

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

FORM 10-K/A

(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, 2016
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 (State or other jurisdiction of incorporation or organization)	94-3351864 (I.R.S. Employer Identification No.)
1100 Park Place, 4th Floor San Mateo, California (Address of principal executive offices)	94403 (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 every Interactive Data File required to be submitted 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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging Growth Company <input type="checkbox"/>

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

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

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, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was \$2,109,738,274 (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 April 18, 2019, there were 39,852,857 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of the Stockholders (the "2017 Proxy Statement"), which was filed with the Securities and Exchange Commission on March 17, 2017, are incorporated by reference into Part III of this Annual Report where indicated.

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WAGeworks, INC.
ANNUAL REPORT ON FORM 10-K/A
FOR THE YEAR ENDED DECEMBER 31, 2016

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EXPLANATORY NOTE

This Annual Report on Form 10-K/A as of and for the year ended December 31, 2016 includes consolidated financial statements for the years ended December 31, 2016, 2015 and 2014. The consolidated financial statements for the year ended December 31, 2016 and selected financial data for the year ended December 31, 2016 are restated. The restated consolidated financial statements and notes to the consolidated financial statements for the year ended December 31, 2016, were previously incorporated into the 2017 Form 10-K, filed on March 18, 2019. This Form 10-K/A also contains the restatement details in the notes to consolidated financial statements, primarily in Note 16, *Restatement of Consolidated Financial Statements*, and Note 15, *Selected Quarterly Financial Data*.

Subsequent to the issuance of the unaudited condensed consolidated financial statements as of September 30, 2017, and as previously disclosed on April 5, 2018, the Board of Directors (the "Board") of WageWorks, Inc. (together with its subsidiaries, "WageWorks," the "Company," "we," "our," or "us") concluded that the Company's financial statements for (i) the quarterly and year-to-date periods ended June 30 and September 30, 2016, (ii) the year ended December 31, 2016 and (iii) the quarterly and year-to-date periods ended March 31, June 30 and September 30, 2017 (collectively, the "Non-Reliance Periods") should be restated and should no longer be relied upon. Further, the Company's disclosures related to such consolidated financial statements and related communications issued by or on behalf of the Company with respect to the Non-Reliance Periods, including management's assessment of internal control over financial reporting as of December 31, 2016, should also no longer be relied upon. The determination was made upon the recommendation of the audit committee (the "Audit Committee") of the Board as a result of the investigation described below and after consultation with the Company's then independent auditors and management team. The investigation has included a review of certain issues, including revenue recognition, related to the accounting for a government contract during fiscal 2016 and 2017 and associated issues with whether there was an open flow of information and appropriate tone at the top for an effective control environment, the timing of revenue recognition under certain contracts and arrangements, and the impact of impairment assessment for KP Connector, our internal use software, among other less material matters.

During the course of this investigation, and during the Company's subsequent review of its accounting practices, accounting and financial reporting errors were identified. The matters primarily resulted in corrections in accounting under U.S. generally accepted accounting principles ("U.S. GAAP") related to revenue recognition for a government contract, the timing and presentation of revenue recognition under certain contracts and arrangements, and the impairment assessment for KP Connector, our internal use software. See Restatement Note 16 to this Annual Report on Form 10-K/A.

We are filing this Annual Report on Form 10-K/A ("Form 10-K/A") for the annual period ended December 31, 2016, which was filed with the United States Securities and Exchange Commission ("SEC") on February 23, 2017 (the "Original Filing"), to reflect changes to the Consolidated Balance Sheet at December 31, 2016 and the Consolidated Statements of Income, Stockholders' Equity, and Cash Flows for the year ended December 31, 2016, and the related notes thereto.

The following sections in the Original Filing are revised in this Form 10-K/A, solely as a result of, and to reflect, the restatement:

Part I - Item 1A - Risk Factors

Part I - Item 3 - Legal Proceedings

Part II - Item 6 - Selected Financial Data

Part II - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II - Item 8 - Financial Statements

Part II - Item 9 - Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Part II - Item 9A - Controls and Procedures

Part IV - Item 15 - Exhibits and Financial Statement Schedules

Pursuant to the rules of the SEC, Part IV, Item 15 of the Original Filing has been amended to include the currently-dated certifications from our principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the principal executive officer and principal financial officer are included in this Form 10-K/A as Exhibits 31.1, 31.2 and 32.1.

For the convenience of the reader, this Form 10-K/A sets forth the information in the Original Filing in its entirety, as such information is modified and superseded where necessary to reflect the restatement and related revisions. Except as provided above, and in Item 8, Note 16, this Form 10-K/A does reflect events occurring after the date of the Original Filing to the date this Form is filed.

Forward Looking Statements

This Annual Report on Form 10-K/A 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 acquisitions and portfolio purchases, carrier relationships, 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/A. 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

Available Information

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

Overview

We are a leader in administering Consumer-Directed Benefits ("CDB"), which empower employees to save money on taxes and provide corporate tax advantages for employers. We are solely dedicated to administering CDBs, including pre-tax spending accounts, such as Health Savings Accounts ("HSA"), health and dependent care Flexible Spending Accounts ("FSA"), Health Reimbursement Arrangements ("HRA"), as well as Commuter Benefit Services, including transit and parking programs, wellness programs, Consolidated Omnibus Budget Reconciliation Act ("COBRA"), and other employee benefits.

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

We price our services based on a number of variables including but not limited to the estimated number and types of claims, whether payment processing and client support activities will be provided within or outside of the United States, the estimated number of calls to our customer support center and any specific client requirements. In addition, we derive a portion of our revenues from interchange fees from financial institutions that we receive when employee participants use the prepaid debit cards we provide to them for healthcare and commuter expenses.

