Pages.

13.3 Wherever heat-generating machines or equipment are used by Tenant in the Premises which affect the temperature otherwise maintained by the air conditioning system or Tenant allows occupancy of the Premises by more persons than the heating and air conditioning system is designed to accommodate, in either event whether with or without Landlord's approval, Landlord reserves the right to install supplementary heating and/or air conditioning units in or for the benefit of the Premises and the cost thereof, including the cost of installation and the -cost of operations and maintenance, shall be paid by Tenant to Landlord within five (5) days of Landlord 's demand.

13.4 Tenant will not, without the written consent of Landlord, use any apparatus or device in the Premises, including but not lim ited to, electronic data processing machines and machines using current in excess of 2000 watts and/or 20 amps or 120 volts, which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises for normal office use, nor connect with electric current, except through existing electrical outlets in the Premises, or water pipes, any apparatus or device for the purposes of using electrical current or water. IfTenant shall require water or electric current in excess of that usually furnished or supplied for use of the Premises as normal office use, Tenant shall procure the prior written consent of Landlord for the use thereof, which Landlord may refuse, an d if Landlord does consent, Landlord may cause a water meter or electric current meter to be installed so as to measure the amount of such excess water and electric current. The cost of any such meters shall be paid for by Tenant. Tenant agrees to pay to Landlord within five (5) days of Landlord's demand , the cost of all such excess water and electric current consumed (as shown by said

meters, if any, or, if none, as reasonably estimated by Landlord) at the rates charged for such services by the local public utility or agency, as the case may be, furnishing the same, plus any additional expense incurred in keeping account of the water and electric current so consumed.

13.5 Tenant will not, without the written consent of Landlord, contract with a utility provider to service the Premises with any utility, incl uding, but not limited to, telecommunications, electricity, water, sewer or gas, which is not previously providing such service to other tenants in the Building. Subject to Landlord 's reasonable ru les and regulations and the provisions of Articles 6 and 26, Tenant shall be entit led to the use of wiring ("Communication s Wiring") from the existing telecommunications nexus in the Building to the Premises, sufficient for normal general office use of the Premises. Tenant shall not install any additional Communication s Wiring, nor remove any Communications Wiring, without in each instance obtain ing the prior written consent of Landlord, which consent may be withhe ld in Landlord's sole and absolute discretion . Landlord 's shall in no event be liable for disruption in any service obtained by Tenant pursuant to this paragraph.

14. **HOLDING OVER.** Tenant shall pay Landlord for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("Holdover Rate") which shall be One Hundred Fifty Percent (150%) of the greater of (a) the amount of the Annual Rent for the last period pr ior to the date of such termination plus all Rent Adjustments under Article 4; and (b) the then market rental value of the Premises as determined by Landlord assuming a new lease of the Premises of the then usual duration and other terms, in either case, prorated on a daily basis, and also pay al l damages sustained by Landlord by reason of such retention. If Landlord gives notice to Tenant of Landlord 's election to such effect, such holding over shall constitute renewal of this Lease for a period from month to month at the Holdover Rate, but if the Landlord does not so elect, no such renewal shall result notwithstanding acceptance by Landlord of any sums due hereunder after such termination; and instead, a tenancy at sufferance at th e Holdover Rate shall be deemed to have been created. In any event, no provision of this Article 14 shall b e deemed to waive Landlord's right of reentry or any other right under this Lease or at law.

15. **SUBORDINATION.** Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoin g, Tenant covenants and agrees to execute and deliver within ten (IO) days of Landlord's request such further instruments evidencing such subordination or superiority of this Lease as may be required by Landlord. As of the date of Landlord's execution of this Lease, Landlord confirms that there is no mortgagee with a lien on Landlord's interest in the Building. In the event of a future mortgagee with a lien on Landlord's interest in the Building, then, upon Tenant's request therefor, and at Landlord's cost (not to exceed $200.00), Landlord shall use reasonable efforts to obtain from such mortgagee a subordination, non-disturbance and attornment agreement in favor of Tenant on such mortgagee's standard form.

16. **RULES AND REGULATIONS.** Tenant shall faithfully observe and comply with all the rules and regulations as set forth in Exhibit D to this Lease and all reasonable and non-discriminatory modifications of and additions to them from time to time put into effect by Landlord . Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any such rules and regulations.

17. **REENTRY BY LANDLORD.**

17. l Landlord reserves and shall at all times have the right to re-enter the Premises to inspect the same, to supply jan itor service and any other service to be provided by Landlord to Tenant under this Lease, to show said Premises to prospect i ve purchasers, mortgagees or tenants, and to alter, improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby, and further provided that the business of Tenant shall not be interfered with unreasonab ly. Landlord shall have the right at any time to change the arrangement and/or locations of entrances, or passageways, doors and doorways, and corridors, windows, elevators, stairs, toilets or other public parts of the Buil ding (provided there is thereby no unreasonable interference with Tenant's access to or use of the Premises), and to change the name, number or designation by which the Building is commonly known. In the event that Landlord damages any portion of any wall or wall covering, ceiling, or floor or floor covering within the Premises,

Landlord shall repair or replace the damaged portion to match the original as nearly as commercially reasonable but shall not be required to repair or replace more than the portion actually damaged. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned by any action of Landlord authorized by this Article 17 unless caused by the gross negligence or willful misconduct of Landlord.

17.2 For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain entry to any portion of the Premises. As to any portion to which access cannot be had by means of a key or keys in Landlord's possession, Landlord is authorized to gain access by such means as Landlord shall elect and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord within five (5) days of Landlord's demand.

18. **DEFAULT.**

18.1 Except as otherwise provided in Article 20, the following events shall be deemed to be Events of Default under this Lease:

18.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of five (5) days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve (12) month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord under this Lease during such period shall be an Event of Default, without notice.

18.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days (forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant provided, however, that such failure shall not be an event of default if such failure could not reasonably be cured during such twenty (20) day period, Tenant has commenced the cure within such twenty (20) day period and thereafter is diligently pursuing such cure to completion, but the total aggregate cure period shall not exceed one hundred twenty (120) days.

18.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

18.1.4 Tenant, or any guarantor of Tenant's obligations under this Lease, shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant, or any guarantor of Tenant's obligations under this Lease, bankrupt, or appointing a receiver of Tenant, or of any guarantor of Tenant's obligations under this Lease, or of the whole or any substantial part of its property, without the consent of Tenant, or such guarantor, as applicable, or approving a petition filed against Tenant, or any guarantor of Tenant's obligations under this Lease, seeking reorganization or arrangement of Tenant, or any guarantor of Tenant's obligations under this Lease, under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

18.1.6 Tenant, or any guarantor of Tenant's obligations under this Lease, shall be in default with respect to any other agreement with Landlord.

19. **REMEDIES.**

19.1 Except as otherwise provided in Article 20, upon the occurrence of any of the Events of Default described or referred to in Article 18, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever , concurrently or consecutively and not alternatively:

I 9.1.1 Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only, without terminating the Lease.

19.1.2 Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any tem1ination of Tenant' s right to possession without termination of the Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free license to enter into and upon the Premises in such event and to repossess Landlord of the Premises as of Landlord's former estate and to expel or remove Tenant and any others who may be occupying or be within the Premises and to remove Tenant's signs and other evidence of tenancy and all other property of Tenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Tenant waiving any right to claim damages for such re-entry and expulsion, and without relinqu ishing Landlord's right to rent or any other right given to Landlord under this Lease or by operation oflaw.

19.1.3 Upon any termination of th is Lease, whether by lapse of time or otherwise, Landlord shall, subject to Landlord' s obligation, if any, to mitigate under Texas law, be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Lease, and other sums due and payable by Tenant on the date of termination, plus as liquidated damages and not as a penalty, an amount equal to the sum of: (a) an amount equal to the then present value of the rent reserved in this Lease for the residue of the stated Term of th is Lease including any amounts treated as additional rent under this Lease and all other sums provided in this Lease to be paid by Tenant, minus the fair rental value of the Premises for such residue ; (b) the value of the time and expense necessary to obtain a replacement tenant or tenants, and the estimated expenses described in Section 19.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself; and (c) the cost of performing any other covenants which would have otherwise been performed by Tenant.

19.1.4 Upon any termination of Tenant's right to possession only without terminat ion of the Lease:

19. 1.4.1 Neither such termination of Tenant's right to possession nor Landlord's taking and holding possession thereof as provided in Section 19.1.2 shall terminate the Lease or release Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent, under this Lease for the full Term, and if Landlord so elects Tenant shall continue to pay to Landlord the entire amount of the rent as and when it becomes due, including any amounts treated as additional rent under this Lease, for the remainder of the Term plus any other sums provided in this Lease to be paid by Tenant for the remainder of the Term.

19.1.4.2 Landlord shall use commercially reasonable efforts to relet the Premises or portions thereof to the extent required by applicable law. Landlord and Tenant agree that neverthe less Landlord shall at most be required to use only the same efforts Landlord then uses to lease premises in the Building generally and that in any case that Landlord shall not be required to give any preferen ce or priority to the showing or leasing of the Premises or port ions thereof over any other space that Landlord may be leasing or have available and may place a suitable prospect ive tenant in any such other space regardless of when such other space becomes available and that Landlord shall have the right to relet th e Premises for a greater or lesser tem1 than that remaining under th is Lease, the right to relet only a portion of the Premises, or a portion of the Premises or the entire Premises as a part of a larger area, and the right to change the character or use of the Premises. In connection with or in preparation for any reletting, Landlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and redecorate the same to the extent Landlord deems necessary or desirable, and Tenant shall pay th e cost thereof, together with Landlord's expenses of reletting, including, without limitation, any commission incurred by Landlord , with in five (5) days of Landlord's demand. Landlord shall not be required to observe any instruction given by Tenant about any reletting or accept any tenant offered by Tenant unless such offered tenant has a credit worth iness acceptable to Landlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Landlord for tenant improvements, broker 's comm issions and other leasing costs) all no less favorable to Landlord than as called for in this Lease, nor shall Landlord be required to make or perm it any assignment or sublease for more than the current tem1 or which Landlord would not be required to permit under the provisions of Article 9.

19.1.4.3 Until such time as Landlord shall elect to terminate the Lease and shall thereupon be entitled to recover the amounts specified in such case in Section 19.1.3, Tenant shall pay to Landl ord upon demand the full amount of all rent, including any amounts treated as additional rent under this Lease and other sums reserved in this Lease for the remaining Term, together with the costs of repairs, alterations, additions, redecorating and Landlord's expen ses of reletting and the collection of the rent accruing therefrom (including reasonable attorney's fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Landlord may have received from any reletting of the Premises ; and Tenant agrees that Landlord may file suits from time to time to recover any sums falling due under this Article 19 as they become due. Any proceeds of reletting by Landlord in excess of the amount then owed by Tenant to Landlord from time to time shall be credited against Tenant's future obligations under this Lease but shall not otherwise be refunded to Tenant or inure to Tenant 's benefit.

19.2 Upon the occurrence of an Event of Default, Landlord may (but shall not be obligated to) cure such default at Tenant 's sole expense. Without limiting the general ity of the foregoing, Landlord may, at Landlord's option, enter into and upon the Premises if Landlord determines in its sole discretion that Tenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Tenant is responsible under this Lease or to otherwise effect compliance with its obligations under this Lease and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom and Tenant agrees to reimburse Landlord within five (5) days of Landlord's demand as additional rent, for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, plus interest from the date of expenditure by Landlord at the Wall Street Journal prime rate.

19.3 Tenan t understands and agrees that in entering into this Lease, Landlord is relying upon receipt of all the Annual and Monthly Installments of Rent to become due with respect to all the Premises originally leased hereunder over the full Initial Term of this Lease for amortization, including interest at the Amortization Rate. For purposes hereof, the "Concession Amount" shall be defined as the aggregate of all amounts forgone or expended by Landlord as free rent under the lease, under Exhibit B hereof for tenant improvement allowances (excluding therefrom any amounts expended by Landlord for Landlord's Work, as defined in Exhibit B), and for brokers ' commissions payable by reason of this Lease. Accordingly, Tenant agrees that if this Lease or Tenant's right to possession of the Premises leased hereunder shall be terminated as of any date ("Default Termination Date") prior to the expiration of the full Initial Term hereof by reason of a default of Tenant, there shall be due and owing to Landlord as of the day prior to the Default Termination Date, as rent in addition to all other amounts owed by Tenant as of such Date, the amount ("Unamortized Amount") of the Concession Amount determined as set forth below; provided, however, that in the event that such amounts are recovered by Landlord pursuant to any other provision of th is Article 19, Landlord agrees that it shall not attempt to recover such amounts pursuant to this Paragraph 19.3. For the purposes hereof, the Unamortized Amount shall be determined in the same manner as the remaining principal balance of a mortgage with interest at the Amortization Rate payable in level payments over the same length of time as from the effectuation of the Concession concerned to the end of the full Initial Term of this Lease would be determined. The foregoing provisions shall also apply to and upon any reduction of space in the Premises, as though such reduction were a termination for Tenant's default, except that (i) the Unamortized Amount shall be reduced by any amounts paid by Tenant to Landlord to effectuate such reduction and (ii) the manner of application shall be that the Unamortized Amount shall first be determined as though for a full termination as of the Effective Date of the elimination of the portion, but then the amount so determined shall be multiplied by the fraction of which the numerator is the rentable square footage of the eliminated portion and the denominator is the rentable square footage of the Premises originally leased hereunder; and the amount thus obtained shall be the Unamortized Amount.

19.4 If, on account of an y breach or default by either party in its obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for the non-defaulting party to employ or consult with an attorney or collection agency concerning or to enforce or defend any of the non-defaulting party's rights or remedies arising under this Lease or to collect any sums due from the defaulting party, the defaulting party agrees to pay all costs and fees so incurred by the non-defaulting party, including, without limitation, reasonable attorneys' fees an d costs. LANDLORD AND TENANT EACH EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY.

19.5 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or waiver of any rent due to Landlord under this Lease or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

19.6 No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shal l be valid, unless in writing signed by Landlord. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants contained in th is Lease shall be deemed or construed to constitute a waiver of any other violati on or breach of any of the terms, provisions and covenants contained in this Lease. Landlord' s acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord in enforcing one or more of the remedies provided in this Lease upon an Event of Default shall not be deemed or construed to constitute a waiver of such Default or of Landlord 's right to enforce any such remedies with respect to such Default or any subsequent Default .

19.7 Intentionally Deleted.

19.8 Any and all property which may be removed from the Prem ises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of Landlord but at the risk, cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in Landlord' s possession or under Landlord 's control. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord 's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant.

19.9 If more than two (2) Events of Default occur during any calendar year of the Term (including any renewal of the Term) which have not been cured within the notice and cure periods permitted under this Lease, Tenant's renewal options, expansion opti ons, purchase options and rights of first offer and/or refusal, if any are provided for in this Lease, shall be null and void.

20. TENANT'S BANKRUPTCY OR INSOLVENCY.

20.1 Ifat any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protect ion of debtors as in effect at such time (each a "Debtor 's Law"):

20.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant' s assets (each a "Tenant's Representative") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor 's Law. Without limitation of the generality of the foregoing, any right of any Tenant 's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

20. 1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant und er this Lease.

19.20.3.2 Tenant' s Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three (3) months' rent and other monetary charges accruing under this Lease; and (b) any sum specified in Article 4; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation , such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant 's Representative has and will continue to have sufficient unencumbered assets after the paymen t of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfil l the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenan t's obligations under this Lease.

19.20.3.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mongage, financing agreement or other agreement by which Landlord is bound.

20.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

21. QUIET **ENJOYMENT.** Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performin g its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

22. CASUAL**TY**

22.1 In the event the Premises or the Building are damaged by fire or other cause and in Landlord's reasonable estimation such damage can be materially restored within one ht:.ndred eighty (180) days, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord shall notify Tenant, in writing, of Landlord's reasonable estimation of the length of time within which material restoration can be made, and Landlord 's determination shall be binding on Tenant. For purposes of this Lease, the Building or Premises shall be deemed "materially restored" if they are in such condition as would not prevent or materially interfere with Tenant 's use of the Premises for the purpose for which it was being used immediately before such damage.

22.2 If such repairs cannot, in Landlord's reasonable estimation, be made within one hundred eighty (180) days, Landlord and Tenant shall each have the option of giving the other, at any time within ninety (90) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 22.1.

22.3 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises by, or belonging to, Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control. -

22.4 In the event that Landlord should fail to complete such repairs and material restoration within sixty (60) days after the date estimated by Landl ord therefor as extended by this Section 22.4, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord , within fifteen (15) days after the expiration of said period of time, whereupon the Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed.

22.5 Notwithstand ing anything to the contrary contained in this Article: (a) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises when the damages resulting from any casualty covered by the provisions of this Article 22 occur during the last twel ve (12) months of the Term or any extension thereof, but if Landlord determines not to repair such damages Landlord shall notify Tenant and if such damages shall render any material portion of the Premises untenantable Tenant shall have the right to terminate th is Lease by notice to Landlord within fifteen

(15) days after receipt of Landlord's notice; and (b) in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises or Building requires that any insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant with in fifteen (15) days after such requirement is made by any such holder, whereupon this Lease shall end on the date of such damage as if the date of such damage were the date originally fixed in this Lease for the expiration of the Term.

22.6 In the event of any damage or destr uction to the Building or Premises by any peril covered by the provisions of th is Article 22, it shal l be Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith , at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

23. EMINENT DOMAIN. Ifall or any substantial part of the Premises shall be taken or appropriated by any public or q uasi-public authority under the power of eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice tem1inating this Lease, except that Tenant may on ly terminate this Lease by reason of taking or appropriation, if such taking or appropriati on shall be so substantial as to material ly interfere with Tenant 's use and occupancy of the Premises. Ifneither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. In addition to the rights of Landlord above, if any substantial part of the Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord shall be entitled to any and all income, rent, award, or any interest whatsoever in or upon any such sum, which may be paid or made in connection with any such public or quasi-public use or purpose, and Tenant hereby assigns to Landlord any interest it may have in or claim to all or any part of such sums, other than any separate award which may be made with respect to Tenant's trade fixtures and moving expenses; Tenant shall make no claim for the value of any unexpired Term.

24. SALE BY LANDLORD. In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in th is Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 24, this Lease shall not be affected by any such sale and Tenant agrees to attom to the purcha ser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord may transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

25. ESTOPPEL CERTIFICATES. Within ten (I0) days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or mortgagee or prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, that this Lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid ; (d) the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (e) such other matters as may be requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 25 may be relied upon by any mortgagee, beneficiary or purchaser, and Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant irrevocabl y agrees that if Tenant fails to execute and deliver such certificate with in such ten (10) day period Landlord or Landlord's beneficiary or agent may execute and deliver such certificate on Tenant's behalf, and that such certificate shall be ful ly binding on Tenant.