At January 31, 2017, we had approximately 6.5 million employee participants from over 100,000 employer clients. In 2016, employee participants used approximately 5.9 million WageWorks prepaid debit cards. Our participant counts do not include our TransitChek Basic program participants, as that fare media is shipped directly to employers which then distribute the products to their employees based on demand. We believe that January 31 is the most appropriate point-in-time measurement date for annual plan metrics. Although plan changes and the entry and exit of employers and participants from our programs are usually decided late in the calendar year during open enrollment to be effective on January 1, it is not unusual for employers to submit updated participant files in early January. While updates can be delayed past January, any changes from such late updates are usually minimal. Consequently, we believe the January 31 point-in-time measurement date is the most appropriate date to use as a baseline.

Our Services

Health Savings Accounts

We administer HSAs for employers that allow employee participants to invest funds to be used for qualified healthcare expenses at any time without federal tax liability or penalty. In order to be eligible for an HSA, an employee must be enrolled in a qualified High Deductible Health Plan, or HDHP, that is HSA-compatible and not have any other impermissible coverage. The funds in the HSAs are exempt from payroll taxes for employers and both employees and employers can make contributions to an HSA. Withdrawals for non-medical expenses are treated similarly to those in an individual retirement account, specifically, such withdrawals may provide tax advantages if taken after retirement age, and may incur penalties if taken earlier. HSA funds are held by a custodian, which accumulate year-to-year if not spent and are portable if a participant leaves his employer. Our HSA programs are designed to offer employers a choice of third-party custodian as well as a variety of investment options within each custodial offering that enables employers the opportunity to explore a broader assortment of funds to offer their employees.

Flexible Spending Accounts

Healthcare

We also offer FSAs, which are employer-sponsored CDBs that enable employees to set aside pre-tax dollars to pay for eligible healthcare expenses that are not generally covered by insurance, such as co-pays, deductibles and over-the-counter medical products, as well as vision expenses, orthodontia, medical devices and autism treatments. Employers benefit from payroll tax savings on the pre-tax FSA contributions made by the employee. As an example, based on our average employee participant's annual FSA contribution of approximately \$1,250 and an assumed personal combined federal and state income tax rate of 35%, an employee participant will reduce his or her taxes by approximately \$438 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 \$52 per participant per year, even after the payment of our fees.

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

Dependent Care

We also administer FSA programs for dependent care plans. These plans allow employees to set aside pre-tax dollars to pay for eligible dependent care expenses, which typically include child care or day care expenses but may also include expenses incurred from adult and elder care. Current laws and regulations impose a statutory limit on the amount of pre-tax dollars employees can contribute to dependent care FSAs with no carryover allowed. Like healthcare FSAs, employers can also contribute funds to employees' dependent care FSAs, subject to the statutory annual limit on total contributions. As with healthcare FSAs, employers realize payroll tax savings on the pre-tax dependent care FSA contributions made by their employees.

Health Reimbursement Arrangements

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

Commuter Programs

We administer pre-tax commuter benefit programs. Employers are permitted to provide employees with commuter benefits including; qualified parking, transit passes, vanpooling and bicycle commuting reimbursement. The maximum monthly federal (and sometimes state) tax free exclusion is adjusted for inflation. The Protecting Americans from Tax Hikes Act of 2015, which was signed into law on December 18, 2015, increased the maximum pre-tax monthly limit for transit and vanpooling to be the same as parking, which was \$255 for 2016.

COBRA

We offer COBRA continuation services to employer clients to meet the employer's obligation to make available continuation of coverage for participants who are no longer eligible for the employer's COBRA covered benefits which 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 WageWorks directly versus to their employers 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.

Our Clients

As of January 31, 2017, we had over 100,000 employer clients across a broad range of industries with approximately 6.5 million participating employees in all 50 states. Our employer clients include many of the Fortune 100 and Fortune 500 companies.

In addition, in March 2016 we were selected by the United States Office of Personnel Management ("OPM") to administer its Federal Flexible Spending Account Program, or FSAFEDS. This new relationship provides eligible Federal employees access to our advanced technology platform and premium service capabilities. Service to existing participants had started and transition of all participants was completed during the third quarter of 2016. In addition, the United States Postal Service became a member of the OPM contract during the first quarter of 2017.

Upon commencement of the OPM agreement, we performed certain professional services that we believed were within the scope of the agreement and accordingly recognized \$3.6 million in revenue in the twelve months ended December 31, 2016. In April 2018, we determined that we should not have recognized revenue related to the OPM professional services, and the related receivable should be reversed. As a result, the Company has made adjustments to reduce revenue by \$3.6 million for the twelve months ended December 31, 2016.

Our Technology Platforms

We run our services primarily on a number of enterprise platforms that have been designed to be highly scalable based on an on-demand delivery model that employer clients and their employee participants may access through a standard web browser on any Internet-enabled device, including computers, smart phones, and other mobile devices such as tablet computers. Our on-demand delivery model eliminates the need for our employer clients to install and maintain hardware and software in order to support CDB programs and enables us to rapidly implement product enhancements across our entire user base. We closely monitor utilization of all aspects of our platforms for capacity planning purposes. Our existing infrastructure has been designed with sufficient capacity to meet our current and planned future needs.

The majority of our accounts run on our proprietary platform, which we call our Enterprise platform. We generally use our Enterprise platform for medium-sized and enterprise clients. Our Enterprise platform supports all account administrative functions and provides integration with the systems used by employer clients, payment networks, health plans and key suppliers. Our Enterprise platform features a flexible, rules-based engine that includes multi-wallet functionality and is highly configurable to accommodate custom client plan designs and service requests. This multi-wallet functionality allows us to include more than one type of healthcare account (FSA, HRA and HSA) on one participant's card, and helps ensure that funds that are otherwise subject to forfeiture at the end of a plan year are used first to pay for eligible expenses.

We also operate a technology platform known as WinFlexOne, which has been specifically designed and enhanced to address the needs of small-and medium-sized business ("SMBs"). While the overall features and capabilities of WinFlexOne are comparable to Enterprise, WinFlexOne utilizes a simpler set of interfaces and product configurations that better accommodate the more limited administrative capabilities and needs of small employers.

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

In 2016, we continued to develop and implement new features to enhance the participant and client user experience on our enterprise platform. These efforts touched several areas, including the participant website, mobile application, or mobile app, client website, reporting, plan design and administration.

Operations

Operation Support Services

We provide operational support services to our clients and our cross-functional teams including customer support and claims processing. We believe our strict quality standards differentiate us from our competitors and enable us to attract and maintain a broad base of loyal customers. Our client support groups include; customer support, claims servicing, operations support and professional services teams.

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Our customer support team handles all incoming interactions from our employee participants, and is responsible for resolving any issues they may encounter. The team serviced approximately 5.0 million calls in 2016. Our claims servicing team works directly with providers or participants and reviews, adjudicates and processes claims for payment or reimbursement. In 2016, the claims servicing team handled more than 10 million claims and card use verification forms.

Our operations support team processes and coordinates activities, delivers healthcare and commuter cards to participants and ensures that prepaid funds and reimbursement payments are accurate. In 2016, our operations team delivered approximately 5.9 million healthcare and commuter prepaid debit cards, and we fulfill over 12.5 million commuter orders during the calendar year.

Lastly, our professional services team is responsible for coordinating all activities related to the implementation, transition and on-boarding of new employer clients, assisting our existing clients with the addition of new services to their accounts and transitioning clients that we acquire from portfolio purchases to our platforms.

Employer Relationship Management

Each employer client is regionally aligned to an account team with an experienced relationship manager. Our relationship managers act as a client's single point of contact and are trained on all of our account offerings, working closely with our internal partners and subject matter experts to understand how regulatory or operational changes may impact a particular program or procedure.

We enhance the employer client enrollment process by providing tools such as educational information, webinars and onsite support to help facilitate open enrollment and drive employee participation. We also provide consultation services to employer clients which include providing robust data regarding spend patterns, participation and service utilization, online claims submissions and participant feedback.

Our Employer Relationship Management team also ensures that any platform or product changes, such as website or service enhancements, online claims processing, or the launch of our mobile application are properly communicated and adopted by our clients. The team also works to keep our commuter client's employee participants well informed about any rate changes, new pricing schemes or new technologies as we have relationships with a significant number of regional transit authorities.

Sales and Business Development

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

Sales

We sell our CDB programs to our employer clients through direct and indirect sales channels. Each of these approaches targets a distinct group of clients. Our average sales cycle ranges from approximately two months for smaller opportunities to over a year for large institutional clients and significant new indirect business.

Our direct sales force targets Fortune 1000 companies, which we refer to as enterprise clients, and generates new large account relationships through employer prospecting. Our indirect sales channel consists of carriers, channel partnerships, private exchange partners, institutional brokers and other third parties who refer or resell our CDB programs.

Our channel partnerships usually involve an existing provider agreeing to transition its CDB clients to us over a defined period of time for an agreed upon purchase price. These channel partnerships also have a resale and referral component to them so we stand to derive additional opportunities from these arrangements. The private exchange marketplace offers another opportunity for us to sell our CDB programs to companies of all sizes that participate in such exchanges. Our broker relationships provide another avenue for us to market and sell our CDB programs.

Business Development

In addition to our sales channels, we utilize portfolio purchases as a business development strategy to broaden our employer client base and to acquire new employer clients. Since 2007, we have purchased CDB portfolios of seven third-party administrators, or TPAs and completed three acquisitions. In connection with these portfolio purchases, we have leveraged the ease of integration and efficiencies afforded by our on-demand software platforms and cross-sold additional CDB products and

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services to many acquired employer clients. 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.

Government Regulation

Our business is subject to extensive, complex and rapidly changing federal and state laws and regulations. We have implemented and continue to enhance compliance programs and policies to monitor and address the legal and regulatory requirements applicable to our operations, including dedicated compliance personnel and training programs. For additional information regarding laws and regulations impacting our business, refer to Part I, Item 1, “Risk Factors,” of this Annual Report on Form 10-K/A.

Competition

The market for CDBs, as well as COBRA and direct bill services is highly competitive, rapidly evolving and fragmented. Key categories of competitors include national CDB specialists, health insurance carriers, human resource consulting firms, payroll providers, small regional TPAs, and commercial banks.

We believe our focus on CDB and benefit continuation programs, our high quality service and our highly scalable delivery model are our key competitive advantages in the market.

Intellectual Property

Our success depends in part on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patent laws, trade secrets, including know-how, employee and third-party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. We have 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, 2016, we had 2,167 employees, including 1,951 full-time employees, 13 part-time employees and 203 temporary or seasonal employees. There are 134 employees located in our Northern California headquarters and the remainder are located in our various other offices throughout the U.S. or work remotely from various locations. 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.

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.

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

As discussed in the Explanatory Note to this Annual Report and in Note 16, “Restatement of the Consolidated Financial Statements” to the Notes to our Consolidated Financial Statements included in this Annual Report, we have restated our previously issued financial statements for the quarterly and year-to-date periods ended June 30 and September 30, 2016 and are restating our previously issued financial statements for (i) the year ended December 31, 2016 and (ii) the quarterly and year-to-date periods ended March 31, June 30 and September 30, 2017. These restatements, and the remediation efforts we have undertaken and are continuing to undertake, have been time-consuming and expensive and could expose us to a number of additional risks that could materially adversely affect our financial position, results of operations and cash flows.

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

We are also subject to a securities class action and shareholder derivative suits and investigations arising out of the misstatements in our financial statements, including investigations by the Securities and Exchange Commission (the “SEC”) and the U.S. Attorney’s Office for the Northern District of California (the “USAO”). For additional discussion see Item 3. Legal Proceedings and “Legal Matters” in Note 13 to our Consolidated Financial Statements.