26. SURRENDER OF PREMISES.

26. I Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than forty-eight (48) hours after Tenant has vacated the Premises. In the event of Tenant's failure to arrange such joint inspection s and/or parti cipate in either such inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusi vely deemed correct for purposes of determining Tenant's responsibility for repairs and restoration .

26.2 All alterations, additions, and improvements in, on, or to the Premises made or installed by or for Tenant, including carpeting (collectively, "Alterations"), shall be and remain the property of Tenant during the Term. Upon the

expiration or sooner termination of the Term, all Alterations shall become a part of the realty an d shall belong to Landlord without compensation, and title shall pass to Landlord under this Lease as by a bill of sale. At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all Alterations by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty. Notwithstanding the foregoing, if Landlord elects by notice given to Tenant at least ten (J O) days prior to expiration of the Term, Tenant shall, at Tenant's sole cost, remove any Alterations, including carpeting, so designated by Landlord 's notice, and repair any damage caused by such removal. Tenant must, at Tenant 's sole cost, remove upon termination of th is Lease, any and all of Tenant's furn iture, furnishings, movable partitions of less than full height from floor to cei ling and other trade fixtures and persona l property (coll ecti vel y, "Personalty"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shal l thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the cost of removal and disposal of such Personalty, as well as any damage caused by such removal. In lieu of requiring Tenant to remove Alterations and Personalty and repair the Premises as aforesaid, Landlord may, by written notice to Tenant delivered at least thirty (30) days before the Termination Date, require Tenant to pay to Landlord, as additional rent hereunder, the cost of such removal and repair in an amount reasonably estimated by Landlord .

26.3 All obligations of Tenant under this Lease not fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earl ier termination of the Term Upon the expiration or earlier termination of the Tem1, Tenant shall pay to Landlord the amount, as estimated by Lan dlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied.

27. **NOTICES.** Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, by fully prepaid registered or certified United States Mail return receipt requested, or by reputable independent contract delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Pages, or at such other address as it has then last specified by written notice delivered in accordance with this Article 27, or if to Tenant at either its aforesaid address or its last known registered office or home of a general partm:r ur individual owner, whether or not actually accepted or received by the addressee. Any such notice or document may also be personally delivered if a receipt is signed by and received from, the individual, if any, named in Tenant's Not ice Address.

28. **TAXES PAYABLE BY TENANT.** In addition to rent and other charges to be pa id by Tenant under this Lease, Tenant shall reimburse to Landlord , upon demand, any and all taxes payable by Landlord (other than net income taxes) whether or not now customary or within the contemplation of the parties to this Lease: (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any gross income tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession , leasing, operation, management , maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferr ing any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which become payable during the term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

29. **RELOCATION OF TENANT.** If Tenant, or any sublessee of Tenant, is not occupying the entire of any floor with in the Premises, then Landlord, at its sole expense, on at least sixty (60) days prior written notice, may require Tenant to move from such floor to other space of comparable size and decor in order to permit Landlord to consolidate the space leased to Tenant with other adjoining space leased or to be leased to another tenant. In the event of any such relocation, Landlord will pay all expenses of prepar ing and decorating the new premises so that they will be substan tially similar to that part of the Premises from which Tenant is movin g, and Landlord wil l also pa y the expense of moving Tenant's furniture and equipment to the relocated premises. In such event th is Lease and each and al l of the terms and covenants and conditions hereof shall remain in full force and effect and thereupon be deemed applicable to such new space except that revised Referen ce Pages and a revised Exhibit A shall become part of this Lease and shall reflect the location of the new premises.

30. **PARKING.**

30.1 During the initial Term of this Lease, Tenant agrees to lease from Landlord and Landlord agrees to lease to Tenant, 4.5 unreserved parking spaces for every 1,000 rentable square foot of leased space within the Premises. Except as permitted in Section 1.2, in no event shall Tenant's use of the Premises entitle Tenant to any parking spaces in excess of the number expressly permitted hereunder. Approximately 44% of Tenant's parking shall be in the Building's structured garage. Five (5) of Tenant 's allotted number of parking spaces hereunder shall be designated by

Landlord as Tenant' s visitor parking spaces, and the cost of visitor parkin g signage shall be at Tenant 's cost and may be deducted from the Tenant Improvement Allowance (as defined in Exhibit B). There shall be no charge during the initial Term for the spaces allocated to Tenant under this Section 30. l (namely, 4. 5/ 1000 as aforesaid). This right to park in the Building's parking facilities (the "Parking Facility") is on an unreserved, nonexclusive , first come, first served basis, for passenger-size automobiles and is subject to the following terms and conditions:

30.1.1 Except as otherwise stated in Section 30.1 above, Tenant shall pay to Landlord, or Landlord 's designated parking operator, the Building's prevailing monthly parking charges, without deduction or offset, on the first day of each month during the Term of this Lease. Landlord will notify Tenant upon not less than thirty (30) days' notice of any increases in the monthly parking charges prior to billing Tenant any increases. No deducti ons from the monthly charge shall be made for days on which the Parking Facil ity is not used by Tenant.

29.3.2 Tenant shall at all times abide by arid shall cause each of Tenant' s employees, agents, customers, visitors, invitees, licensees, contractors, assignees and subtenants (collectively, "Tenant's Parties") to abide by any rules and regulations ("Rules") for use of the Parking Facility that Landlord or Landlord's garage operator reasonably establishes from time to time, and otherwise agrees to use the Parking Facility in a safe and lawful manner. Landlord reserves the right to adopt, modify and enforce the Rules governing the use of the Parking Facility from time to time including any key-card, sticker or other identification or entrance system and hours of operation. Landlord may refuse to permit any person who violates such Rules to park in the Parking Facility, and any violation of the Rules shall subject the car to removal from the Parking Facility.

29.3.3 Unless specified to the contrary above, the parking spaces hereunder shall be provided on a non designated "first-come, first-served" basis. Landlord reserves the right to assign specific spaces, and to reserve spaces for visitors, small cars, disabled persons or for other tenants or guests, and Tenant shall not park and shall not allow Tenant's Parties to park in any such assigned or reserved spaces. Tenant may validate visitor parking by such method as Landlord may approve, at the validation rate from time to time generally applicable to visitor parking. Tenant acknowledges that the Parking Facility may be closed entirely or in part in order to make repairs or perform maintenance services, or to alter, modify, re-stripe or renovate the Parking Facility, or ifrequired by casualty, strike, condemnation, act of God, governmental law or requirement or other reason beyond the operator's reasonable control.

29.3.4 Tenant acknowledges that to the fullest extent permitted by Jaw, Landlord shall have no liability for any damage to property or other items located in the parking areas of the Project (including without limitation, any loss or damage to tenant's automobile or the contents thereof due to theft, vandalism or accident), nor for any personal injuries or death arising out of the use of the Parking Facility by Tenant or any Tenant's Parties, whether or not such loss or damage results from Landlord's active negligen ce or negligent omission. The limitation on Landlord's liability under the preceding sentence shall not apply however to Joss or damage arising directly from Landlord's willfu l misconduct. Without limiting the foregoing, if Landlord arran ges for the parking areas to be operated by an independent contractor not affi liated with Landlord, Tenant acknowledges that Landlord shall have no liability for claims arising through acts or omissions of such independent contractor. Tenant and Tenant's Parties each hereby voluntarily releases, discharges, waives and relinquishes any and al l actions or causes of action for personal injury or property damage occurring to Tenant or any of Tenant's Parties arising as a result of parking in the Parking Facility, or any activities incidental thereto, wherever or however the same may occur, and further agrees that Tenant will not prosecute any claim for personal injury or property damage against Landlord or any of its officers, agents, servants or employees for any said causes of action and in all events, Tenant agrees to look first to its insurance carrier and to require that Tenant's Parties look first to their respective insurance carriers for payment of any losses sustained in connection with any use of the Parking Facility.

30. l .5 Upon any permitted assignment or sublease the number of parking spaces available to Tenant hereunder shall be reduced so that the same shall not exceed 4 parking passes per 1,000 rentable square feet in the Premises. Such right to park in the reduced number of spaces as aforesaid shall contin ue to be on an unreserved, non-exclusive, first

come, first service basis for passenger size automobiles and shall otherwise be subject to the tenns and conditions of this Article except as herein amended.

30. J .6 In the event any surcharge or regulatory fee is at any time imposed by any governmenta l authority with reference to parking , Tenant shall (commencing after two (2) weeks' notice to Tenant) pay, per parking pass, such surcharge or regulatory fee to Landlord in advance on the first day of each calendar month concurrently with the month installment of rent due under th is Lease. Landlord will enforce any surcharge or fee in an equitable manner amongst the Building tenants.

30.2 IfTenant violates any of the tenns and cond i tions of this Article, the operator of the Parking Facility shall have the right to remove from the Parking Faci lity any vehicles hereunder which shall have been involved or shall have been owned or driven by parties involved in causing such violation, without liability therefor whatsoever.

31. .DEFINED TERMS AND HEADINGS. The Article headings shown in this Lease are for conven ience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "Land lord Entities", being Landlord, Landlord's investment manager, and the trustees, boards of directors, officers, genera l partner s, beneficiaries, stockholders, employees and agents of each of them. Any option granted to Landlord shall also include or be exercisable by Landlord 's trustee, beneficiary , agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The tenns "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their and each of their respective successors, executors, administrators and pennitted assigns, according to the context hereof. The tenn "rentable area" shall mean the rentable area of the Premises or the Building as calculated by the Landlord on the basis of the plans and specifications of the Building including a proportionate share of any common areas. Tenant hereby accepts and agrees to be bound by the figures for the rentable square footage of the Premises and Tenant 's Proportiona te Share shown on the Reference Pages; however, Landlord may adjust either or both figures if there is manifest error, addition or subtraction to the Building or any business park or complex of which the Building is a part, remeasurement or other circumstan ce reasonably justifyin g adjustment. The term "Building" refers to the structure in which the Premises are located and the common areas (parking lots, sidewalks, landscaping, etc.) appurtenant thereto. If the Building is part of a larger complex of structures, the term "Building" may include the entire complex, where appropriate (such as shared Expenses, Insurance Costs or Taxes) and subject to Landlord's reasonable discretion.

32. TENANT'S AUTHORITY. If Tenant signs as a corporation, partner ship, trust or other legal entity each of the persons executing this Lease on beha lf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in wh ich the Building is located, that the entity has full right and authority to enter into this Lease, and that all persons signing on behalf of the entity were authorized to do so by appropriate actions. Tenant agrees to deliver to Landlord, simultaneously with the delivery of this Lease, a corporate resolution, proof of due authorization by partners, opinion of counsel or other appropriate documentation reasonably acceptable to Landlord evidencing the due authorization of Tenant to enter into this Lease.

33. FINANCIAL STATEMENTS ANl> CREDIT REPORTS. At Landlord 's request, Tenant shall deliver to Landlord a copy, certified by an officer of Tenant as being a true and correct copy, of Tenant 's most recent audited financial statement, or, if unaudited, certified by Tenant's chief financial officer as being true, complete and correct in all material respects . Tenant hereby authorizes Landlord to obtain one or more credit reports on Tenant at any time, and shall execute such further authorizations as Landlord may reasonably require in order to obtain a credit report.

34. COMMISSIONS. Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connect ion with this Lease, except as descri bed on the Reference Pages.

35. TIME AND APPLICABLE LAW. Time is of the essence of th is Lease and all of its provisions. This Lease shall in al l respects be governed by the laws of the state in which the Building is located.

36. SUCCESSORS AND ASSIGNS. Subject to the provisions of Article 9, the terms, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

37. **ENTIRE AGREEMENT.** This Lease, together with its exh i bits, contains all agreements of the part i es to this Lease and supersedes any previous negotiati ons. There have been no representations made by the Landlord or any of its representatives or understandings made between the parties other than those set forth in this Lease and its exh ibits. This Lease may not be modified except by a written instrument duly executed by the parti es to this Lease.

38. **EXAMINATION NOT OPTION.** Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord , and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant unt il such time as Tenant has paid to Landlord the first month 's rent as set forth in Artic le 3 and any sum owed pursuant to th is Lease.

39. **RECORDATION.** Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident such recording or registration.

40. **RIGHT OF FIRST OFFER.**

40.1 During the initial Term (except as hereinbelow stated), and provided (i) Tenant is not then in default under the terms, covenants and conditions of the Lease and (ii) Tenant and/or its Permitted Transferee is then in occupation of the entire of the Premises (any permitted occupation by a Tenant vendor shall be deemed occupation by Tenant for purposes of this Article 40), Tenant shall have (a) a one time right of first offer on all of the space (the "Sky Chefs Space") that is, as of the Commencement Date, occupied by LSG Lufthansa Service Holdings A.G. and LSG Sky Chefs, L.L.C. (collectively, "Sky Chefs") as and when the Sky Chefs Space becomes available and is vacated by the prior tenant and all occupants thereof and
(b) subject to the existing rights of Sky Chefs therein, an ongoing and continuous right of first offer on all other space within the Building (the "ROFO Space") as and when the ROFO Space becomes available and is vacated by the prior tenants and all occupants thereof.

40.2 Upon the Sky Chefs Space or any of the ROFO Space becoming available, as applicable (the "Availa ble Space"), Land lord shall give written notice (the "Notice") to Tenant of the terms and conditions on which Landlord is willing to offer the Available Space to Tenant based on then preva iling market economics and concessions for the leasing of such space (the "Offer") and Tenant shall have a period of ten (I0) days from and including the date of delivery of the Notice in which to exercise Tenant's right to lease the Available Space pursuant to the terms and conditions of the Offer, failing which Landlord may lease the Available Space or any part thereof to any third party lease prospect (the "Prospect") on whatever basis Landlord desires, except however that, Landlord must re-offer the Available Space to Tenant if, in any offer to the Prospect, the average Annual Rent per square foot is reduced by more than ten percent (I0%) and/or if any available tenant improvement allowance is increased by more than ten percent (10%) per square foot. In such event, upon receipt of a written notice from Landlord with the terms of such re-offer (the "Re-Offer"), Tenant shall have a period of five (5) business days from and including the date of delivery of the re-offer notice in which to exercise Tenant's right to lease the Available Space pursuant to the terms and conditions of the Re-Offer, failing which Landlord shall be at liberty to lease the Available Space to the Prospect upon the terms and conditions of the Re-Offer. Time is of the essence herein. Tenant acknowledges that if Tenant counteroffers the Offer, or the Re-Offer as appl icable, or does not timely deliver Tenant's acceptance of the Offer, or the Re-Offer as applicable, then Landlord shall be at l iberty at any time thereafter in its sole and absolute discretion (even if Landlord has commenced negotiations with Tenant) to determine that Tenant has waived its option to take the Available Space, and Landlord may thereupon lease the Available Space, or any part thereof, to the Prospect as hereinabove provided. Tenant shal l maintain strict confidentiality of the identity of Landlord's lease prospects and Landlord's market and other information provided to Tenant pursuant to th is Article 40.

40.3 Landlord acknowledges that any lease of the Ava ilable Space by Tenant hereunder shall be conterminous with the Term under thi s Lease. In consideration of such acknowledgement, Tenant agrees that the expansion options perm itted under this Article 40 sha ll not apply during the last year of the in itial Tenn. In addition, i f after the sixth (6'h) year of the initial Tenn, Landlord rece ives a bona fide offer from a Prospect to lease the applicable Available Space for a term which extends beyond the in itial Term of th is Lease, then , with in the applicable time periods set forth above, Tenant shall either waive its right of first offer for such Avai Jable Space, or elect to take the Availab le Space on the terms of such offer (provided that, at Tenant's election, the term specified in such offer may be limited to five (5) years) and extend the initial Term of this Lease so that it expires on the expiration date set forth in such offer (subject to the five (5) year limit as aforesaid) (the rent for the Premises during such extended term shall be at the rate per square foot specified in such offer for

the period of the extended tem1). Such extension of the tem1 under this Article 40 shall not affect Tenant's renewal right under Article 41 below.

40.4 If Tenant exercises an expansion option hereunder, then effective as of the date Landlord deli vers the Available Space, the Available Space shall automatically be included within the Premises and subject to all the terms and conditions of the Lease, except as set forth in Landlord's notice and as follows:

40.4.1 This option is not transferable; the parties hereto acknowledge and agree that they intend that this option to expand the Premises shall be "personal" to Conexis Benefits Administrators, L.P ., or any Permitted Transferee, and that in no event will any assignee or sublessee have any rights to exercise this option to expand.

40.4.2 Tenant's Proportionate Share shall be recalculated, using the total square footage of the Premises, as increased by the Available Space.

40.4.3 The Available Space shall be leased on an "AS-IS" basis and Landlord shall have no obligation to improve the Available Space or grant Tenant any improvement allowance thereon.

40.5 If so requested by Landlord, Tenant shall, prior to the beginning of the term for the Available Space, execute a written amendment to this Lease confirming the inclusion of the Available Space and the terms of the Offer including the Annual Rent for the Available Space.

41. **RENEWAL OPTION.** Tenant shall, provided the Lease is in full force and effect and Tenant is not in default under any of the terms and conditions of the Lease at the time of notification or commencement, have one (1) option to renew this Lease for a term of five (5) years as of the date the renewal term is to commence, on the same terms and conditions set forth in the Lease, except as modified by the tenns, covenants and conditions as set forth below:

41.1 If Tenant elects to exercise said option, then Tenant shall provide Landlord with written notice no earlier than the date which is twelve (12) months prior to the expiration of the initial Term of the Lease but no later than the date which is nine (9) months prior to the expiration of the in itial Term of the Lease. If Tenant fails to provide such notice, Tenant shall have no further or additional right to extend or renew the Term of the Lease.

41.2 The Annual Rent and Monthly Installment of Rent in effect at the expiration of the initial Tenn of the Lease shall reflect the current fair market rental for comparable space in the Building and in other similar buildings in the same rental market as of the date the renewal term is to commence, taking into account the specific provisions of the Lease which will remain constant. Landlord shall advise Tenant of the new Annual Rent and Monthly Installmen t of Rent for the Premises no later than thirty (30) days after receipt of Tenant's written request therefor. Said request shall be made no earlier than thirty (30) days prior to the first date on which Tenant may exercise its option under this Paragraph. Said notification of the new Annual Rent may include a provision for its escalation to provide for a change in fair market rental between the time of notification and the commencement of the renewal term. Tenant shall have ten (10) days from said notification (the "Negot iation Period") to provide Landlord with written notice that Tenant accepts the revised Annual Rent and Monthly Installment of Rent.