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

We are subject to securities class action and shareholder litigation relating to our previous public disclosures. In addition, we are subject to government investigations arising out of the misstatements in our previously issued financial statements. For additional discussion see Item 3. Legal Proceedings and “Legal Matters” in Note 13 to our Consolidated Financial Statements. On March 9, 2018, a putative class action - captioned *Government Employees’ Retirement System of the Virgin Islands v. WageWorks, Inc., et al., No. 4:18-cv-01523-JSW* - was filed in the United States District Court for the Northern District of California (the “Securities Class Action”) against the Company, our former Chief Executive Officer, and our former Chief Financial Officer. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, on behalf of persons and entities that acquired WageWorks securities between May 6, 2016 and March 1, 2018, and alleges, among other things, that the defendants issued false and misleading financial statements. On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (as nominal defendant) in the Superior Court of the State of California, County of San Mateo. Pursuant to the parties’ stipulation, which was approved by the Superior Court, the actions were consolidated. On July 23, 2018, a similar derivative lawsuit was filed against certain of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the “Derivative Suits”). Furthermore, the Company voluntarily contacted the San Francisco office of the SEC Division of Enforcement regarding the restatement and independent investigation, is providing information and documents to the SEC and will continue to cooperate with the SEC’s investigation into these matters. The U.S. Attorney’s Office for the Northern District of California also opened an investigation. The Company has provided documents and information to the U.S. Attorney’s Office and will continue to cooperate with any inquiries by the U.S. Attorney’s Office regarding the matter. For additional discussion of these matters, see Note 13, “Commitments and Contingencies,” to the Notes to our consolidated

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

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

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

As a result of the material weaknesses, our management concluded that our internal control over financial reporting was not effective as of December 31, 2016. The assessment was based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. We are actively engaged in developing a remediation plan designed to address the material weaknesses, but our remediation efforts are not complete and are ongoing. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, it may materially adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner. If we are unable to report our results in a timely and accurate manner, we may not be able to comply with the applicable covenants in our financing arrangements, and may be required to seek additional waivers or repay amounts under these financing arrangements earlier than anticipated, which could adversely impact our liquidity and financial condition. Although we continually review and evaluate internal control systems to allow management to report on the sufficiency of our internal controls over financial reporting, we cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting. The next time we evaluate our internal control over financial reporting, if we identify one or more new material weaknesses or are unable to timely remediate our existing material weaknesses, we may be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an unqualified opinion or expresses an adverse opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on the price of our common stock and possibly impact our ability to obtain future financing on acceptable terms. We may also lose assets if we do not maintain adequate internal controls.

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

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

Internal control over financial reporting may not achieve, and in some cases have not achieved, their intended objectives. Control processes that involve human diligence and compliance, such as our disclosure controls and procedures and internal control over financial reporting, are subject to lapses in judgment and breakdowns resulting from human failures. Controls can also be circumvented by collusion or improper management override of such controls. Because of such limitations, there are

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risks that material misstatements due to error or fraud may not be prevented or detected, and that information may not be reported on a timely basis. The failure of our controls to be effective could have a material adverse effect on our business, financial condition, results of operations, and market for our common stock, and could subject us to regulatory scrutiny and penalties.

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

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

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

We are currently delinquent in the filing of certain of our periodic reports with the SEC, and have been delinquent in our filings in the past. We have also not convened an Annual Meeting of Stockholders since 2017. As a result, we are not in compliance with listing requirements of Section 802.01E of the NYSE Listed Company Manual which requires timely filing of periodic financial reports with the SEC. Our failure to file our periodic reports with the SEC in a timely manner or within any extension periods prescribed by the NYSE, may subject our common stock to delisting by the NYSE. If our common stock is delisted, there can no assurance whether or when it would again be listed for trading on NYSE or any other exchange. If our common stock is delisted, the market price of our shares will likely decline and become more volatile, and our stockholders may find that their ability to trade in our stock will be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, which could have a further adverse effect on the price of our stock. In addition, our ability to hire and retain key personnel and employees may be adversely affected by volatility or reductions in the price of our common stock, since these employees are generally granted equity-based awards. We have previously experienced and may continue to experience employee attrition and difficulty attracting talent as a result of these issues. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs, nor may we be successful in keeping the qualified personnel we currently have.

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

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

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

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

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

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

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

The Tax Cuts and Jobs Act of 2017 generally disallows a deduction for expenses with respect to Qualified Transportation Fringe Benefits (“QTF(s)”) provided by employer taxpayers to their employees, and generally provides that a tax-exempt organization’s Unrelated Business Tax Income is increased by the amount of the QTF expense that is nondeductible. This means our revenue may decline and our results of operations, financial condition, business and prospects may be materially adversely affected.

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

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

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

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

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of integrating acquisitions may create unforeseen difficulties and expenditures. We face various risks in making any acquisitions and entering into strategic relationships, including:

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

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

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

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

Moreover, most of our employer clients have the right to cancel their agreements for convenience, including the OPM, subject to certain notice requirements. While few employer clients have terminated their agreements with us for convenience, some of our employer clients have elected not to renew their agreements with us. Our employer clients' renewal rates may decline or fluctuate as a result of a number of factors, including the prices of competing products or services, reductions in our employer clients' spending levels, disruptions in connection with the migration of accounts from one platform to another and in-house development of CDB services by our employer clients. For example, we have seen client attrition as a result of our efforts to migrate accounts from legacy processing and servicing platforms to our own proprietary platforms. Our employer client retention rate may further decline as a result of the restatement of financial results.

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

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

Our revenue growth rate in recent periods may not be indicative of our future performance. Factors that may contribute to declines in our growth rates include challenges in the selling environment and the continued impact of integration activities.

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In addition, our growth may be affected by changing consumer behaviors, such as the decline in the use of traditional public transportation, and the ability for our product and services to address these changes. You should not rely on our revenue for any prior quarterly or annual period as an indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our business, financial condition, results of operations and prospects could be materially adversely affected and our stock price could be volatile.