41.3 Should Landlord and Tenant fail to reach agreement during the Negotiation Period, either party may within five (5) days thereafter, refer such dispute to arbitration. Within ten (I0) days following the Negotiation Period, the parties shall each appoint a real estate appraiser who special izes in the field of commercial office space leasing in the Las Colinas/Freeport, Irving, Texas market, has at least ten (I0) years of experience in such field and is recognized within the field as being reputable and ethical. Such two appraisers shall each determine the fair market rental for the Premises for the renewal term . Ifthe greater of such two determinations is not more than five percent (5%) higher than the lesser of such two determinations , then the fair market rental shall equal the mean of such two determinations . If the greater of such two determinations is more than five percent (5%) higher than the lesser of such two determinations, then the two appraisers shall, within ten (10) days, render separate written reports of their determinations and shall together appoint a th ird similarly qualified appraiser. The third appraiser shall, with in ten (J O) days after his or her appointment, make a determination of the fair market rental, wh ich shall equal the mean of the three (3) determ inations and shall be final, conclusive and binding on both parties. Landlord and Tenan t shall each bear the cost of its appraiser and Tenant shall bear the cost of the third (3'd) appraiser. Upon the determination of the matters referenced in this Article 41, Landlord and Tenant shall enter into an agreement supplementary to the Lease, as amended, setting forth the new Annual Rent and Monthly Installment of Rent for the renewal term, but the failure to enter into any such supplementary agreement shall not affect the exercise of Tenant's

option under this Article 4 l. If such arbitration shall not be concluded prior to the commenceme nt of the renewal term, then the initial Monthly Installment of Rent for the renewa l term shall be the same as that payable by Tenant during the last month of the initial Term. If the arbitration shall result in a lower rent, Tenant shall be entitled to a credit against the next succeeding instal lments ofrent due hereunder for such overpayment as it shall have theretofore made. Ifthe arbitration shall result in a higher rent, Tenant shall promptly pay to Landlord the amount of the underpayment.

41.4 This option is not transferable; the parties hereto acknowledge and agree that they intend that this option to renew the Lease shall be "personal" to Conexis Benefits Administrators, L.P., or any Permitted Transferee, and that in no event will any assignee or sublessee have any right s to exercise this option to renew.

41.5 Upon exercise of this option Tenant shall have no further right to extend the Term of the Lease.

42. **TERMINATION OPTION.** Provided (i) Tenant is not then in default under the terms, covenants and conditions of the Lease, and (ii) Tenant pays to Landlord the Termination Payment (defined below) in the manner set forth below, Tenant shall have a one time right to terminate this Lease effective as of the last calendar day of the eighty fourth (84ıh) month of the Term (the "Term ination Date") in accordance with the following provisions. Tenant's one time right to terminate the Lease must be exercised by written notice to Landlord at least twelve (12) months prior to the Termination Date or Tenant shall have waived its right of termination. Time is of the essence in giving such notice. As a condition to exercising such right of termination , Tenant must pay to Landlord, at the same time as Tenant gives its termination notice, a cash amount (the " Termination Paymen t") which is calculated as an amount equal to the total of :

(a) five (5) month's then base rent (namely the then Monthly Installment of Rent XS);

(b) electricity costs for the previous five (5) month period; and

(c) the unamortized costs (based on an amortization rate of ten percent (10%) per annum) of Landlord's leasing costs, including but not lim ited to al l of the Tenant Improvement Allowances (as defined in Exhibit a) paid to Tenant for all of the space leased by Tenant prior to the Termination Date, electricity abatement, reasonable legal costs and brokerage commissions paid by Landlord in connection with the Lease, calculated on a straight-line basis over the initial Term of the Lease.

Tenant's failure to timely pay the Termination Payment as aforesaid shall render the exercise of the termination option null and void. If Tenant properly gives notice of termination and timely pays the Termination Payment as above required, then the Lease shall terminate on the Termination Date as if such date were the scheduled expiration date of the Lease, but without prejudice to (I) all rights and remedies available to Landlord for any antecedent breach of covenant by Tenant under this Lease and (II) the continuance of all obligations or liabilities (including Tenant ind emnities) which are expressly stated to survive the termination of the Lease. This option is not transferable ; the parties hereto acknowledge and agree that they intend that this early termination option shall be "personal" to Conexis Benefits Administrators, L.P., or any Permitted Transferee and that in no event will any assignee or sublessee have any rights to exercise such option.

43. **USE OF ROOFTOP SPACE.** Landlord hereby agrees that, during the Lease Term, Tenant shall have the non exclusive right to install in and on the roof of the Building, a satellite dish, antenna and related equipment (collectively, the "Satellite System") upon the terms and subject to the conditions set forth below:

43.1 Tenant shall, at Tenant's sole cost and expense, provide for the installation of the Satellite System and for all service, repairs, and maintenance to the Satellite System. Tenant shall first submit to Landlord for approval by Landlord, and, if applicable, Las Colinas Association, plans and specifications with regard to the proposed structure and location of the Satellite System. No installation work shall commence pending receipt by Tenant of prior written approval from Landlord, and, if applicable, Las Colinas Association, of such plans and specifications and al l necessary licenses, permits and approvals for the installation , use and operation of the Satellite System. The Satellite System shall be located so as not to be visible except from above the Building, and shall have no visible markin g or logo. With respect to the installation of the Satellite System, the Satellite System shall not be affixed to the roof of the Bui lding by nail, bolt, screw, or other device which penetrates the roof, and Ten ant acknowledges that it is an express condition of the license herein contained that all roof penetrations including wiring penetration s shall be made solely by Landlord's roofing contractor (and by no other contractor whatsoever) at Tenant's sole cost and expense. The Satellite System shall be maintained by Tenant in good order and repair and in a safe condition. In the event that Tenant fails to so maintain the Satellite System and Landlord, in Landlord's sole but reasonable discretion, deems such failure to present a danger of injury to persons or damage to property in or about the

Building, Landlord , after providing Tenant with five (5) days prior written notice (except in the case of an emergency) may complete such repairs or maintenance and recover the cost thereof from Tenant, which sum shall be due and payable within ten (I0) business days after Landlord's written notice to Tenant with respect thereto.

43.2 Tenant may not substitute or modify the Satellite System or any part thereof, without the prior written approval of Landlord, and, if applicable, Las Colinas Association. Any substitution or modification approved by Landlord and, if applicable, Las Colinas Associat ion, shall automatically become a part of the Satellite System, and all terms of this Article 43 shall apply to such substitution and/or modificat ion.

43.3 Tenant shall take all measures necessary to ensure that the Satellite System does not interfere with or disturb the operation of any other satellite system or business of Landlord or of any other tenant or occupant of the Building or of any other authorized party. Tenant shal l remove the Satellite System, or at Landlord 's discretion, modify the Satellite System or relocate the Satellite System to another area approved by Landlord in the event that the Satellite System, in Landlord's sole but reasonable judgment, causes any interference with or disturbs the operation of any other satellite system or business of Landlord or of any other occupants of the Building or creates or results in any noise or nuisance to any other occupant of the Building, or areas adjacent thereto. Tenant must immed iately shut off the Satellite System upon notification of interference and may restart, modify or relocate the Satellite System to test for interference only with Landlord's permission.

43.4 The Satellite System is solely for use for Tenant's internal business and the benefits of the Satellite System may not be provided by Tenant to third parties. Landlord may require, as a condition to the issue of its consent, that any provider installing the Satellite System shall enter into a separate agreement with Landlord on Landlord's standard form. The Satellite System may not be sold or rented by Tenant to third parties, nor may Tenant sublet or assign the license herein granted to Tenant. Any electrical usage associated with the Satellite System shall be governed by the provisions of Article 13 of this Lease.

43.5 Tenant shall, at Tenant's sole cost, take all measures necessary to ensure that any radiation emitted from the Satellite System is emitted only in non-harmful levels and that the Satellite System strictly complies with all laws, rules, regulations, ordinances and codes, whether now or hereafter existing, of all federal, state and local governmental authorities and to al 1 contractual obligations to which Tenant is bound in connection with such Satellite System, including, without limitation, regulations of the Federal Communications Commission, the Environmental Protection Agency, and the Occupationa l Safety and Health Administration. In the event such compliance shall require modifications of the Satellite System, no modification shall be made without Landlord 's prior written consent, which may be withheld or granted on such terms and conditions as Landlord may determine in its sole discretion in the event that such modifications (i) affect the structural integrity of the Building, the Building systems, including without limitation , the electrical, communications, or signal systems, (ii) confl ict with any of the terms and conditions of this Lease, (iii) affect any warrant ies which Landlord has with respect to the Building, (iv) cause Landlord to be in violation of any laws, rules, regulations, ordinances or codes of any federal, state or local governmental authorities or any contractual obligations to which Landlord is bound with respect to the Building or (v) are not approved by Las Colinas Association to the extent that its approval must be obtained by Landlord.

43.6 In the event that Landlord determines in its reasonable discretion that Tenant is in default under this Article 43, Landlord may, at Landlord's option, require Tenant to cease all operation of the Satellite System with in twenty-four (24) hours of Tenant receiving written notice from Landlord and require Tenant to either modify, relocate or remove the Satellite System, at Tenant's sole cost, to remedy any such interference or non-compliance.

43.7 Upon the expiration or termination of the Term, or if otherwise so required under this Article 43, Tenant shall, at Tenant's sole cost and expense, remove the Satellite System and restore the area of the Building on which the Satellite System was located to its condition existing as of the date of execution of this Lease. Such removal and restoration work shall be completed by Tenant with in fifteen (15) days of the date on which the condition requiring such removal and restoration work occurs. In the event that Tenant shall fail to complete the removal of the Satellite System and the restorat ion of the affected portion of the Building within such fifteen (15) day period, Landlord shall have the right to effect such removal and restorat ion after provid ing Tenant with three (3) days prior written notice, but shall not be obligated to do so, in which event, Tenant shall reimburse Landlord for all costs incurred by Landlord in performing such removal and restoration work. In addition, any Satellite System remaining at the Building subsequent to the expiration of such fifteen (15) day period after the notice is extended shall be deemed to have been abandoned by Tenant, so that in no event shall Landlord have any duty to preserve or restore the Buil ding on Tenant's behalf. If Landlord does choose to store the Satellite System on Tenant's behalf, the actual and reasonable cost of storage incurred by Landlord shall be reimbursed by Tenant on demand. In such

event, Landlord shall also have the right to sell such Satellite System for salvage value and to apply the proceeds derived from such sale to sums owing by Tenant to Landlord hereunder.

43.8 As a material inducement to Landlord to grant the non-exclusive license herein contained, Tenant hereby represents and warrants to Landlord that (i) the Satellite System will have received approval from the Underwriters Laboratory and from the Federal Communications Commission; (ii) the Satellite System will be installed in accordance with the plans and specifications therefor as approved by Landlord , in Landlord's sole but reasonable discretion; (iii) the Satellite System will be designed to require minimum maintenance; (iv) the Satellite System will not emit radiation; (v) the Satellite System will not interfere with other like satellite systems located on the rooftop of the Building or in the Building; and (vi) Tenant will have received all necessary licenses and permits from all applicable governmental authorities regarding the installation and operation of the Satellite System, prior to such installation and operation .

43.9 Notwithstand ing any provision in this Lease to the contrary, it is the intention of the parties that Tenant bear a ll risks relating to the installation, use, maintenance, operation and removal of the Satellite System; therefore, notwithstanding any other provision of the Lease or this Amendment to the contrary, Tenant shall defend, indemnify and hold harmless Landlord, its parent, affiliates, shareholders, partners, members, managers, agents, representatives, employees, contractors and invitees and their respective affiliates from all losses, claims, judgments, settlements, expenses, damages, costs and liabilities arising in connection with or relating to the installation, maintenance, repair, use, operation and removal of the Satellite System, including, without limitation, that arising from Landlord's negligence (other than its gross negligence).

43. I 0 Landlord shall not be liable to Tenant for any loss or damage to all or any part of the Satellite System occasioned by theft, fire, act of God, public enemy, injunction, riot, vandalism, malicious mischief, earthquake, flood, strike, insurrection, war, court order, requisition , or order of governmental body or authority or by any other cause whatsoever. Further Landlord shall not be liable for any damage or inconvenience which may arise through the repair or alteration of any part of the Building or through termination of the Lease.

43 .11 In addition to the insurance obligations of Tenant under Article 11 of th is Lease, Tenant shall maintain a policy or policies of fire and extended coverage insurance on the Satellite System, in such amounts as Tenant may deem appropriate; provided, however, that Tenant shall never have any claim against Landlord for any loss or damage that may occur to the Satellite System which should be covered by insurance.

43. 12 The provisions of this Article 43 shall survive the expiration or prior termination of the Lease Term .

44. GUARANTY . As additional consideration for Landlord to enter into this Lease, Tenant shall cause Guarantor to execute a guaranty in the form attached as Exhibit E to th is Lease and Tenant shall deliver the same to Landlord contemporaneously with Tenant's execution of this Lease.

45. LIMITATION OF LANDLORD' S LIABILITY. Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord 's interest in the Building. The obligations of Landlord under this Lease are not intended to be and shall not be personally binding on, nor shall any resort be had to the pri vate properties of, any of its or its investment manager 's trustees, directors, officers, partners, beneficiaries, members, stockholders, employees, or agents, and in no case shall Landlord be liable to Tenant hereunder for any lost profits, damage to business, or any form of special, indirect or consequent ial damages.

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LANDLORD:

CORPORATE CENTER PHASE II LIMITED PARTNERSHIP, a Delaware limited partnership

By: Colinas Corporate Center Phase II LLC, a Delaware limited liability company, its General Partner

By: RREEF Management Company, a Delaware corporation, its agent

By: _____

Name: Jay Jehle

Title: Vice President

By: _____

Name: Kim Boudreau

Title: District Manager

Dated: 8/26, 2004

TENANT:

CONEXIS BENEFITS ADMINISTRATORS, L.P., a Texas limited partnership

By: CONEXIS, LLC, a Delaware limited liability company, its General Partner

By: _____

Name: Raymond D Godere

Title: President

Dated: 8/24, 2004

EXHIBIT A -FLOOR PLAN DEPICTING THE PREMISES
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

Exhibit A is intended only to show the general layout of the Premises as of the beginning of the Term of this Lease. It does not in any way supersede any of Landlord' s rights set forth in Article 17 with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

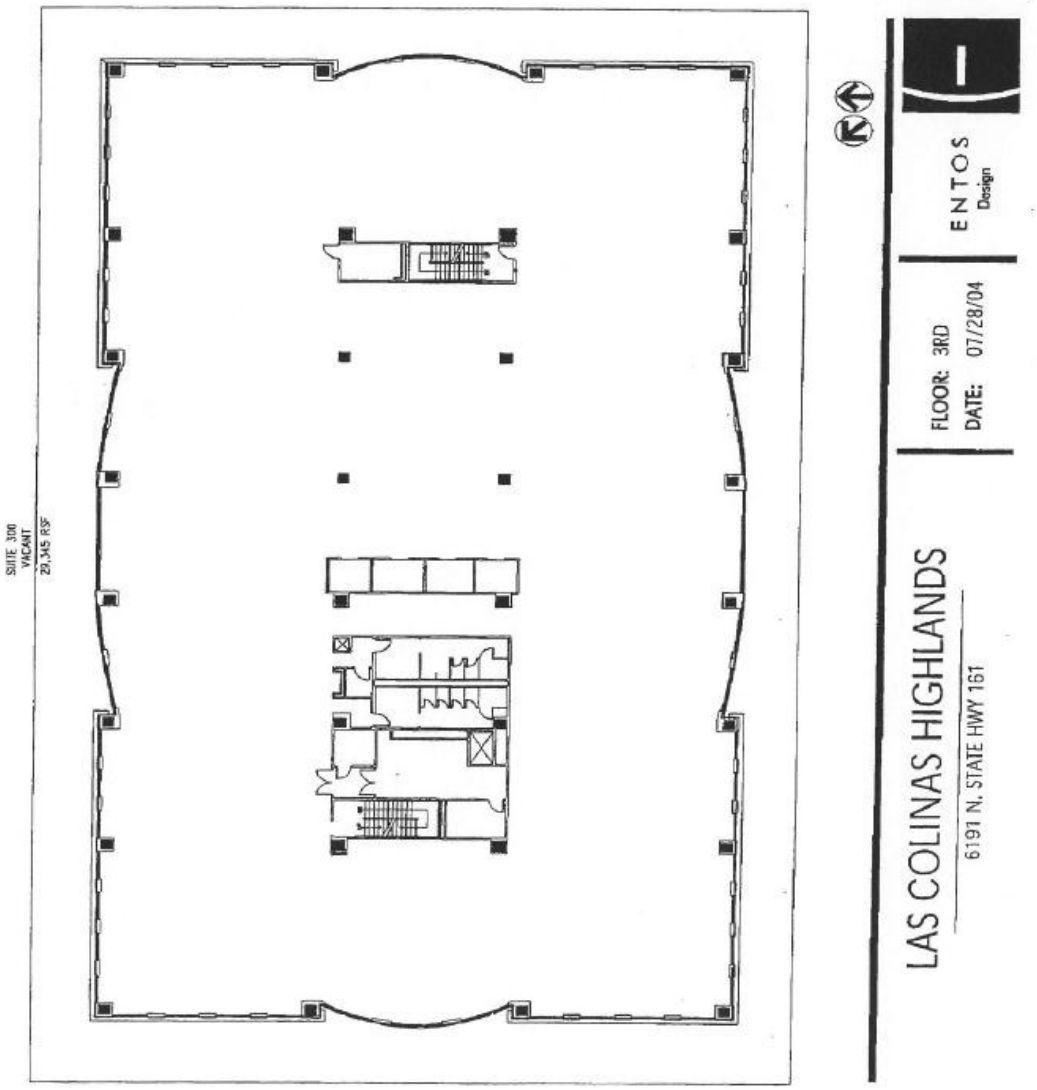

EXHIBIT A - FLOOR PLAN DEPICTING THE PREMISES
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators , L.P., as Tenant

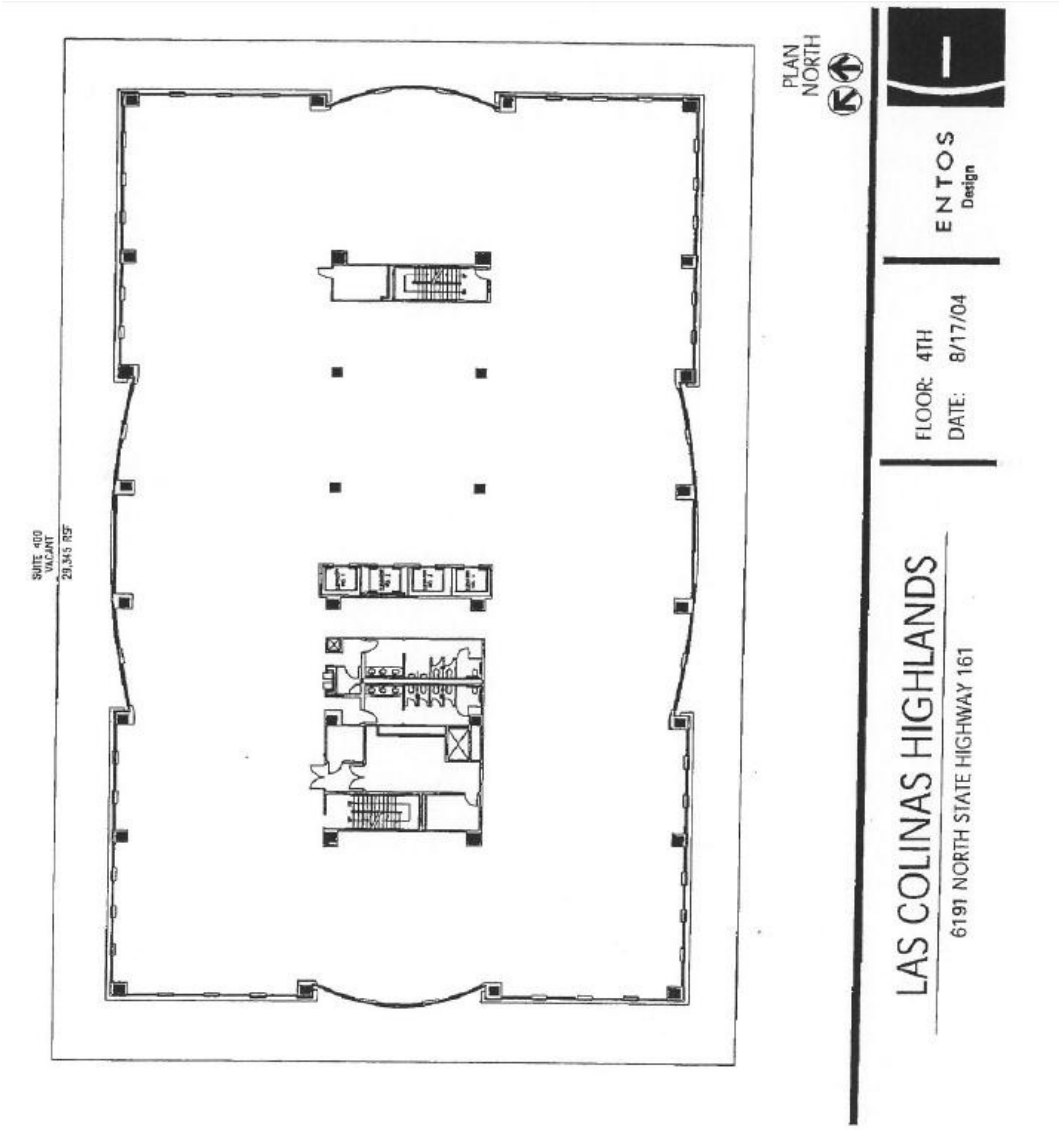

EXHIBIT A - FLOOR PLAN DEPICTING THE PREMISES
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase IILimited Partnership , as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

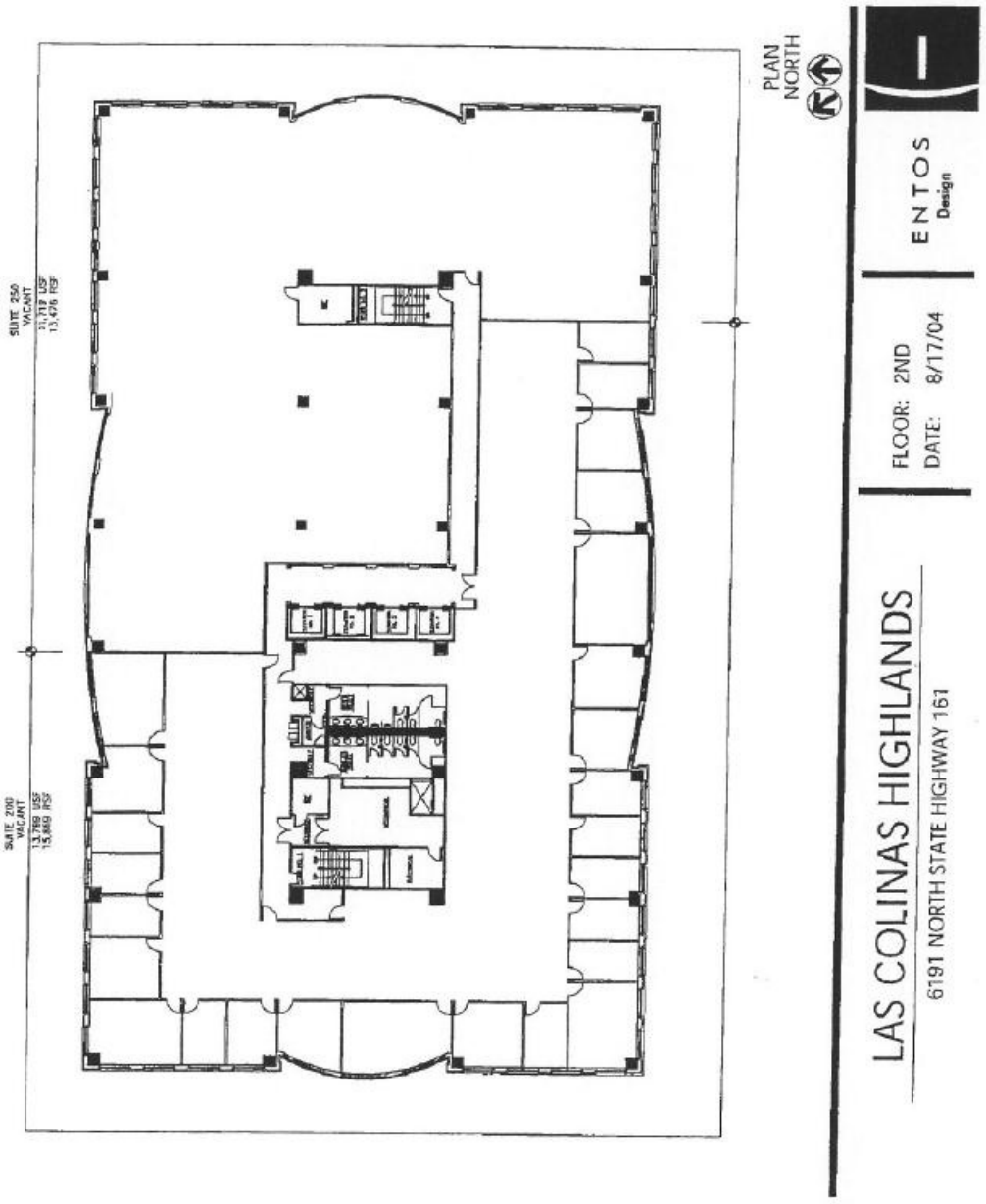

EXHIBIT A-1 -SITE PLAN
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

Exhibit A-1 is intended only to show the general location of the Building as of the begi nn ing of the Tem1 of this Lease. It does not in any way supersede any of Landlord 's rights set forth in Article 17 with respect to arrangements and/or locations of publ ic parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurement s or distances shown should be taken as approximate.

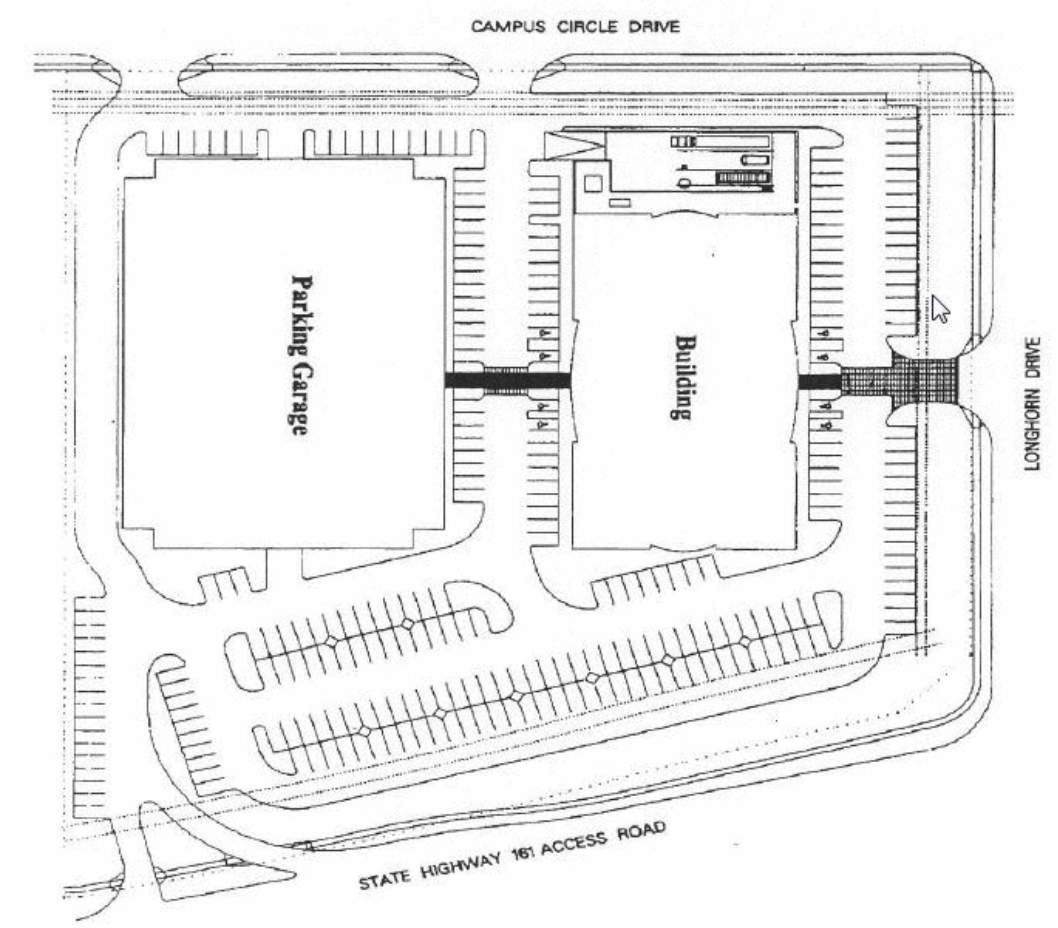

EXHIBIT B -INITIAL ALTERATIONS
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

I. Acceptance of Initial Premises. Except as set forth in this Exhibit, Tenant accepts the Initial Premises in its "AS-IS" condition as of the Lease Reference Date.

2. Space Plans . Landlord has, prior to its execution of th is Lease, approved the space plans (the "Space Plans") prepared by BOKA Powel l, LLC (the "Architect") depicting improvements to be installed in the Initial Premises.

3. Working Drawings.

(a) Preparation and Delivery. On or before the tenth (JO'h) day following Landlord 's execution of this Lease (such earlier date is referred to herein as the "Working Drawin gs Delivery Deadline"), Tenant shall provide to Landlord for its approval final working drawings, prepared by the Architect, and, as applicable, Purdy McGuire (in connection with the MEP drawings), of al l improvements that Tenant proposes to install in the Initial Premises; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable laws. If Tenant fails to timely deliver such drawings, then each day after the Working Drawings Delivery Deadline that such drawings are not delivered to Landlord shall be a Tenant Delay day.

(b) Ap proval Process. Landlord shall notify Tenant whether it approves of the submitted working drawings within five (5) busi ness days after Tenant's submission thereof. If Landlord disapproves of such working drawings, then Lan dlord shall n otify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three (3) business days after such notice, revise such working drawings in accordance with Landlord's objections and submit the revised working drawings to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted working drawings within three (3) business days after its receipt thereof. This process shall be repeated until the working drawings have been finally approved by Tenant and Landlord . If the working drawings are not fully approved (or deemed approved) by both Landl ord and Tenant by the fifteenth (15111) business day after the delivery of the initial draft thereof to Landlord , then each day after such time period that such working drawings are not fully approved (or deemed approved) by both Landlord and Tenant shall constitute a Tenant Delay day.

(c) Landlord's Approval; Performance of Work . If any of Tenant's proposed construction work will affect the Building's structure or the Building's systems, then the working drawings pertaining thereto must be approved by the Building's engineer of record. Landlord's approval of such working drawings shall not be unreasonably withheld, provided that (I) they comply with all laws, (2) the improvements depicted thereon do not adversely affect (in the reasonable discretion of Landlord) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), the exterior appearance of the Building, or the appearance of the Building's common areas or elevator lobby areas, (3) such working drawings are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner, and (4) the improvements depicted thereon confonn to the rules and regulations promu lgated from time to time by Landlord for the construction of tenant improvements (a copy of which has been delivered *to* Tenant). As used herein, "Working Drawings" shall mean the final working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "Work" shall mean all improvements to be constructed in accordance with and as indicated on the Working Drawings, together with any work required by governmental authorities to be made to other areas of the Building as a result of the improvements indicated by the Working Drawings. Landlord 's approval of the Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign th e Working Drawings to evidence its review and approval thereof. It shall be a matter for Tenant to satisfy itself that the Work is in compliance with applicable laws. Landlord assumes no l iability for special, consequential, or incidental damages of any kind whatsoever in connection with the design or construction of the Work and the obtaining of permits, licenses and approvals, and makes no representati ons, warrant ies, or guaranties regarding the same, expressed or implied, including, with limitation, warranties

of merchantability, compliance with applicable laws, fitness for a particular purpose, or habitability . The general contractor for the Work shall be responsible for obtain ing any perm its, licenses and governmental approvals required for the construction of th e Work. Tenant shall be responsible for obtaining any required cert ificate of occupancy and the non availability of the same for reasons related directly or indirectly to or arising from Tenant's use or proposed use or occupan cy of the In itial Premises shall not delay Substantial Completion (defined below) or the Initial Premises Scheduled Commencement Date.

4. Bidd ing of Work . Prior to the commencement of the Work, Landlord and Tenant shall mutually agree upon a list of five (5) qualified general con tractors who shall be asked to competitively bid for the Work. Landlord and Tenant shall together select the lowest qualified bid of th e five (5) general contractors to perform the Work and Landlord shall enter into a contract (the ··construction Contract") with the winning general contractor.

5. Change Orders. Tenant may in itiate changes in the Work. Each such change must receive the prior written approval of Landlord, such approval not to be unreasonably withheld or delayed and Landlord's response to be delivered with in three (3) business days of receipt of such request and all backup information requested by Landlord; however, (a) if such requested change would adversely affect (in the reasonable discretion of Landlord) (1) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), (2) the exterior appearance of the Building, or (3) the appearance of the Building's common areas or elevator lobby areas, or (b) if any such requested change might delay the Initial Premises Scheduled Commencement Date, Landlord may withhold its consent in its sole and absolute discretion. Upon completion of the Work, Tenant shall provide Landlord with an accurate architectural "as-built" plan of the Work as constructed. If Tenant requests any changes to the Work described in the Space Plans or the Working Drawings, then such increased construction costs and any additional design costs incurred in connection therewith as the result of any such change shall be added to the Total Construction Costs.

6. Walk-Throu2h :Punchlist. When the Work in the Initial Premises is Substantially Completed as provided herein, Landlord will notify Tenant and within two (2) business days thereafter, Landlord 's representative and Tenant's representative shall conduct a walk-through of the In itial Premises and identify any necessary touch-up work, repairs and minor completion items that are necessary for final completion of the Work. Neither Landlord's representative nor Tenant's represen tative shall unreasonably withhold h is or her agreement on punchlist items. Landlord shall use reasonable efforts to cause the contractor performing the Work to complete all punchlist items within thirty (30) days after agreement thereon; however, Landlord shall not be obl igated to engage overtime labor in order to complete such items. As used herein "Substantial Completion", "Substant ially Completed", and any derivations thereof mean the Work in the Initial Premises is substantially compl eted such that Tenant may conduct its business in the Initia l Premises (as reasonably determined by Landlord) in substantial accordance with the Working Drawings. Substantial Completion shall have occurred if Tenant may occupy the Initial Premises for the purpose of conducting its business even though minor details of construction, decoration and mechanica l adjustments remain to be completed by Landlord

7. Excess Costs. The entire cost of performing the Work (excluding the cost of provision of util ities during construction, but including design of the Work and preparation of the Working Drawings, Landlord's costs in connection with its review and approval of Working Drawings, costs under the Construction Contract, costs of additional jan itorial services, general tenant signage, related taxes and insurance costs, and the construction management fee referenced below, all of which costs are herein collectively called the "Total Construction Costs") in excess of the Tenant Improvement Allowance (hereinafter defined) shall be paid by Tenant. Upon approval of the Working Drawings and selection of a contractor, Tenant shall promptly (a) execute a work order agreement prepared by Landlord which identifies the Working Drawings and itemizes the Total Construction Costs and sets forth the Tenant Improvement Allowance, and pay to Landlord the full amount by wh ich the estimated Total Construction Costs exceeds the Tenant Improvement Allowance. Upon Substantial Completion of the Work, and before Tenant occupies the Initial Premises to conduct business therein, Tenant shall pay to Landlord an amount equal to the actual Total Construction Costs (as adjusted for any approved changes to the Work), less (I) the amount of th e advance payment already made by Tenant, and (2) the amount of the Tenant Improvement Allowance. In the event of default of payment of such costs, Landlord (in addition to all other remedies) shall have the same rights as for an Event of Default under the Lease. Payments due by Tenant under this Exhibit B shall constitute rent payable under the Lease and any late payment of amounts due hereunder shall bear interest and be subjec t to a charge as set forth in Secti on 3.2 of the Lease.