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

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

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

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

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

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

We regularly possess, store and handle non-public information about millions of individuals and businesses, including both credit and debit card information and other sensitive and confidential personal information. In addition, our customers regularly transmit confidential information to us via the Internet and through other electronic means. Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deception of our employees or contractors. Many of the techniques used to obtain unauthorized access, including viruses, worms and other malicious software programs, are difficult to anticipate until launched against a target and we may be unable to implement adequate preventative measures. Our failure to maintain the security of that data, whether as the result of our own error or the malfeasance or errors of others, could harm our reputation, interrupt our operations, result in governmental investigations and give rise to a host of civil or criminal liabilities. Any such failure could lead to lower revenues, increased remediation, prevention and other costs and other material adverse effects on our results of operations.

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

We must collect, store and use employee participants' confidential information and transmit that data to third parties, to provide our services. For example, we collect names, addresses, and other personally identifiable information from employee

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participants which may include social security numbers (i.e., partial or, in some cases, full). We also collect personal health information (“PHI”), including information about employee participants’ health plans and insurance coverage. In addition, we facilitate the issuance and funding of prepaid debit cards and, in some cases, collect bank routing information, account numbers and personal credit card information for purposes of funding an account or issuing a reimbursement. Because of the types of data we collect, we are subject to numerous state data breach laws as well as the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Health Information Technology for Economic and Clinical Health (HITECH) Act, and other legal and contractual obligations.

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

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

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

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

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

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

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

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

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

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

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

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reasonable terms or at all, and our ability to develop new solutions and features could be limited. These developments could harm our business, financial condition and results of operations.

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

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

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

If our privacy or data security measures fail or are perceived to fail to comply with current or future laws, regulations, policies, legal obligations or industry standards, or any changed interpretations of the foregoing, we may be subject to litigation, regulatory investigations, enforcement actions, inquiries, prosecutions, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws, regulations, industry standards, or other legal obligations, or any changed interpretations of the foregoing, limit the ability of our customers, partners or service providers to use and share personally identifiable information or other data or our ability to store, process and share personally identifiable information or other data, demand for our solutions could decrease, our costs could increase and our business, financial condition and operating results could be harmed. Even the perception of privacy or data protection concerns, whether or not valid, may inhibit market adoption, effectiveness or use of our applications.

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

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

In addition, we depend on information technology networks and systems to collect, process, transmit and store electronic information and to communicate among our locations and with our partners, service providers, employer clients and employee participants. Security breaches could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We also are required at times to manage, utilize and store sensitive or confidential employer client and employee participant data, as well as our own employee data in the regular course of business. As a result, we are subject to numerous laws and regulations designed to protect this information, including various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our personnel, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could

damage our reputation and cause us to lose customers. Similarly, unauthorized access to or through our information systems or those we develop or utilize in connection with our provision of services, whether by our personnel or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management's focus and resources from business operations.

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

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

For example, we may face increased competition in the FSA and HSA markets, which could result in a lower rate of account growth, service fees paid by our employer clients, and interchange fees paid by financial institutions related to transaction fees on debit cards used by employee participants. In addition, we may face competition between our internal product offerings to the extent that our employer clients choose to discontinue participation in our FSA program and instead enroll in our HSA program or otherwise. We are also challenged to maintain and increase the employee participation rates in all our CDB programs, and if we fail to successfully do so, our results of operations, business and prospects could be materially adversely affected.

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

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

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

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

In addition, the numerous federal and state laws and regulations related to the privacy and security of personal health information and, in particular those promulgated pursuant to HIPAA, require the implementation of administrative, physical and technological safeguards to ensure the confidentiality and integrity of individually identifiable health information in electronic form. We are required to enter into written agreements with all of our employer clients known as Business Associate Agreements. Pursuant to these agreements, and as our employer client's "Business Associate" thereunder, we are required to safeguard all individually identifiable health information of their participating employees and are restricted in how we use and disclose such information. These agreements also contain data security breach notification requirements which, in some circumstances, may be more stringent than HIPAA requirements. As we are unable to predict what changes to HIPAA or other

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privacy and security laws or regulations might be made in the future, we can't be certain how those changes could affect our business or the costs of compliance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2016, we had outstanding revolving loans of \$249.5 million under our first amendment to the Credit Agreement, dated as of August 1, 2016 (the "Amendment"), by and among us, the lenders and MUFG Union Bank, N.A., as administrative agent. Subsequent to the Amendment, we borrowed additional funds in the amount of \$169.9 million from the revolving credit facility in connection to the acquisition of ADP CHSA/COBRA Business. Our ability to meet our payment obligations and satisfy the covenants under the Second Amended Credit Agreement, including the financial ratios, depends on our ability to generate sufficient cash flow and can be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios and our other obligations under the Second Amended Credit Agreement. If we are not able to generate sufficient cash flow from operations to service our obligations under our Second Amended Credit Agreement, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions or refinance any of our debt, if necessary, on commercially reasonable terms, or at all.

A breach of any covenant or restriction contained in the Second Amended Credit Agreement could result in a default under the Second Amended Credit Agreement. Upon the occurrence of an event of default, the lenders could elect to declare

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

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

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

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

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

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

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

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

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

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

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

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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 another payment method other than signature enabled prepaid debit cards, our results of operations, business and prospects could be materially adversely affected.

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

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

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

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

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

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prospective customers, which could also have a material adverse effect on our business, financial condition, and results of operations.

Some plan providers and partners 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. Certain of the banks we utilize as custodians of the funds for our HSA employee participants also offer their own HSA products. In addition, our strategic brokers and other parties with which we have relationships with have, and may in the future, decide to start providing the CBD services that we offer themselves. This has, and may in the future, result in new competitors in the market, but also the loss of selling channels for the Company. To the extent that these partners choose to offer competing products and services that they have developed or in which they have an interest to attract our current or potential clients, our results of operations, business and prospects could be materially adversely affected.

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

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

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

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

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

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

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

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

In particular, our ability to recover from any disaster or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive

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effect on our operations. Our business continuity plan may not be successful in mitigating the effects of a disaster or other business continuity problem. We could potentially lose client data, experience a breach of security or confidential information, or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster.

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

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

We host our applications and serve our clients from data centers that we operate and from data centers operated by third-party vendors. If any of our or our third-party vendors' data centers fail or become disabled, even for a limited period of time, our businesses could be disrupted and we could suffer financial loss, liability to clients, loss of clients, regulatory intervention, or damage to our reputation, any of which could have a material adverse effect on our results of operation or financial condition. In addition, our third-party vendors may cease providing data center facilities or services, elect to not renew their agreements with us on commercially reasonable terms or at all, breach their agreements with us or fail to satisfy our expectations, which could disrupt our operations and require us to incur costs which could materially adversely affect our results of operation, financial condition or cash flow.

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

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

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

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

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

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

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

Our businesses operate in industries that are subject to rapid technological advances and changing client needs and preferences. In order to remain competitive and responsive to client demands, we continually upgrade, enhance, and expand our

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existing solutions and services. If we fail to respond successfully to technology challenges and client needs and preferences, the demand for our solutions and services may diminish.

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

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

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

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

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

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

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

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

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

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could increase our operating expenses, reduce our profit margin and materially adversely affect our results of operations, financial condition, business and prospects.

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

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

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

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

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

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

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

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

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

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

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As of December 31, 2016, we had \$9.1 million of federal and \$24.3 million of state net operating loss carryforwards available to offset future regular and alternative minimum taxable income. The state net operating loss carryforward has been prepared on a post-apportionment basis. These net operating loss carryforwards will begin to expire in the year 2033 for U.S. federal income tax purposes and in years 2017 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 \$6.8 million and \$3.5 million, respectively. The federal research credit carryforwards expire beginning in 2023 through 2036, if not fully utilized. The state research credit carries forward indefinitely for the state of California and other states begin to expire in years 2035 through 2036. In addition, we have \$0.1 million of state investment tax credits that will begin to expire in years 2017 through 2019, if not fully utilized. 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, or IRC, of 1986, as amended, and similar state tax laws. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). We have considered Section 382 of the IRC and concluded that any ownership change would not diminish our utilization of our net operating loss carryforwards or our research and development credits during the carryover periods.

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

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

Some of our applications may link to or utilize open source software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Some of our applications may incorporate software covered by open source licenses. The terms of various open source licenses have not been interpreted by United States courts, and there is a risk that such licenses could be construed in a manner that imposes unfavorable conditions on us. For example, by the terms of certain open source licenses, we could be required to offer our platforms that incorporate the open source software for no cost, that we make publicly-available source code for modifications or derivative works that we created based upon, incorporating or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license. If portions of our proprietary software are determined to be subject to an open source license, then the value of our technologies and services could be reduced. In addition to risks related to license requirements, usage of open source software may be riskier than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated and could negatively affect our business.

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

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

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

We contract for insurance to cover a portion of our potential business risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to obtain sufficient insurance to meet our needs, may have to pay very high prices for the coverage we do obtain or may not acquire any insurance for certain types of business risk. This could leave us exposed, and to the extent we incur liabilities and

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expenses for which we are not adequately insured, our results of operations, cash flow, business and financial condition could be materially adversely affected. Also, to the extent the cost of maintaining insurance increases, our operating expenses will rise, which could materially adversely affect our results of operations, financial condition, business and prospects.

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of our common stock and impair our ability to raise capital through offerings of our common stock. Under SEC regulations, the failure to timely file with the SEC our required annual report and quarterly reports resulted in the suspension of the availability of our employee and director stock benefit plans, including the Company's 401(k) and Profit Sharing Plan, to allow our employees to exercise any Company stock options that they hold or to choose to invest in our common stock under the 401(k) and Profit Sharing Plan. However, once we become current with our SEC reporting requirements, substantially all of our outstanding common stock will be eligible for sale, subject to Rule 144 volume limitations for holders affected by such limitations, as will be common stock issuable under vested and exercisable options. Rule 144 allows public resale of restricted and control securities if certain conditions are met. If our existing stockholders sell a large number of common stock or the public market perceives that existing stockholders might sell our common stock, the market price of our common stock could decline significantly. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

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

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against such a company. A Securities Class Action as well as Derivative Suits have been filed against us and a number of our current and former officers and directors. See Item 3. Legal Proceedings and "Legal Matters" in Note 13 to our Consolidated Financial Statements. That litigation, or future securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, results of operations, financial condition and cash flow.

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

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

- create a classified Board whose members serve staggered three-year terms;
- authorize "blank check" preferred stock, which could be issued by the Board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limit the ability of our stockholders to call and bring business before special meetings;

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- require advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board;
- control the procedures for the conduct and scheduling of Board and stockholder meetings; and
- provide the Board with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

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

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

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

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

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

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 37,937 square feet of space under a lease that expires in May 2022. We have additional facilities in Arizona, Georgia, Kentucky, Massachusetts, Texas, Utah, Vermont and Wisconsin under various leases that will expire between March 2017 and April 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