8. Tenant Improv ement Allowan ce . Landlord shall provide to Tenant a tenant improvement allowance of $33.22 per rentable square foot in the Initial Prem ises (namely, $ J ,949,681.80) (the "Tenant Improvement A *w* nee") to be applied

toward the Total Construction Costs, as adjusted for any changes to the Work. Of such Tenant Improvement Allowance (a) up to $3.00 per rentable square foot thereof may be appl ied towards the cost of architectural services, (b) an amount equal to $12,500.00 thereof may, upon submission of appropriate invoices to Landlord therefor, be applied towards payment for services performed by the Architect for Tenant in cormection with another building, and (c) up to $5.00 per rentable square foot thereof may be applied towards moving costs, voice and data cabling costs and other soft costs. Tenant shall purchase, for an amount equal to Landlord 's cost, the lights, tiles and grid that are stacked on the floor in the Initial Premises. The Tenant Improvement Allowance shall not be disbursed to Tenant in cash, but shall be applied by Landlord to the payment of the Total Construction Costs, if, as, and when the cost of the Work is actually incurred and paid by Landlord. The Tenant Improvement Allowance must be used within twelve (12) months following Substantial Completion of the Work or shall be deemed forfeited with no further obligation by Landlord with respect thereto. At Tenant's election which must be exercised prior to the Commencement Date, the Tenant Improvement Allowance payable by Landlord for the Initial Premises, the First Must-Take Space and the Second Must-Take Space may be increased by up to $5.00 per rentable square foot (not exceeding $440, 175.00) provided that such increased amount shall be amortized at nine percent (9%) per armum over a 132 month term and shall be repaid by Tenant as additional rent in equal month ly installments contemporaneously with payment of the Monthly Installment of Rent, with the first installment being due on the first day of the first full calendar month of the Term.

9. Ten ant Generator. In addition to the Tenant Improvement Allowance, Landlord shall provide up to $65,000.00 towards the purchase and installation of a 1,000 KVA generator for Tenant's exclusive use. Such amount shall be reimbursed to Tenant, within twenty (20) days followingproduction to Landlord of appropriate invoices therefor.

10. Construction Management. Tenant has nominated and Landlord has approved CB Richard Ellis ("CBRE") to supervise the Work on behalf of Tenant. Landlord or its affiliate or agent shall also supervise the Work and in addition, shall make disbursements required to be made to the contractor; coordinate the work with the contractor on behalf of, and at the direction of, Landlord and coordinate the relationship between the Work, the Building and the Building's systems. The compensation for construct ion management services by Landlord shall be equal to one and one half percent (1.5%) of the Construction Contract amount and may be paid from the Tenant Improvement Allowance. Tenant shall also be permitted to charge the Tenant Improvement Allowance up to an additional five percent (5%) of the Construction Contract amount for construction management services provided by CBRE.

11. Construction Representatives. Except as otherwise notified by Landlord or Tenant as applicable, Lam.lion.l's and Tenant's representatives for coordination of construction and approval of change orders wil l be as follows, provided that either party may change its representative upon written notice to the other:

Landlord's Representative: Kim Boudreau
RREEF Management Company 5950 Sherry Lane, Suite 215
Dallas, TX 75225
Telephone: 214/273-2305
Telecopy: 214/365-9323
Email: kboudreau @rree(com

Tenant 's Representative: Anna Sullivan CB Richard Ellis
5430 LBJ Freeway, Suite 1100
Dallas, TX 75240
Telephone: 972/458-4827
Telecopy: 972/458-5277
Email:anna .s11lli van@chrc.com

EXHIBIT B-1 - FIRST MUST-TAKE SPACE ALTERATIONS

attached to and made a part of Lease bearin g the Lease Reference Date of August 2, 2004 between
Corporate Center Phase ll Limited Partnership, as Land lord and Conexis Benefits Admin istrators, L.P., as Tenant

1. Acceptance of First M u st-Tak e Space Premis es. Ex::ept as set forth in th is Exhibit, Tenant shall accept the First Must-Take Space in its "AS-IS" condition as of the Lease Reference Date.

2. FMTS Space Plans.

(a) Preparation and Del ivery . On or before the tenth (I 0ıh) business day following the date of request therefor by Landlord, (such earlier date is referred to herein as the "FMTS Space Plans Delivery Deadl ine"), Tenant shall del iver to Landlord a space plan prepared by the Architect depicting improvements to be installed in the First Must -Take Space (the "FMTS Space Plans").

(b) A pproval Process. Landlord shall notify Tenant whether it approves of the submitted FMTS Space Plans with in three (3) busi ness days after Tenant's submission thereof. I f Landlord disapproves of such FMTS Space Plans, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three (3) business days after such notice, revise such FMTS Space Plans in accordance with Landlord 's objections and submit to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted FMTS Space Plans within two (2) business days after its receipt thereof. This process shall be repeated until the FMTS Space Plans have been finally approved by Landlord and Tenant. If Tenant fails to timely deliver such FMTS Space Plans, then each day after the FMTS Space Plans Delivery Deadline that such FMTS Space Plans are not delivered to Landlord shall be a Tenant Delay day.

3. FMTS Working Drawings .

(a) Preparation and Delivery. On or before the tenth {l 0ıh) day following approval of the FMTS Space Plans, (such earlier date is referred to herein as the "FMTS Working Drawings Delivery Deadline"), Tenant shall provide to Landlord for its approval final working drawings, prepared by the Architect, and, as appl i cable Purdy McGuire or any other mechanical and electrical engineer reasonably required by Landlord (in connection with the MEP drawings), of all improvements that Tenant proposes to install in the First Must-Take Space; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specificat ions for the construction of the improvements called for under this Exhibit in accordance with all applicable laws. IfTenant fails to timely deliver such drawings, then each day after the FMTS Working Drawings Delivery Deadline that such drawings are not delivered to Landlord shall be a Tenant Delay day.

(b) Approval Process. Landlord shall notify Tenant whether it approves of the submitted working drawings with in five (5) business days after Tenant's submission thereof. If Landlord disapproves of such working drawings, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three (3) business days after such notice, revise such working drawings in accordance with Landlord's objections and submit the revised working drawings to Landlord for its review an d approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted working drawings within three (3) business days after its receipt thereof. This process shall be repeated until the working drawings have been finally approved by Tenant and Landlord. Ifthe working drawings are not fully approved (or deemed approved) by both Landlord and Tenant by the fifteenth (15th) business day after the delivery of the initial draft thereof to Landlord, then each day after such time period that such working drawings are not fully approved (or deemed approved) by both Landlord and Tenant shall constitute a Tenant Delay day.

(c) Land lord's Approval; Performance of FMTS Work. Ifany of Tenant's proposed construction work will affect the Buildin g's structure or the Building's systems, then the working drawings pertaining thereto must b e approved by the Building's engineer of record. Landlord's approval of such working drawings shall not be unreasonably withheld, provided that (I) they comply with all laws, (2) the improvements depicted thereon do not adversely affect (in the reasonable discretion of Landlord) the Building's structure or the Building's systems (including the Building's resti- ms or mechanical

rooms), the exterior appearance of the Building, or the appearance of the Building's common areas or elevator lobby areas, (3) such working drawings are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner, and (4) the improvements depicted thereon conform to the rules and regulations promulgated from time to time by Landlord for the construction of tenant improvements (a copy of wh ich has been delivered to Tenant). As used herein, "FMTS Working Drawings" shall mean the fuial working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "FMTS Work" shall mean all improvements to be constructed in accordance with and as ind icated on the FMTS Working Drawings, together with any work required by governmental authorit ies to be made to other areas of the Building as a result of the improvements indicated by the FMTS Working Drawings. Landlord's approva l of the FMTS Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign the FMTS Working Drawings to evidence its review and approval thereof. It shall be a matter for Tenant to satisfy itself that the FMTS Work is in compliance with applicable laws. Landlord assumes no liabi lity for specia l, consequential , or inciden tal damages of any kind whatsoever in connection with the design or construction of the FMTS Work and the obtaining of permits, licenses and approvals, and makes no representations , warranties, or guaranties regarding the same, expressed or impl ied, including, without limitation, warranties of merchantability, compliance with applicable laws, fitness for a particular purpose, or habitability. The general contractor for the FMTS Work shall be responsible for obtaining any permits, licenses and governmenta l approvals required for the construction of the FMTS Work. Tenant shall be responsible for obtaining any required certifica te of occupancy and the non avai lability of the same for reasons related directly or indirectly to or arising from Tenant 's use or proposed use or occupancy of the First M ust-Take Space shall not delay Substantia l Completion (defined below) or the First Must-Take Space Scheduled Commencement Date.

4. Bidding of FMTS Work . The provisions of Paragraph 4 in Exhibit B shall apply hereto with respect to the biding of the FMTS Work. Reference therein to Construction Contract shall herein mean the "FMTS Construction Contract".

5. Change Orders. Tenant may initiate changes in the FMTS Work. Each such change must receive the prior written approval of Landlord, such approval not to be unreasonably withheld or delayed and Landlord's response to be delivered within three (3) business days of receipt of such request and all backup information requested by Landlord; however, (a) if such requested change would adversely affect (in the reasonable discretion of Landlord) (1) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), (2) the exterior appearance of the Building, or
(3) the appearance of the Building's common areas or elevator lobby areas, or (b) if any such requested change might delay the First Must-Take Space Scheduled Commencement Date, Landlord may withhold its consent in its sole and absolute discretion. Upon completion of the FMTS Work, Tenant shall provide Landlord with an accurate architectural "as-built" plan of the FMTS Work as constructed. IfTenant requests any changes to the FMTS Work described in the FMTS Space Plans or the FMTS Working Drawings, then such increased construction costs and any additional design costs incurred in connection therewith as the result of any such change shall be added to the Total FMTS Construction Costs.

6. Walk-Through; Punchlist. When the FMTS Work in the First Must-Take Space is Substantially Completed as provided herein, Landlord will notify Tenant and within two (2) business days thereafter, Landlord's representative and Tenant's representative shall conduct a walk-through of the First Must-Take Space and identify any necessary touch-up work, repairs and minor completion items that are necessary for final completion of the FMTS Work. Neither Landlord 's representative nor Tenan t's representative shall unreasona bly withhold his or her agreement on punchlist items. Landlord shall use reasonable efforts to cause the contractor performing the FMTS Work to complete all punchlist items within thirty
(30) days after agreement thereon; however, Landlord shall not be obligated to engage overtim e labor in order to complete such items. As used herein "Substantia l Completion", "Substantially Completed", and any deri vations thereof mean the FMTS Work in the First Must-Take Space is substantially completed such that Tenant may conduct its business in the First Must-Take Space (as reasonably determined by Landlord) in substantia l accordance with the FMTS Working Drawings. Substantial Completion shall have occurred if Tenant may occupy the First Must-Take Space for the purpose of conducting its business even though minor details of construction, decoration and mechanical adjustments remain to be completed by Landlord.

7. Excess Costs. The entire cost of performing the FMTS Work (excluding the cost of provision of utilities during construction, but including design of the FMTS Work and preparat ion of the FMTS Working Drawings, Landlord's costs in connection with its review and approval of FMTS Working Drawings, costs under the FMTS Construction Contract, costs of additional janitorial services, general tenant signage, related taxes and insurance costs, and the construction management fee referenced below , all of which costs are herein collectively called the "Tota l FMTS Construction C s .0in excess of the

FMTS Tenant Improvement Allowance (hereinafter defined) shall be paid by Tenant. Upon approval of the FMTS Working Drawings and selection of a contractor, Tenant shall promptly (a) execute a work order agreement prepared by Landlord which identifies the FMTS Working Drawings and itemizes the Total FMTS Construction Costs and sets forth the FMTS Tenant Improvement Allowance, and pay to Landlord the full amount by which the estimated Total FMTS Construction Costs exceeds the FMTS Tenant Improvement Allowance. Upon Substantial Completion of the FMTS Work, and before Tenant occupies the First Must-Take Space to conduct business therein, Tenant shall pay to Landlord an amount equal to the actual Total FMTS Construction Costs (as adjusted for any approved changes to the Work), less (I) the amount of the advance payment already made by Tenant, and (2) the amount of the FMTS Tenant Improvement Allowance. In the event of default of payment of such costs, Landlord (in addition to all other remedies) shall have the same rights as for an Event of Default under the Lease. Payments due by Tenant under this Exh ibit B-1 shall constitute rent payable under the Lease and any late payment of amounts due hereunder shall bear interest an d be subject to a charge as set forth in Section 3.2 of the Lease.

8. FMTS Tenant Improvem ent Allowance. Landlord shall provide to Tenant a tenant improvement allowance of $33.00 per rentable square foot in the First Must-Take Space (namely, $444,708.00) (the "FMTS Tenant Improvement Allowance") to be applied toward the Total FMTS Construction Costs, as adjusted for any changes to the FMTS Work. Of such FMTS Tenant Improvement Allowance (a) up to $3.00 per rentable square foot thereof may be appl ied towards the cost of architectural services, and (b) up to $5.00 per rentable square foot thereof may be applied towards moving costs, voice and data cabling costs and other soft costs. Tenant shall purchase, for an amount equal to Landlord 's cost, the lights, tiles and grid that are stacked on the floor in the First Must-Take Space. The FMTS Tenant Improvement Allowance shall not be disbursed to Tenant in cash, but shall be applied by Landlord to the payment of the Total FMTS Construction Costs, if, as, and when the cost of the FMTS Work is actually incurred and paid by Lan dlord. The FMTS Tenant Improvement Allowance must be used within twelve (12) months following Substantial Completion of the FMTS Work or shall be deemed forfeited with no further obligation by Landlord with respect thereto.

9. Construction Management. Un less otherwise mutually agreed upon by Landlord and Tenant, CBRE shall supervise the FMTS Work on behalf of Tenant. Landl ord or its affil iate or agent shall also supervise the FMTS Work and in addition, shall make disbursements required to be made to the contractor, coordinate the work with the contractor on behalf of, and at the direction of, Landlord and coordinate the relationship between the FMTS Work, the Building and the Building's systems. The compensation for construction management services by Landlord shall be equal to one and one half percent (1.5%) of the FMTS Construction Contract amount and may be paid from the FMTS Tenant Improvement Allowance. Tenant shall also be permitted to charge the FMTS Tenant Improvement Allowance up to an additional five percent (5%) of the FMTS Construct ion Contract amount for construction management services provided by CBRE.

10. Construction Representatives. The provisions of Paragraph 11 in Exhibi t B shall apply herein.

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EXHIBIT B-2 - SECOND MUST-TAKE SPACE ALTERATIONS
attached to and mad e a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase IILimited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

l. Acceptance of Second Mu st-Take Space Premises. Except as set forth in this Exhibit, Tenant shall accept the Second Must-Take Space in its "AS-IS" condition as of the Lease Reference Date.

2. SMTS Sp ace Plans.

(a) Preparation and Delivery. On or before the tenth (IO'h) business day following the date of request therefor by landlord, (such earlier date is referred to herein as the "SMTS Space Plans Delivery Deadline"), Tenant shall deliver to Landlord a space plan prepared by the Architect depict ing improvements to be installed in the Second Must -Take Space (the "SMTS Space Plans").

(b) Approval Process. Landlord shall notify Tenant whether it approves of the submitted SMTS Space Plans wit hin three (3) business days after Tenant's submission thereof. If Landlord disapproves of such SMTS Space Plans, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in which case Tenant shall, within three (3) business days after such notice, revise such SMTS Space Plans in accordance with Landlord's objections and submit to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted SMTS Space Plans with in two (2) business days after its receipt thereof This process shall be repeated until the SMTS Space Plans have been finally approved by Landlord and Tenant. If Landlord fails to notify Tenant that it disapproves of the initial SMTS Space Plans within three (3) husiness days (or, in the case ofresubmitted SMTS Space Plans, within two (2) business days) after the submission thereof, then Landlord shall be deemed to have approved the SMTS Space Plans in question. If Tenant fails to timely deliver such SMTS Space Plans, then each day after the SMTS Space Plans Del ivery Dead l ine that such SMTS Space Pl ans are not delivered to Landlord shall be a Tenant Delay day.

3. SMTS Wor k in g Dr a wings.

(a) Preparation and Deliver y. On or before the tenth (I O'h) day following approval of tbe SMTS Space Plans, (such earlier date is referred to herein as the "SMTS Working Drawings Delivery Deadline"), Tenant shall provide to Landlord for its approval final working drawings, prepared by the Architect, and, as applicable Purdy McGuire or any other mechanical and electrical engineer reasonably required by Landlord (in connection with the MEP drawings), of all improvements that Tenant proposes to install in the Second Must-Take Space; such working drawings shall include the part ition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable laws. If Tenant fails to timely deliver such drawings, then each day after the SMTS Working Drawings Delivery Deadline that such drawings are not delivered to Landlord shall be a Tenant Delay day.

(b) Approval Process. Landlord shall notify Tenant whether it approves of the submitted working drawings within five (5) business days after Tenant's submission thereof. If Landlord disapproves of such working drawings, then Landlord shall notify Tenant thereof specifying in reasonable detail the reasons for such disapproval, in wh ich case Tenant shall, with in three (3) business days after such notice, revise such working drawings in accordance with Landlord's objections and submit the revised working drawings to Landlord for its review and approval. Landlord shall notify Tenant in writing whether it approves of the resubmitted working drawings within three (3) business days after its receipt thereof. This process shall be repeated until the working drawings have been finally approved by Tenant and Landlord. If the working drawings are not fully approved (or deemed approved) by both Landlord and Tenant by the fifteenth (15th) business day after the del ivery of the ini tial draft thereof to Landlord, then each day after such time period that such working drawings are not fully approved (or deemed approved) by both Landlord and Tenant shall constitute a Tenant Delay day.

(c) Landlord 's Approval; Performance of SMTS Work . Ifany of Tenant's proposed construction work will affect the Building's structure or the Building's systems, then the work ing drawings pertain ing ther must be approved by the Buil ding's engineer of record. Landlord's approval of such working drawings shall not beonably withheld,

(d)

provided that (I) they comply with all laws, (2) the improvements depicted thereon do not adversely affect (in the reasonable discretion of Landlord) the Build ing's structure or the Building's systems (including the Building's restrooms or mechanical rooms), the exterior appearance of the Building, or the appearance of the Building's common areas or elevator lobby areas,
(3) such working drawin gs are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner, and (4) the improvements depicted thereon conform to the rules and regulations promulgated from time to time by Landlord for the construction of tenant improvements (a copy of which has been delivered to Tenant). As used herein,
..SMTS Working Drawings" shall mean the furnl working drawings approved by Landlord , as amended from time to time by any approved changes thereto, and "SMTS Work" shall mean all improvements to be constructed in accordance with and as indicated on the SMTS Working Drawings, together with any work required by governmental authorities to be made to other areas of the Building as a result of the improvements indicated by the SMTS Working Drawings. Landlord's approval of the SMTS Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign the SMTS Working Drawings to evidence its review and approval thereof. It shall be a matter for Tenant to satisfy itself that the SMTS Work is in compliance with applicable Jaws. Landlord assumes no liability for special, consequentia l, or incidental damages of any kind whatsoever in connection with the design or construction of the SMTS Work and the obtaining of permits, licenses and approvals, and makes no representations, warranties, or guaranties regarding the same, expressed or implied, including, without limitation, warranties of merchantabil ity, compliance with applicable laws, fitness for a particular purpose, or habitabil ity. The general contractor for the SMTS Work shall be respon sible for obtaining any permits, licenses and governmental approvals required for the construction of the SMTS Work. Tenant shall be responsible for obtaining any required certificate of occupancy and the non availability of the same for reasons related directly or indirectly to or arising from Tenant 's use or proposed use or occupancy of the Second Must-Take Space shall not delay Substantial Completion (defined below) or the Second Must-Take Space Scheduled Commencement Date.

4. Bidding of SMTS Work. The provisions of Paragraph 4 in Exhibit B shall apply hereto with respect to the biding of the SMTS Work. Reference therein to Construction Contract shall herein mean the "SMTS Construction Contract".

5. Change Orders. Tenant may in itiate changes in the SMTS Work. Each such change must receive the prior written approval of Landlord, such approval not to be unreasonably withheld or delayed an d Landlord's response to be delivered with in three (3) business days of receipt of such request and all backup information requested by Landlord; however, (a) if such requested change would adversely affect (in the reasonable discretion of Landlord) (!) the Building's structure or the Building's systems (including the Building's restrooms or mechanical rooms), (2) the exterior appearance of the Building, or
(3) the appearance of the Building's common areas or elevator lobby areas, or (b) if any such requested change might delay the Second Must-Take Space Scheduled Commencement Date, Landlord may withhold its consent in its sole and absolute discretion. Upon completion of the SMTS Work, Tenant shall provide Landlord with an accurate architectural "as-built" plan of the SMTS Work as constructed. IfTenant requests any changes to the SMTS Work described in the SMTS Space Plans or the SMTS Working Drawings, then such increased construction costs and any additional design costs incurred in connection therewith as the result of any such change shall be added to the Total SMTS Construct ion Costs.

6 . Walk-Through; Punchlist. When the SMTS Work in the Second Must-Take Space is Substantially Completed as provided herein, Landlord will notify Tenant and within two (2) business days thereafter, Landlord's representative and Tenant's representative shall conduct a walk-through of the Second Must-Take Space and identify any necessary touch-up work, repairs and minor completion items that are necessary for final comp letion of the SMTS Work. Neither Landlord's representative nor Tenant's representative shall unreasonably withhold his or her agreement on punch list items. Landlord shall use reasonable efforts to cause the contractor perforn1ing the SMTS Work to complete all punchlist items wi thin thirty
(30) days after agreement thereon; however, Landlord shall not be obligated to engage overtime labor in order to complete such items. As used herein "Substantial Completion", "Substantiall y Completed", and any derivations thereof mean the SMTS Work in the Second Must-Take Space is substantially completed such that Tenant may conduct its business in the Second Must-Take Space (as reasonably determined by Landlord) in substantial accordance with the SMTS Working Drawings. Substantial Completion shall have occurred if Tenant may occupy the Second Must-Take Space for the purpose of conducting its business even though minor details of construction, decoration and mechanical adjustments remain to be completed by Landlord.

7. Excess Costs. The entire cost of perform ing the SMTS Work (exclud ing t11e cost of provision of utilities during construction, but including design of the SMTS Work and preparation of the SMTS Working Drawings, Land lord's costs in connection with its review and approval of SMTS Working Drawings, costs under the SMTS Constr ntract, costs of

additional jan itorial services, general tenant signage, related taxes and insurance costs, and the construction management fee referenced below, al l of which costs are herein collectively called the "Total SMTS Construction Costs") in excess of the SMTS Tenant Improvement Allowance (hereinafter defined) shall be paid by Tenant. Upon approval of the SMTS Working Drawings and selection of a contractor, Tenant shall promptl y (a) execute a work order agreement prepared by Landlord which identifies the SMTS Working Drawings and itemizes the Total SMTS Construction Costs and sets forth the SMTS Tenant Improvement Allowance, and pay to Landlord the full amount by which the estimated Total SMTS Construction Costs exceeds the SMTS Tenant Improvement Allowance. Upon Substantial Completion of the SMTS Work, and before Tenant occupies the Second Must-Take Space to conduct business therein , Tenant shall pay to Landlord an amount equal to the actual Total SMTS Construction Costs (as adjusted for any approved changes to the Work), less (1) the amount of the advance payment already made by Tenant, and (2) the amount of th e SMTS Tenant Improvement Allowance. In the event of default of paymen t of such costs, Landlord (in addition to all other remedies) shall have the same rights as for an Event of Default under the Lease. Payments due by Tenant under this Exhibit B-2 shall constitute rent payable under the Lease and any late payment of amounts due hereunder shall bear interest and be subject to a charge as set forth in Section 3.2 of the Lease.

8. SMTS Tenant Improvement Allowance. Landlord shall provide to Tenant a tenant improvement allowance of $ 19.80 per rentable square foot in the Second Must-Take Space (namely, $314,206.20) (the "SMTS Tenant Improvement Allowance") to be applied toward the Total SMTS Construction Costs, as adjusted for any changes to the SMTS Work. Of such SMTS Tenant Improvement Allowance (a) up to $3.00 per rentable square foot thereof may be applied towards the cost of architectural services, and (b) up to $5.00 per rentable square foot thereof may be applied towards moving costs, voice and data cabling costs and other soft costs. The SMTS Tenant Improvement Allowance shall not be disbursed to Tenant in cash, but shall be appl ied by Landlord to the payment of the Total SMTS Construction Costs, if, as, and when the cost of the SMTS Work is actually incurred and paid by Landlord. The SMTS Tenant Improvement Allowance must be used within twelve (12) months following Substantial Completion of the SMTS Work or shall be deemed forfeited with no further obligation by Landlord with respect thereto.

9. Construction Management. Unless otherwise mutually agreed upon by Landlord and Tenant, CBRE shall supervise the SMTS Work on behalf of Tenant. Landlord or its affiliate or agent shall also supervise the SMTS Work and in addition, shall make disbursements required to be made to the contractor, coordinate the work with the contractor on behalf of, and at the direction of, Landlord and coon..lim1tt: the relatiouship between the SMTS Work, the Building and the Building's systems. The compensation for construction management services by Landlord shall be equal to one and one half percent (1.5%) of the SMTS Construction Contract amount and may be paid from the SMTS Tenant Improvement Allowance. Tenant shall also be permitted to charge the SMTS Tenant Improvement Allowance up to an additional five percent (5%) of the SMTS Construction Contract amoun t for construction management services provided by CBRE.

10. Construction Representatives . The provi sions of Paragraph 1 J in Exhibit B shall apply herein.

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EXHIBIT C -COMMENCEMENT DATE MEMORANDUM
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase IT Limited Partnership, as Landlord and
Conexis Benefits Administrators , L.P., as Tenant

COMMENCEMENT DATE MEMORANDUM

THIS MEMORANDUM, made as of _____, 20_____, by and between _____ ("Landlord") and _____ ("Tenant").

Recitals:

A. Landlord and Tenant are parties to that certain Lease, dated for reference _____, 20_____ (the "Lease") for certain premises (the "Premises") consisting of approximately _____ square feet at the building commonly known as _____.

B. Tenant is in possession of the Premises and the Term of the Lease has commenced.

C. Landlord and Tenant desire to enter into this Memorandum confirming the [Commencement Date], [the FMTS Commencement Date], [the SMTS Commencement Date],the Termination Date, Tenant's Proportionate Share, and other matters under the Lease.

NOW, THEREFORE, Landlord and Tenant agree as follows:

1. The actual [Commencement Date of the Initial Premises], [the FMTS Commencement Date], [the SMTS Commencement Date] is _____.

2. The actual Termination Date is _____.

3. Tenant's Proportionate Share is _____.

4. The schedule of the Annual Rent and the Monthly Installment of Rent set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

[insert rent schedule]

5. Capitalized terms not defined herein shall have the same meaning as set forth in the Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

LANDLORD:	**TENANT:**
By: RREEF Management Company, a Delaware corporation	
By: _____DO_NOT_SIGN_____	By: _____DO_NOT_SIGN_____
Name: _____	Name: _____
Title: _____	Title: _____
Dated: _____	Dated: _____

EXHIBIT D -RULES AND REGULATIONS
attached to and made a part of Lease bearing the
Lease Reference Date of August 2 , 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

1. No sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside or inside of the Building without the prior written consent of the Landlord. Landlord shall have the right to remove, at Tenant's expense and without notice, any sign installed or displayed in violation of th is rule. All approved signs or lettering on doors and wal ls shall be printed, painted, affixed or inscribed at Tenant's expense by a vendor designated or approved by Landlord. In addition, Landlord reserves the right to change from time to time the format of the signs or lettering and to require previously approved signs or lettering to be appropriately altered.

2. If Landlord objects in writ ing to any curtains, blinds, shades or screens attached to or hung in or used in connection with any window or door of the Premises, Tenanc shall immediately discontinue such use. No awning shall be permitted on any part of the Prem ises. Tenan t shall not place anything or allow anything to be placed against or near any glass partit ions or doors or windows which may appear unsightly, in the opinion of Landlord, from outside the Premises.

3. Tenant shall not obstruct any sidewalks, halls, passages, exits, entrances, elevators, or stairways of the Building. No tenant and no employee or invitee of any tenant shall go upon the roofof the Building.

4. Any directory of the Building, if provided, will be exclusively for the display of the name and location of tenants on ly and Landlord reserves the right to exclude any other names. Landlord reserves the right to charge for Tenant's directory listing.

5. All cleaning and jan itorial services for the Building and the Premises shall be provided exclusively through Landlord. Tenant shall not cause any unnecessary labor by carelessness or indifference to the good order and cleanliness of the Premises. Landlord shall not in any way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage to any Tenant 's property by the janitor or any other employee or any other person.

6. The toilet rooms, toilets, urina ls, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed. No foreign substance of any kind whatsoeve r shall be thrown into any of them, and the expense of any breakage, stoppage or damage result ing from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees, shall have caused it.

7. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord. Tenant will comply with any and all recyclin g procedures designated by Landlord.

8. Landlord will furnish Tenant two (2) keys free of charge to each door in the Premises that has a passage way Jock. Landlord may charge Tenant a reasonable amount for any addit ional keys, and Tenant shall not make or have made additional keys on its own. Tenant shall not alter any lock or install a new or additional Jock or bolt on any door of its Premises. Tenant, upon the termination of its tenancy, shall deliver to Landlord the keys of all doors which have been furnished to Tenant, and in the event of loss of any keys so furnished, shall pay Landlord therefor.

9. If Tenant requires telephone, data, burglar alarm or similar service, the cost of purchasing, installing and maintaining such service shall be borne solely by Tenant. No boring or cutting for wires will be allowed without the prior written consent of Landlord.

10. No equipment, materials, furniture, packages, bulk supplies, merchandise or other property will be recei ved in the Building or carried in the elevators except between such hours and in such elevators as may be designated by Landlord. The persons employed to move such equipment or material s in or out of the Building must be acceptable to Landlord.

11. Tenant shall not place a load upon any floor which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Heavy objects shall stand on such platforms as determined by Landlord to be necessary to properly distribute the weight. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building or to any space in the Building to such a degree as to be objectionable to Landlord or to any tenants shall be placed an d maintained by Tenant, at Tenant 's expense, on vibration eliminators or other devices sufficient to eliminate the noise or vibration. Landlord will not be responsible for loss of or damage to any such equipment or other property from any cause, and all damage done to the Building by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant.

12. Except in the event of emergency or casualty, Tenant shall be entitled to 24 hour/day, 7 days/week access to the Building. Notwithstanding the foregoing, Landlord shall in all cases retain the right to control and prevent access to the Building of all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation or interests of the Building and its tenants, provided that nothing contained in this rule shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. Landlord reserves the right to exclude from the Building between the hours of 6 p.m. and 7 a.m. the following day, or such other hours as may be established from time to time by Landlord, and on Sundays and legal holidays, any person unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Tenant shall be responsible for all person s for whom it requests passes and shall be liable to Landlord for all acts of such persons. Landlord shall n ot be liable for damages for any error with regard to the admission to or exclusion from the Building of any person.

13. Tenant shall not use any method of heating or air conditioning other than that supplied or approved in writing by Landlord.

14. Tenant shall not waste electricity, water or air conditioning. Tenant shall keep corridor doors closed. Tenant shall close and lock the doors of its Premises and entirely shut off all water faucets or other water apparatus and electricity, gas or air outlets before Tenant and its employees leave the Premises. Tenant shall be responsible for any damage or injur ies susta ined by other tenants or occupants of the Building or by Landlord for noncompliance with th is rule.

15. Except as permitted in Article 43, Tenant shall not install any radio or television antenna, satellite dish, loudspeaker or other device on the roof or exterior wa lls of the Building without Landlord's prior written consent, wh ich consent may be withheld in Landlord 's sole discretion, and which consent may in any event be conditioned upon Tenant's execution of Landlord's standard form of license agreement. Tenant shall be responsible for any interference caused by such installation.

16. Tenant shall not mark, drive nails, screw or drill into the partitions, woodwork, plaster, or drywall (except for pictures, tackboard s and similar office uses) or in any way deface the Premises. Tenant shall not cut or bore holes for wires. Tenant shall not affix any floor covering to the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair any damage resulting from noncompliance with thi s rule.

17. Tenan t shall not install, maintain or operate upon the Premises any ven ding machine without Landlord's prior written consent, except that Tenant may instalr food and drink vending mach ines solely for the convenien ce of its employees.

18. No cooking shall be done or permitted by any tenant on the Premises, except that Un derwriters' Laboratory approved microwave ovens or equipment for brewing coffee, tea, h ot chocolate and sim ilar beverages shall be permitted provided that such equipment and use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations.

19. Tenant shall not use in any space or in the publi c halls of the Building any hand trucks except those equipped with the rubber tires and side guards or such other material-handling equipm ent as Landlord may approve. Tenant shall not bring any other veh icles of any kind into the Buildin g.

20. Tenant shall not pem1it any motor vehicles to be washed or mechanica l work or maintenance of motor veh icles to be performed in any parking lot.

21. Tenant shall not use the name of the Building or any photograph or likeness of the Building in connection with or in promoting or advertising Tenant's business, except that Tenant may include the Building name in Tenant's address. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.

22. Tenant requests for services must be submitted to the Building office by an authorized individual. Employees of Landlord shall not perform any work or do anything outside of their regular duties un less under special instruction from Landlord, and no employee of Landlord will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.

23. Tenant shall not permit smoking or carrying of lighted cigarettes or cigars other than m areas designated by Landlord as smoking areas.

24. Canvassing, soliciting, distribution of handbills or any other written material in the Building is prohibited and each tenant shall cooperate to prevent the same. No tenant shall solicit business from other tenants or permit the sale of any good or merchandise in the Building without the written consent of Landlord.

25. Tenant shall not permit any animals other than service animals, e.g. seeing-eye dogs, to be brought or kept in or about the Premises or any common area of the Building.

26. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of any premises in the Building. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building.

27. Landlord reserves the right to make such other and reasonable rules and regulations as in its judgment may from time to time be needed for safety and security, for care and cleanliness of the Building, and for the preservation of good order in and about the Building. Tenant agrees to abide by all such rules and regulations herein stated and any additional rules and regulations which are adopted. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

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EXHIBIT E - FORM OF CONTINUING GUARANTY
attached to and made a part of Lease bearing the
Lease Reference Date of August 2, 2004 between
Corporate Center Phase II Limited Partnership, as Landlord and
Conexis Benefits Administrators, L.P., as Tenant

Whereas, CONEXIS BENEFITS ADMINISTRATORS, L.P., a Texas limited partnership ("Tenant") is (a) engaged in business as a corporate affiliate of the undersigned, or (b) engaged in selling, marketing, using or otherwise dealing in merchandise, supplies, products, equipment or other articles supplied to it by the undersigned, or (c) a wholly owned subsidiary of the undersigned. Because of our inter corporate or business relations, or by reason of any of the foregoing, it will be in our direct interest and advantage to assist Tenant in securing a lease. Therefore, in consideration of the making of the lease agreement by and between CORPORATE CENTER PHASE II LIMITED PARTNERSHIP, as Landlord and Tenant, for the premises commonly described as 6191 N. State Highway 161, Suites 300 and 400, Irving, Texas 75038 (hereinafter referred to as the "Lease") and for the purpose of inducing Landlord to enter into and make the Lease, the undersigned hereby unconditionally guarantees the full and prompt payment of rent and all other sums required to be paid by Tenant under the Lease ("Guaranteed Payments") and the full and faithful performance of all terms, conditions, covenants, obligations and agreements contained in the Lease on the Tenant's part to be performed ("Guaranteed Obligations") and the undersigned further promises to pay all of Landlord's costs and expenses (including reasonable attorney's fees) incurred in endeavoring to collect the Guaranteed Payments or to enforce the Guaranteed Obligations or incurred in enforcing this guaranty as well as all damages which Landlord may suffer in consequence of any default or breach under the Lease or this guaranty.

1. Landlord may at any time and from time to time, without notice to the undersigned, take any or all of the following actions without affecting or impairing the liability and obligations of the undersigned on this guaranty:

   a. grant an extension or extensions of time of payment of any Guaranteed Payment or time for performance of any Guaranteed Obligation;

   b. grant an indulgence or indulgences in any Guaranteed Payment or 111 the performance of any Guaranteed Obligation;

   c. modify or amend the Lease or any term thereof, or any obligation of Tenant ari sing thereunder;

   d. consent to any assignment or assignments, sublease or subleases and successive assignments or subleases by Tenant or Tenant's assigns or sublessees or a change or different use of the leased premises; -

   e. consent to an extension or extensions of the term of the Lease;

   f. accept other guarantors; and/or

   g. release any person primarily or secondarily liable.

The liability of the undersigned under this guaranty shall in no way be affected or impaired by any failure or delay in enforcing any Guaranteed Payment or Guaranteed Obligation or this guaranty or any security therefor or in exercising any right or power in respect thereto, or by any compromise, waiver, settlement, change, subordination, modification or disposition of any Guaranteed Payment or Guaranteed Obligation or of any security therefor. In order to hold the undersigned liable hereunder, there shall be no obligation on the part of Landlord, at any time, to resort for payment to Tenant or any other guaranty or to any security or other rights and remedies, and Landlord shall have the right to enforce this guaranty irrespective of whether or not other proceeding s or steps are pending or being taken seeking resort to or realization upon or from any of the foregoing.