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

On March 9, 2018, a putative class action - captioned Government Employees' Retirement System of the Virgin Islands v. WageWorks, Inc., et al., No. 4:18-cv-01523-JSW - was filed in the United States District Court for the Northern District of California (the "Securities Class Action") against the Company, our former Chief Executive Officer, and our former Chief Financial Officer. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") on behalf of persons and entities that acquired WageWorks securities between May 6, 2016 and March 1, 2018, and alleges, among other things, that the defendants issued false and misleading financial statements. The plaintiffs seek unspecified damages, fees, interest, and costs. The Company believes that the claims are without merit. On August 7, 2018, the Court entered an order granting the motion of the Public Pension Group, consisting of Public Employees' Retirement System of Mississippi, the Government Employees' Retirement System of the Virgin Islands, and the New Mexico Public Employees Retirement Association of New Mexico, to be lead plaintiff. Under the schedule stipulated by the parties, and approved by the Court, lead plaintiff will file its consolidated amended complaint no later than forty-five (45) days following issuance of the Company's Restatement.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of our officers and directors and the Company (as nominal defendant) in the Superior Court of the State of California, County of San Mateo. Pursuant to the parties' stipulation, which was approved by the Superior Court, the actions were consolidated. On July 23, 2018, a similar derivative lawsuit was filed against certain of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the "Derivative Suits"). The Derivative Suits purport to allege claims related to breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. In addition, the complaint in District Court includes a claim for abuse of control, and the complaint in Superior Court includes a claim to require the Company to hold an annual shareholder meeting. The allegations in the Derivative Suits relate to substantially the same facts as those underlying the Securities Class Action described above. The plaintiffs seek unspecified damages and fees and costs. In addition, the complaint in the Superior Court seek for us to provide past operational reports and financial statements, to publish timely and accurate operational reports and financial statements going forward, to hold an annual shareholder meeting, and to take steps to improve its corporate governance and internal procedures.

Under the schedule stipulated by the parties, and approved by the Superior Court, the plaintiff in the Superior Court action will file its Consolidated Complaint within 45 days from the date we issue our Restatement. As stipulated by the parties, and approved by the District Court, the District Court action is stayed. The parties in the District Court action are to notify the District Court within 15 days of (1) the dismissal of the Securities Class Action, (2) the denial of defendants' motion(s) to dismiss, or (3) a party giving notice that they no longer consent to the voluntary stay.

From time to time, the Company may become involved in legal proceedings, claims and litigation arising in the ordinary course of business.

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

The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on currently available information, the Company does not believe that any additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonable possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, the Company will provide disclosure to that effect. However, litigation is subject to inherent uncertainties and the Company's view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

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

Additional information with respect to this Item may be found under the heading “Legal Matters” in Note 13. Commitments and Contingencies, in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K, which is incorporated into this Item 3. by reference.

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 2015:		
First Quarter (January 1, 2015 - March 31, 2015)	\$ 65.56	\$ 52.35
Second Quarter (April 1, 2015 - June 30, 2015)	\$ 54.69	\$ 38.19
Third Quarter (July 1, 2015 - September 30, 2015)	\$ 51.43	\$ 38.21
Fourth Quarter (October 1, 2015 - December 31, 2015)	\$ 50.89	\$ 40.97
Fiscal 2016:		
First Quarter (January 1, 2016 - March 31, 2016)	\$ 51.25	\$ 38.99
Second Quarter (April 1, 2016 - June 30, 2016)	\$ 60.81	\$ 49.22
Third Quarter (July 1, 2016 - September 30, 2016)	\$ 65.43	\$ 55.75
Fourth Quarter (October 1, 2016 - December 31, 2016)	\$ 75.28	\$ 55.65

Stockholders

As of April 18, 2019, according to the records of our transfer agent, there were 21 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.

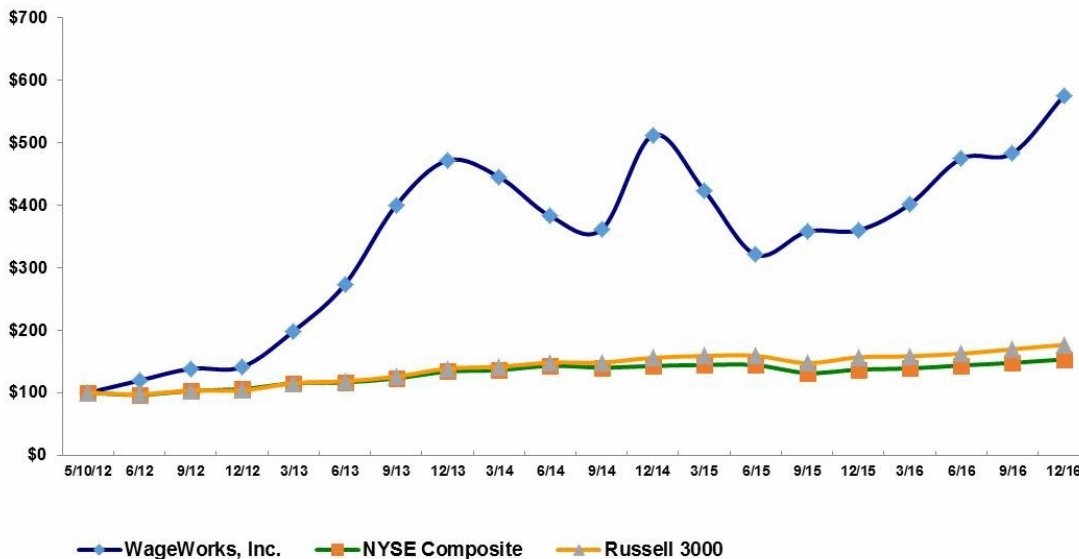
Stock Performance Graph

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,

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2012 (the date our common stock commenced trading on the NYSE) through December 31, 2016. 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.



Share Repurchase Program

On August 6, 2015, our Board authorized a \$100 million stock repurchase program which commenced immediately and does not have an expiration date. Repurchases made under this program may be made in the open market as the Company deems appropriate and market conditions allow. In 2016, we repurchased 226,170 shares of common stock for a total cost of \$9.4 million, or an average price of \$41.43 per share. As of December 31, 2016, we had \$85.6 million available for future share repurchases under the program. There were no repurchases of common stock by the Company during the three months ended December 31, 2016.

Item 6. Selected Financial Data

Restatement

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement adjustments made to the previously reported Consolidated Financial Statements as of and for the year ended December 31, 2016. For additional information and a detailed discussion of the restatement, see Note 16, "Restatement of Consolidated Financial Statements" to the Notes to our Consolidated Financial Statements included in this Annual Report.