2. The undersigned waives all diligence in collection or in protection or any security, presentment, protest, demand, notice of dishonor or default, notice of acceptance of this guaranty, notice of any extensions granted or other action taken in reliance hereon and all demands and notices of any kind in connection with this guaranty or any Guaranteed

Payment or Guaranteed Obligation. The undersigned waives the provisions of Chapter 34 of the Texas Business and Commerce Code dealing with the rights of sureties.

3. The undersigned hereby acknowledges full and complete notice and knowledge of all of the terms, conditions, covenants, obligations and agreements of the Lease. The undersigned shall upon request execute such instruments as Landlord , or its mortgagee, may require to document the exercise by Tenant of any of the options granted to Tenant in compliance with the terms thereof or as may otherwise be required under the Lease, including without limitation, the subordination provisions of the Lease.

4. The payment by the undersigned of any amount pursuant to this guaranty shall not in any way entitle the undersigned to any right, title or interest (whether by subrogation or otherwise) of Tenant under the Lease or to any security being held for any Guaranteed Payment or Guaranteed Obligation.

5. This guaranty shall be continuing, absolute and unconditional and remain in full force and effect until all Guaranteed Payments are made, all Guaranteed Obligations are performed, and all obligations of the undersigned under this guaranty are fulfilled.

6. The undersigned represent s and warrants, as a material inducement to Landlord to enter into the Lease, that (a) this guaranty has been duly executed, issued and delivered by the undersigned and constitutes the valid and legally binding obligations of the under signed enforceable in accordance with their terms; (b) there is no action, suit or proceeding pending or, to the knowledge of the undersigned, threatened against or affecting the undersigned, at law or in equity, or before or by any governmental authority, which might result in any materially adverse change in the business or financial condition of the undersigned ; (c) as of the date hereof, the financial condition of the undersigned is adequate to secure the obligations of the undersigned under this guaranty; (d) execution hereof by the undersigned shall not render the undersigned insolvent; (e) from and after the date hereof, the undersigned shall not take any action, such as assuming additional liabilities, divesting assets or otherwise, which would impair the ability of the undersigned to perform its obligations hereunder; and (f) the undersigned has a bona fide interest in Tenant's financial success.

7. The obligations of Tenant under the Lease to execute and deliver estoppel statements, a:; therein provided, shall be deemed to also require the undersigned hereunder to do so and to provide the same relative to the undersigned following written request by Landlord in accordance with the terms of the Lease.

8. This guaranty shall also bind the successors and permitted assigns of the undersigned and inure to the benefit of Landlord, its successors and assigns. The undersigned shall not assign any obligation hereunder without Landlord 's prior written consent. This guaranty shall be construed according to the laws of the state in which the leased premises are located, in which state it shall be performed by the undersigned. The proper place of venue to enforce payment or performance under this guaranty shall be in Dallas County, Texas and the undersigned waives any objections which it may now or hereafter have based on venue and/or forum non conveniens of any suit, action or proceedings brought under the Lease or this guaranty. The undersigned shall promptly designate and appoint an authorized agent to accept and acknowledge on its behalf service of any and all process which may be served in any such sui t, action or proceeding in any federal or state court in Dallas County, Texas and agrees that service of process upon said agent at the address provided to Landlord for said agent and written notice of said service mailed or delivered to the undersigned in the manner provided herein shall be deemed in every respect effective service of process upon the undersigned in any suit, action or proceeding in the State of Texas. The undersigned (I) shall give prompt notice to Landlord of any changed address of its authorized agent hereunder, (II) may at any time and from time to time designate a substitute authorized agent with an office in Dallas County, Texas (which substitute agent and office shall be designated as the person and address for service of process), and (III) shall promptly designate such a substitute if its authorized agent ceases to have an office in Dallas County, Texas or is dissolved without leaving a successor.

9. If this guaranty is executed by more than one person, all singular nouns and verbs herein relating to the undersigned shall include the plural n umber and the obligation of the several guarantors shall be joint and several. The representations, covenants and agreements set forth in this guaranty shall continue and survive the termination of the Lease and this guaranty.

10. Landlord and the undersigned intend and believe that each provision of this guaranty comports with all applicable law. However , if any provision of this guaranty is found by a court to be invalid for any reason, the parties intend that the remainder of this guaranty shall continue in full force and effect and the invalid provision shall be construed as if it were not contained herein.

11. Any notice or document required or permitted to be delivered under this guaranty shall be addressed to the intended recipient, by fully prepaid registered or certified United States Mail return receipt requested, or by reputable independent contract delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at the address set forth below, or at such other address as it has then last specified by written notice delivered in accordance with this Paragraph 11, or if to the undersigned at either its aforesaid address or its last known registered office or home of a general partner or individual owner, whether or not actually accepted or received by the addressee:

Landlord: Corporate Center Phase II Limited Partnership
c/o RREEF Management Company
1406 Halsey Way, Suite 110
Carrollton , Texas 75007
Attn: District Manager - Las Colinas

Guarantor: Word and Brown Insurance Administrators, Inc.
721 South Parker, Suite 300
Orange, California 92868 Attn: Ivonne Roca
Vice President of Human Resources

11. This guaranty is executed to be effective as of the effective date of the Lease.

[REMAINDER OF THE PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the undersigned has caused this guaranty to be executed by its duly authorized officer(s) this _____day of _____, 2004.

GUARANTOR:

WORD AND BROWN INSURANCE ADMINISTRATORS, INC.
a California corporation

By:_____
Name: John M. Word III
Title: President

Exhibit 10.27A

LEASE AMENDMENT NO. 1

THIS LEASE AMENDMENT NO. 1 (this **"Amendment")** is made and entered into as of December 1, 2004 (the **"Effective Date"),** by and between Corporate Center Phase II Limited Partnership, a Delaware limited partnership **("Landlord"),** and Conexis Benefits Administrators, L.P., a Texas limited partnership **("Tenant").** All terms used herein and not otherwise defined shall have the meanings given to them in the hereinafter recited Lease.

Recitals

A. By lease dated with a lease reference date of August 2, 2004 made between Landlord and Tenant (the **"Lease"),** the premises therein and herein described as the **"Premises"** with a street address currently known as 6191 N. State Highway 161, Suites 300 and 400, Irving, Texas 75038 were leased to Tenant upon the terms and subject to the conditions contained in the Lease.

B. Landlord and Tenant have agreed to amend the Lease as set forth below.

Agreement

NOW, THEREFORE, for and in consideration of the foregoing recitals, Ten and Noll 00 Dollars ($10.00) in hand paid and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged , Landlord and Tenant hereby acknowledge and agree to the following:

1. **Commencement Date/Termination Date.** The actual Commencement Date under the Lease is confirmed as November 1, 2004. The Termination Date is confirmed as October 31, 2015.

2. **Tenant's Proportionate Share.** Tenant's Proportionate Share with respect to the Initial Premises is confirmed as 29.32% .

3. **Increase of Tenant Improvement Allowance.** The Tenant Improvement Allowance for the Initial Premises is increased by the sum of $527,651.00, which shall be paid by Landlord in accordance with Paragraph 8 in Exhibit B to the Lease. The last sentence in said Paragraph 8 in Exhibit B to the Lease is of no further force or effect and is hereby deleted in its entirety.

4. **Rent.**

(a) The schedule of the Annual Rent and the Monthly Installment of Rent for the Initial Premises as set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

Period		Rentable Square Footage	Annual Rent	Monthly Installment of Rent
from	through			
11/1/04	10/31/05	58,690	$65,642.16	$5,470.18+E
11/1/05	10/31/06	58,690	$1,078,044.70	$89,837.06+E
11/1/06	10/31/07	58,690	$1,107,389.60	$92,282.47+E
11/1/07	10/31/08	58,690	$1,136,734.60	$94,727.89+E
11/1/08	10/31/09	58,690	$1,180,752.10	$98,396.01 +E
11/1/09	10/31/10	58,690	$1,210,097. 10	$100,84 1.43+E
11/1/10	10/31/11	58,690	$1,239,442.20	$103,286.85+E
11/1/11	10/31/12	58,690	$1,239,442.20	$103,286.85+E
11/1/12	10/31/13	58,690	$1,268,787.10	$105,732.26+E
11/1/13	10/31/14	58,690	$1,268,787. 10	$105,732.26+E
11/1/14	10/31/15	58,690	$1,298,132.l0	$108, I77.68+E

* +E = plus Electric

(b) The schedule of the Annual Rent and the Monthly Installment of Rent for the First Must-Take Space as set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

Period		Rentable Square Footage	Annual Rent	Monthly Installment of Rent
from	through			
11/1/06	10/31/07	13,476	$308,210.16	$25,684.1 8+E
11/1/07	10/31/08	13,476	$314,948.16	$26,245.68+E
11/1/08	10/31/09	13,476	$325,055.16	$27,087.93+E
11/1/09	10/31/10	13,476	$331,793.16	$27,649.43+E
11/1/10	10/31/11	13,476	$338,531.16	$28,210.93+E
11/1/11	10/31/12	13,476	$338,531.16	$28,210.93+E
11/1/12	10/31/13	13,476	$345,269.16	$28,772.43+E
11/1/13	10/31/14	13,476	$345,269.16	$28,772.43+E
11/1/14	10/31/15	13,476	$352,007.16	$29,333.93+E

(c) The schedule of the Annual Rent and the Monthly Installment of Rent for the Second Must-Take Space as set forth on the Reference Pages is deleted in its entirety, and the following is substituted therefor:

Period		Rentable Square Footage	Annual Rent	Monthly Installment of Rent
from	through			
11/1/2007	10/31/2008	15,869	$363, 185.88	$30,265.49+E
11/1/2008	10/31/2009	15,869	$375,087.72	$31,257.31+E
11/1/2009	10/31/2010	15,869	$383,022.12	$31,918.5l+E
11/1/2010	10/31/2011	15,869	$390,956.64	$32,579.72+E
11/1/2011	10/31/2012	15,869	$390,956.64	$32,579.72+E
11/1/2012	10/31/2013	15,869	$398,891.16	$33,240.93+E
11/1/2013	10/31/2014	15,869	$398,891.16	$33,240.93+E
11/1/2014	10/31/2015	15,869	$406,825.68	$33,902.14+E

5. **Surviving Obligations.** All obligat ions of Tenant under the Lease not fully performed as of the expiration or earlier termination of the Lease Term shall survive the expiration or earlier termination of the Lease Term.

6. **Severability.** If any term or provision of this Amendment, or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable , the remainder of this Amendment, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby. Each provision of this Amendment shall be valid and shall be enforceable to the extent permitted by law.

7. **Brokerage.** Tenant warrants that it has not dealt with any broker or agent in connection with the negotiation or execution of this Amendment except CB Richard Ellis, Inc.. Tenant acknowledges that Landlord has no liability to pay commissions or other compensation to any broker or agent in respect of this Amendment, and Tenant shall indemnify Land lord against all costs, expenses, attorneys' fees, and other liability for commissions or other compensation claimed by any broker or agent claiming the same by, through, or under Tenant in respect of this Amendment.

8. **Interpretation.** Landlord and Tenant agree that each party and its legal counsel has reviewed or had the opportunity to review this Amendment and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in any construction or interpretation of this Amendment

9. **Ratification.** Landlord and Tenant hereby ratify and affirm the Lease and agree that the Lease is and shall remain in full force and effect in accordance with all terms contained therein, except as expressly amended hereby.

10. **Counterparts.** This Amendment may be executed in any number of identical counterparts each of which shall be deemed to be an original and all, when taken together, shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment is hereby executed as of the Effective Date.

LANDLORD:

CORPORATE CENTER PHASE II LIMITED PARTNERSHIP, a Delaware limited partnership

By: Colinas Corporate Center Phase II LLC, a Delaware limited liability company, its General Partner

By: RREEF Management Company, a Delaware corporation, its agent

By: _____

Name: Jay Jehle

Title: Vice President

By: Kim Boudreau

Name: Kim Boudreau

Title: District Manager

Dated: 1/13, 2005

TENANT:

CONEXIS BENEFITS ADMINISTRATORS, L.P., a Texas limited partnership

By: CONEXIS, LLC, a Delaware limited liability company, its General Partner

By: _____

Name: RAYMOND D. GODEKE

Title: PRESIDENT

Dated: 1/9, 2005

Exhibit 10.27B

LEASE AMENDMENT NO. 2

THIS LEASE AMENDMENT NO. 2 (this "Amendment") is made and entered into as of October 20, 2005 (the "Effective Date"), by and between Corporate Center Phase II Limited Pa1inership, a Delaware limited partnership ("Landlord"), and Conexis Benefits Administrators, L.P., a Texas limited partnership ("Tenant"). All terms used herein and not otherwise defined shall have the meanings given to them in the hereinafter recited Lease.

Recitals

A. By lease dated with a lease reference date of August 2, 2004 made between Landlord and Tenant (the "Original Lease") as amended by Lease Amendment No . 1 dated December 1, 2004, made between Landlord and Tenant (the "First Amendment ") (the Original Lease and the First Amendment being herein together called the "Lease"), the premises therein and herein described as the "Premises" with a street address currently known as 6191 N. State Highway 161, Suites 300 and 400, Irving, Texas 75038 were leased to Tenant upon the terms and subj ect to the conditions contained in the Lease.

B. Landlord and Tenant have agreed to amend the Lease as set forth below.

Agreement

NOW, THEREFORE, for and in consideration of the foregoing recitals, Ten and No/1 00 Dollars ($10.00) in hand paid and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby acknowledge and agree to the following:

1. Rent. Paragraphs 4(b) and 4(c) in the First Amendment were inserted in error and are hereby deleted in their entirety so that the rent schedules for the First Must-Take Space and the Second Must-Take Space shall remain as set forth on the Reference Pages attached to the Original Lease. The revised rent schedule for the Initial Premises as set forth in Paragraph 4(a) in the First Amendment shall continue in full force and effect.

2. Ratification. Landlord and Tenant hereby ratify and affirm the Lease and agree that the Lease is and shall remain in full force and effect in accordance with all terms contained therein, except as expressly amended hereby.

3. Counterparts. This Amendment may be executed in any number of identical counterpa1is each of which shall be deemed to be an original and all, when taken together, shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment is hereby executed as of the Effective Date.

LANDLORD:

CORPORATE CENTER PHASE IILIMITED
PARTNERSHIP , a Delaware limited partnership

By: Colinas Corporate Center Phase IILLC, a Delaware limited liability company,
its General Partner

By: RREEF Management Company, a Delaware corporation, its agent

By: _____
Name: Jay Jehle
Title: Vice President

By
Name: Kim Boudreau
Title: District Manager
Dated: _____, 2005

TENANT:

CONEXIS BENEFITS ADMINISTRATORS, L.P.,
a Texas limited partnership

By: CONEXIS, LLC,
a Delaware limited liability company, its General Partner
By
Name: _____
Title: _____
Dated: _____, 2005

Exhibit 10.27C

THIRD AMENDMENT TO OFFIC E LEASE AGREEMENT

THIS Third Amendment to Office Lease Agreement (this "Amendment ") is entered into as of January _, 2009, between NNN Las Colinas Highlands, LLC, NNN Las Colinas Highlands l , LLC, NNN Las Colinas Highland s 2, LLC, NNN Las Colinas Highlands 3, LLC, NNN Las Colinas Highlands 4, LLC, NNN Las Colinas Highlands 5, LLC, NNN Las Colinas Highlands 6, LLC, NNN Las Colinas Highland s 7, LLC, NNN Las Colinas Highlands 8, LLC, NNN Las Colinas Highlands 9, LLC, NNN Las Colinas Highlands l 0, LLC, NNN Las Colinas Highlands 1 1, LLC, NNN Las Colinas Highlands 12, LLC, NNN Las Colinas Highlands 13, LLC, NNN Las Colinas Highlands 14, LLC, NNN Las Colinas Highlands 15, LLC, NNN Las Colinas Highlands 16, LLC, NNN Las Colinas Highlands 17, LLC, NNN Las Colinas Highlands 18, LLC, NNN Las Colinas Highlands 19, LLC, NNN Las Colinas Highlands 20, LLC, NNN Las Colinas Highland s 21, LLC, NNN Las Colinas Highlands 22, LLC, NNN Las Colinas Highlands 23, LLC, NNN Las Colinas Highlands 24, LLC, NNN Las Colinas Highlands 25, LLC, NNN Las Colinas Highlands 26, LLC, NNN Las Colinas Highland s 27, LLC, NNN Las Colinas Highlands 28, LLC, NNN Las Colinas Highlands 29, LLC, NNN Las Colinas Highlands 30, LLC, NNN Las Colinas Highlands 31, LLC, each one a Delaware limited liability company (collectively, "Landlord"), acting by and through Triple Net Properties Realty, Inc. ("Agent" for Landlord) and Conexis Benefit Administrators, L.P., a Texas limited partnership ("Tenant").

RECITALS:

A. A predecessor-in-interest of Landlord and Tenant entered into a certain lease (the "Original Lease") with a lease reference date of August 2, 2004, as amended by Lease Amendment No. 1 dated December l , 2004 (the "First Amendment"), and as amended by Lease Amendment No . 2 dated October 20, 2005 (the "Second Amendment") (the Original Lease, the First Amendment, Second Amendment and this Amendment are hereinafter collectively referred to as the "Lease"), for a Term that expires October 31 , 2015;

B. Tenant currently occupies 88,035 rentable square feet (the "Existing Premises") being Suites 200, 300 & 400 located in the building commonly known as Las Colinas Highlands with a street address of 6191 N. State Highway 16 l , Irving Texas 75038 as further described in the Lease (the "Building"). No subtenants currently occupy or have ever occupied the Existing Premises.

C. Landlord and Tenant now desire to expand the Existing Premises to include certain space located in Suite 150 of the Building and otherwise amend the terms of the Original Lease, as previously amended, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and provided that there is no uncured Event of Default under the Lease, the parties hereto agree, and the Lease is modified as follows:

AGREEMENTS:

l . Definitions . All capitalized terms not otherwise defined herein shall have the meanings given them in the Lease.

2. Expansion of Premises . Effective January I, 2009 (the "Expansion Effective Date"), the term "Premise s" shall mean both the Existing Premises and those certain premises agreed to consist of 1,787 rentable square feet, located in Suite 150 of the Building, as depicted on- Exhibit A hereto (the "Expansion Premises"), for a total of 89,822 Rentable Square Feet, regardless of when Landlord 's Work is substantially completed . Tenant 's Proport ionate Share shall be 44.87%, which is the quotient

(expressed as a percentage), derived by dividing the approximate rentable area of the Premises (89,822) by the approximate rentable area in the Building (200, 167).

3. Base Rental. Commencing on the Expansion Effective Date, Annaul Rent for the Expansion Premises shall be paid in Monthly Installment s as follows:

Period	Rentable Square Foota2e	Annual Rent	Monthly Installment of Rent
1/1/09 - 5/31/09	1,787	$0.00	$0.00
6/1/09 – 6/30/09	1,787	$28,770.70	$2,397.56
7/1/09 - 12/31/09	1,787	$35,203.90	$2,933.66
l/l/10 - 12/31/10	1,787	$36,990 .96	$3,082.58
1/1/1 1 - 12/31/11	1,787	$38,599.20	$3,2 16.60
1/1/12 - 12/31/12	1,787	$39,760 .75	$3,313.40
1/1/13 - 12/31/13	1,787	$40,958.04	$3,413.17
l/1/14 - 12/3l/14	1,787	$42, 173.20	$3,5 14.43
l/l/15 - 10/31/15	1,787	$43,441.97	$3,620.16

in each case, plus electricity. Monthly Installments of Rent for the Existing Premises shall remain unchanged.

4.
Base Year. From and after the Expansion Effective Date, the Base Year for the Expansion Premises only shall be:

BASE YEAR (EXPENSES): January 1, 2009 to December 31, 2009;
BASE YEAR (INSURANCE): January 1, 2009 to December 31, 2009; and
BASE YEAR (TAXES): Taxes for January 1, 2009 to December 31, 2009.

5. Premises . Tenant accepts the Expansion Premises in "AS IS", "WITH ALL FAULTS" condition as of the date of this Amendment. Landlord has no responsibility to make any alterations or improvements to the Expansion Premises, except as expressly set forth in Exhibit B to this Amendment. Tenant specifically acknowledges that Landlord has made no representations or warranties whatsoever concerning the condition of any aspect of the Expansion Premises and the Building, or the present or future suitability for Tenant's use, and Tenant waives all implied warranties.

6. Parking. The following provision is hereby added to Article 30 of the Original Lease:

"30.1.7 Landlord agrees to allow Tenant to use three (3) unreserved garage parki ng spaces and four (4) surface parking spaces at no charge, in addition to the parking spaces allocated to Tenant under Article 30.1."

7. Taxes. Article 4.1 .3 of the Original Lease is hereby modified, solely with respect to the Expansion Premises, commencing on the Expansion Effective Date, to include as a part of "Taxes" all taxes levied in substitution or replacement for real estate taxes, and all taxes (including the ' margin' tax, but not state or federal net income tax) now or hereafter imposed upon rents or other revenues of Landlord attributable to the Property.

8. Indemnification. Solely in order to cause Article 10 of the Original Lease to comply with the "Fair Notice" and ·"Express Negligence" requirements of Texas law, and not intending to make any substantive change, Article 10 of the Original Lease is hereby modified by inserting, at the end of the first

sentence: ", even if attributable to the negligence of Land lord or any Landlord Entity". Article I 0 is further modified by inserting, at the end of the second sentence: ", even if attributable to the negligence of Landlord or any Landlord entity."

9. Full Force and Effect. Except as extended by this Amendment , all terms and conditions of the Original Lease (including without limitation the one time right to terminate the Lease in its entirety as provided in Section 42 of the Original lease) shall remain in full force and effect and Landlord and Tenant shall be bound thereby. Tenant hereby represents, warrants and agrees that: (a) to Tenant's actual knowledge, there exists no breach, default or event of default by Landlord under the Lease, or any event or condition which, with notice or passage of time or both, would constitute a breach, default or event of default by Landlord under the Lease, (b) the Lease continues to be a legal, valid and binding agreement and obligation of Tenant, and (c) to Tenant's actual knowledge, Tenant has no offset or defense to its performance or obligations under the Lease. Tenant hereby waives and releases all claims, demands, charges, accounts or causes of action presently existing and actually known to Tenant arising out of or in connection with the Lease or Tenant 's occupancy of the Premises.

l0. Broker. Tenant represent s and warrants that it has not dealt w ith any broker in connection with the negotiation or execution of this Amendment other than Cushman & Wakefield of Texas, Inc. representing Tenant, and Grubb & Ellis Company representing Landlord whose commissions Landlord shall pay in accordance with the terms of a separate agreement. Tenant agrees to indemnify and hold Landlord hannless from all liability arising from any claim by any other broker claiming under Tenant including, without limitation, the cost of reasonable counsel fees in connection therewith . Landlord agrees to indemnify a n d hold Tenant harmless from all liability arising from any claim by any other broker claiming under Landlord including, without limitat ion, the cost of reasonable counsel fees in connection therewith.

11. Authoritv Each party represents and warrants that it has due power and lawful authority to execute and deliver this Amendment and to perform its obligations under the Lease; and the Lease and this Amendment are the valid, binding and enforceable obligations of such party.

12. Anti-Terrorism Statute Compliance. Tenant hereby represents and warrants to Land lord that Tenant is not: (a) in violation of any Anti-Terrorism Law; (b) conducting any business or engaging in any transaction or dealing with any Prohibit ed Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (c) dealing in, or otherwise engaging in any transaction relating to, any propert y or interest in property blocked pursuant to Executive Order No. 13224; (d) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibition s set forth in any Anti Terrorism Law; or (e) a Prohibited Person, nor are any of its partners, members, managers, officers or d irectors a Prohibited Person . Landlord hereby represents and warrants to Tenant that Landlord is not:
(a) in violation of any Anti-Terrorism Law; (b) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (c) dealing in, or otherwise engaging in any transaction relat ing to, any propert y or interest in property blocked pursuant to Executive Order No. 13224; (d) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti Terrorism Law ; or (e) a Prohibit ed Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. As used herein, "Antiterroris m Law" is defined as any law relat ing to terrorism, anti-terrorism, money laundering or anti-money laundering activities, includi ng Execut ive Order o. 13224 and Title 3 of the USA Patriot Act. As used herein "Execu tive Order No. 13224" is defined as Executive Order 1 o. 13224 on Terrorist Financing effective September 24, 200 l , and relating to ..Blocking Property and Prohibit ing Transactions With Persons \Vho Comnlit, or Support Terrorism"

"Prohibited Person" is defined as (i) a person or entity that is listed in the Annex to Executive Order 13224; (ii) a person or entity with whom Tenant or Landlord is prohibited from dealing or otherwise engaging in any transact ion by any Anti Terrorism Law, or (iii) a person or entity that is named as a "speciall y designated national and blocked person" on the most current list published by the U.S. Treasury Department Office Of Foreign Assets Control as its official website, http://www.treas.gov/ofac/t l l sdn.pdf_ or at any replacement website or other official publication of such list. **"USA Patriot Act"** is defined as the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 200 l " (Public Law 107-56).

[Signatures follow]

EXECUTED as of the date first written above.

LANDLORD:	**TENANT:**
Triple Net Properties Realty, Inc, Agent for landlord	CONEXIS BENEFITS ADMINISTRATORS, LP., a Texas limited partnership
By:	By:
By: _____	By: _____
Name: _____	Name: _____
Title _____	Title: _____
Dated _____	Dated: _____

ACKNOWLEDGED AND AGREED,
_____, 2009

GUARANTOR:

Word and Brown Insurance Admistrators, Inc.

By:
Name:
Title:

EXHIBIT B WORK LETTER

1. This Work Letter shall set forth the obligations of Landlord and Tenant with respect to the preparat ion of the Expansion Premises for Tenant's occupancy. All improvements described in this Work Letter to be constructed in and upon the Expansion Premises by Landlord are hereinafter referred to as the **"Landlord's Work."** Landlord and Tenant acknowledge that Plans (hereinafter defined) for the Landlord's Work have not yet been prepared and, therefore, it is impossible to determine the exact cost of the Landlord's Work at this time. Accordingly, Landlord and Tenant agree that Landlord's obligation to pay for the cost of Landlord 's Work shall be limited to $35,418.44 (the **"Construction Allowance"**) and that Tenant shall be responsible for the reasonable cost of Landlord' s Work to the extent that it exceeds the Construction Allowance, as provided in this Work Letter. If the actual cost of Landlord's Work is less than the Construction Allowance, Tenant shall not be entitled to any credit, payment or abatement on account thereof. Landlord shall enter into a direct contract for Landlord's Work with a properly licensed general contractor selected by Landlord. In addition, Landlord shall have the right to select and/or approve of any subcontractors used in connection with the Landlord's Work. Tenant shall pay Landlord, within ten (I 0) days after receipt of Landlord's written demand therefor, a construction fee equal to 3% of the Construct ion Allowance to compensate for its construction management services in connection with Landlord's Work. Landlord reserves the right to deduct such fee from the Construction Allowance. The Construction Allowance must be used within six (6) months after the Expansion Effective Date or any remaining portion shall be forfeited by Tenant.

2. Space planning, architectural and engineering (mechanical, electrical and plumbing) drawings for the Landlord's Work shall be prepared at Tenant's sole cost and expense, subject to funding through the Construction Allowance. The space planning, architectural and mechanical drawings are collectively referred to herein as the **"Plans".**

3. Tenant shall deliver to Landlord any information reasonably requested by Landlord and shall deliver to Landlord Tenant's approval or disapproval of any preliminary or final layout, drawings, or plans prompt ly after receipt of written request therefor. Any disapproval shall be in writing and shall set forth in reasonable detail the reasons for such disapproval. Tenant and Landlord's Architect shall use commercially reasonable efforts to devote such time in consultation with Landlord and Landlord's engineer as may reasonably be required to provide all information reasonably necessary in order to enable Landlord's Architect and engineer to promptly complete, and obtain Tenant's written approval of, the Plans for Landlord's Work. Tenant acknowledges that the Expansion Effective Date is a fixed date, regardless of whether or not Landlord's Work in the Expansion Premises has been completed. Both parties agree to work together i n good faith to the end that Landlord's Work may commence and be substant ially completed as promptl y as possible, but a failure to so complete shall not be a default or Event of Default for either party. Tenant acknowledges that Landlord 's Work will be conducted during business hours, and agrees that no interference with Tenant's business or inconvenience to Tenant shall be a default by Landlord or constitute a constructive evict ion of Tenant. Landlord agrees to use its commercia lly reasonable efforts to minimize inconvenience and interference. Neither the approva l of the Plans nor the supervision of Landlord 's Work by Landlord shall constitute a representation or warranty by Landlord as to the accuracy, adequacy, sufficiency and propriety of the Plans or the quality of workman ship or compliance of Landlord's Work with applicable law.

4. Prior to commencing any construct ion of Landlord's Work, Landlord shall submit to Tenant a written estimate sett ing forth the ant icipated cost of the Landlord 's Work, including but not limited to labor and material s, architect' s fees, contractor's fees and permit fees. Promptly thereafter , Tenant sha ll either notify Landlord in writing of its approval of the cost estimate, or specify its objections thereto in

reasonable detail and any desired changes to the proposed Landlord's Work. In the event Tenant notifies Landlord of such objections and desired changes, Tenant shall work with Landlord in good faith to alter the scope of Landlord 's Work in order to reach a mutually acceptable alternative cost estimate.

5. If Landlord 's estimate which is approved by Tenant shall exceed the maximum Construction Allowance (such excess being herein referred to as the "Excess Costs"), Tenant shall pay to Landlord such Excess Costs within five (5) Business Days after receipt of Landlord's written demand therefor. Landlord shall not be required to proceed with Landlord 's Work until Tenant pays such Excess Costs. Excess Costs constitute Rent payable pursuant to the Lease, and the failure to timely pay same constitutes an Event of Defau lt under the Lease.

6. If Tenant shall request any changes to Landlord 's Work that are approved by Landlord ("Change Orders"), Landlord shall have any necessary revisions to the Plans prepared, and Tenant shall reimburse Landlord on demand for the cost of preparing such revisions. Landlord shall notify Tenant in writing of the estimated increased cost, if any, which will be chargeable to Tenant by reason of such Change Orders, which increased cost shall be deemed Excess Costs hereunder and shall be subject to the provisions of Para2:raph 5 above. Tenant shall, within two (2) Business Days after receiving Landlord's estimate of the cost of the Change Order, notify Landlord in writing whether it desires to proceed with such Change Order. In the absence of such written authorization , Landlord shall have the option to continue work on the Expansion Premises disregarding the requested Change Order, or Landlord may elect to discontinue work on the Expansion Premises until it receives notice of Tenant's decision.

7. Following approval of the Plans and the payment by Tenant of the required portion of the Excess Costs, if any, Landlord shall cause Landlord's Work to be constructed substantially in accordance with the approved Plans, so long as no default (beyond any applicable notice and cure period) shall occur under the Lease. Landlord shall notify Tenant upon substantial completion of Landlord's Work. The phrase "substantial completion" shall mean that Landlord's Work has been completed except for such minor "punch list" items as would not materially interfere with the use of all or any portion of the Expansion Premises for the permitted use outlined in Section I . I of the Original Lease.

8. This Work Letter shall only be applicable to the Expansion Premises and shall not be deemed applicable to any add itional space added to the Expansion Premises at any time or from time to time, whether by any options under the Lease or otherwise, or to any portion of the original Expansion Premises or any additions to the Premises in the event of a renewal or extension of the original Lease Term, whether by any options under the Lease or otherwise, unless expressly so provided in the Lease or any amendment or supplement to the Lease. All capitalized terms used in this Work Letter but not defined herein shall have the same meanings ascribed to such terms in the Lease.

EXHIBIT A

EXPANSION PREMISES

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Exhibit 10.27D

ASSIGNMENT AND ASSUMPTION OF LEASE

THIS ASSIGNMENT AND ASSUMPTION OF LEASE (this "Assignment"), is effective as of August 1, 2014, by and among CONEXIS Benefits Administrators, LP, a Texas limited partnership ("Assignor"), WageWorks, Inc., a Delaware corporation ("Assignee") and Word & Brown Insurance Administrators, Inc., a California corporation ("Seller Parent"). Assignor, Assignee and Seller Parent are referred to collectively herein as the "Parties". All capitalized terms used in this Assignment and not otherwise defined herein shall have the respective meanings ascribed to them in the Asset Purchase Agreement entered into as of July 31, 2014 by and among Assignee, Assignor and Seller Parent (the "Purchase Agreement") .

WITNESSETH:

WHEREAS, Assignor is the tenant under that certain Lease Agreement dated August 26, 2004 with MLCFC 2006-4 OFFICE 6191, LLC as landlord ("Landlord") (as amended, the "Lease");

WHEREAS, pursuant to the Lease, Assignor leases from Landlord certain premises consisting of Suites 150/200/205/300/400 in the building located at 6191 State Highway 161, Irving, Texas; and

WHEREAS, pursuant to the Purchase Agreement, Assignor agreed to sell, transfer, convey, assign and deliver to Assignee, and Assignee agreed to purchase from Assignor, all of Assignor's right, title and interest in, to and under the Purchased Assets, inc1uding the Lease.

NOW THEREFORE, in consideration of the mutual promises set forth in the Purchase Agreement and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree as follows:

1. Assignor hereby assigns, transfers and conveys to Assignee, and its successors and assigns all of Assignor's right, title and interest in, to and under the Lease.

2. Assignee hereby accepts the aforesaid assignment of the Lease and expressly undertakes, assumes and agrees to be bound by all of the terms, covenants and conditions of the Lease and hereby unde1takes the performance and observance of all of the terms, covenants and conditions of the Lease, and all of the obligations thereunder, to the extent arising and to be performed and observed by the tenant from and after the Closing Date, and agrees to perform and observe each and all of the same directly for the benefit of Landlord, its successors and assigns.

All notices or other communications hereunder to Assignee, as tenant, shall be in writing and shall be deemed effective if hand delivered or sent by registered or certified first-class mail, postage prepaid, or by overnight express service which maintains confirmation of delivery, at the address below, unless notice of a change of address is given pursuant to the provisions of the Lease.

Assignee Address: WagcWorks, Inc.
1100 Park Place, 4th Floor
San Mateo, CA 94403
Attention: General Counsel
Fax: 650-577-5201

This Assignment shall be construed and enforced according to the law of the State of California, other than such law with respect to conflicts of law.

This Assignment may be signed in any number of counterparts, each of which shall be an original and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Assignment as of the day and year first above written.

WAGEWORKS, INC.
By: _____
Name:
Title:

CONEXIS BENEFITS ADMINISTRATORS, LP
By: _____
Name: Clinton Gee
Title: Chief Financial Officer

WORD & BROWN INSURANCE ADMINISTRATORS, INC.
By: _____
Name: Clinton Gee
Title: Chief Financial Officer

Exhibit 21.1

SUBSIDIARIES OF WAGEWORKS, INC.

- MHM Resources, LLC (Delaware)
- Planned Benefit Systems Incorporated (Colorado)
- Benefit Concepts, Inc. of Rhode Island (Rhode Island)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
WageWorks, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-190567) on Form S-3 and the registration statements (No. 333-181300 and 333-188658) on Forms S-8 of WageWorks, Inc. of our reports dated February 26, 2015 , with respect to the consolidated balance sheets of WageWorks, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2014, and the effectiveness of internal control over financial reporting as of December 31, 2014, which reports appear in the December 31, 2014 annual report on Form 10-K of WageWorks, Inc.

/s/ KPMG LLP
San Francisco, California
February 26, 2015

Exhibit 31.1

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

I, Joseph L. Jackson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 26, 2015

/s/ Joseph L. Jackson

Name: Joseph L. Jackson
Title: *Chief Executive Officer and Director*
(Principal Executive Officer)

Exhibit 31.2

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

I, Colm Callan, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 26, 2015

/s/ Colm Callan

Name: Colm Callan
Title: *Chief Financial Officer*
(Principal Financial Officer)

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), Joseph L. Jackson, Chief Executive Officer and Director (Principal Executive Officer) of WageWorks, Inc. (the "Company"), and Colm Callan, Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. Our Annual Report on Form 10-K for the year ended December 31, 2014, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: February 26, 2015

/s/ Joseph L. Jackson
Name: Joseph L. Jackson
Title: *Chief Executive Officer and Director*
(Principal Executive Officer)

/s/ Colm Callan
Name: Colm Callan
Title: *Chief Financial Officer*
(Principal Financial Officer)