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 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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	Years Ended December 31,				
	2012	2013	2014	2015	2016 As Restated Note 16 (2)
(in thousands, except per share data)					
Consolidated Statements of Income Data:					
Revenues	\$ 177,282	\$ 219,278	\$ 267,832	\$ 334,316	\$ 355,561
Operating expenses:					
Cost of revenues (excluding amortization of internal use software)	64,647	81,918	100,226	117,170	129,046
Technology and development, sales and marketing, general and administrative, and employee termination and other charges	78,029	93,772	115,565	149,587	163,273
Amortization, impairment and change in contingent consideration	15,674	11,612	20,992	27,618	37,175
Total operating expenses	158,350	187,302	236,783	294,375	329,494
Income from operations	18,932	31,976	31,049	39,941	26,067
Other income (expense):					
Interest income	36	17	5	153	406
Interest expense	(1,772)	(1,339)	(1,612)	(1,925)	(2,717)
Other income (expense)	429	248	743	(182)	1,075
Income before income taxes	17,625	30,902	30,185	37,987	24,831
Income tax provision	(7,126)	(9,203)	(11,943)	(15,037)	(8,929)
Net income	10,499	21,699	18,242	22,950	15,902
Accretion of redemption premium expense	(2,301)	—	—	—	—
Net income	\$ 8,198	\$ 21,699	\$ 18,242	\$ 22,950	\$ 15,902
Net income per share:					
Basic	\$ 0.45	\$ 0.65	\$ 0.52	\$ 0.64	\$ 0.44
Diluted	\$ 0.33	\$ 0.62	\$ 0.50	\$ 0.63	\$ 0.43
Shares used in computing net income per share:					
Basic	18,138	33,626	35,145	35,784	36,404
Diluted	24,414	35,277	36,330	36,595	37,210
As of December 31,					
	2012	2013	2014	2015	2016 As Restated Note 16 (2)
Consolidated Balance Sheets Data:					
Cash and cash equivalents	\$ 305,793	\$ 359,958	\$ 413,301	\$ 500,918	\$ 672,609
Working capital ⁽¹⁾	46,362	68,843	61,467	121,781	104,826
Total assets	519,970	599,655	794,715	888,739	1,335,781
Total liabilities	363,559	371,523	515,291	551,770	938,139
Total stockholders' equity	156,411	228,132	279,424	336,969	397,642

- For fiscal 2015 and prior years, our working capital does not include the effects of the adoption of Accounting Standard Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, ("ASU 2015-07"), which required all deferred tax assets and liabilities and any related valuation allowance to be classified as non-current on our Consolidated Balance Sheets as the new standard was adopted prospectively starting fiscal 2016.
- On November 28, 2016, the Company completed the Asset Purchase Agreement ("APA") with ADP to acquire ADP's COBRA, and direct bill businesses (together defined as the "ADP CHSA/COBRA Business") for approximately \$235.0 million in cash. During the year ended December 31, 2016, the impact on total revenue was approximately \$9.0 million.

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/A. 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. 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

Our Business

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

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

In March 2016, we were selected by OPM to administer its Federal Flexible Spending Account Program, or FSAFEDS. This new relationship provides eligible Federal employees access to our advanced technology platform and premium service capabilities. Service to existing participants has started in the second quarter of 2016 and the transition of all participants to WageWorks was completed during the third quarter of 2016. In addition, the United States Postal Service became a member of the OPM contract in the first quarter of 2017.

On November 28, 2016, we completed the transaction with Automatic Data Processing Inc., or ADP, a leading global provider of Human Capital Management solutions, to acquire ADP’s Consumer Health Spending Account, or CHSA, COBRA, and direct bill businesses (together defined as the “ADP CHSA/COBRA Business”) for approximately \$235.0 million in cash.

Restatement

Management’s Discussion and Analysis of Financial Condition and Results of Operations have been updated to reflect the effects of the restatement described in Note 16, Restatement to our Consolidated Financial Statements, of this Annual Report.

Critical Accounting Policies and Significant Management Estimates

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

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application, while in other cases, management’s judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. We believe that

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there are several accounting policies that are critical to understanding our business and prospects for future performance, as these policies affect the reported amounts of revenues and other significant areas that involve management's judgment and estimates. These significant policies and our procedures related to these policies are described in detail below. In addition, please refer to Note 1. Summary of Business and Significant Accounting Policies, in the Notes to Consolidated Financial Statements of this Annual Report Form 10-K/A for further discussion of our accounting policies.

Revenue Recognition

We report revenue based on the following product lines: Healthcare, Commuter, COBRA and Other revenue. Healthcare and Commuter include revenues generated from benefit service fees based on employee participant levels and interchange and other commission revenues. Interchange and other commission revenues are subject to revenue share arrangements and are based on a percentage of total healthcare and commuter dollars transacted using cards distributed by us 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.

We recognize 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 clients and renewal fees are deferred and recognized on a monthly basis as services are rendered over the agreed benefit period. Contracts with initial setup fees generally 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 and annual renewal 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 we enter into with certain banks and card associations, whereby we share a portion of the transaction fees earned by these financial institutions on debit cards we issue to employee participants based on a percentage of total dollars transacted as reported on third-party reports.

Other commission revenue consists of commissions the Company receives from purchasing passes on behalf of its employee participants from various transit agencies and due to the significant volume of these purchases, we receive commissions on these passes which we record 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.

Professional service fees are related to services provided to our employer clients to accommodate their reporting or administrative requirements. These projects are discrete contracts and are not entered into contemporaneously with any other services we provide. The professional services revenues are recognized upon completion of services or projects in accordance with agreed upon 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.

Income Taxes

We are subject to income taxes in the United States. Significant judgment is required in evaluating and estimating our provision for these taxes. There are many transactions that occur during the course of business for which the ultimate tax determination is uncertain. Our provision for income taxes could be adversely affected by our acquisitions and investments, changes in our deferred tax assets and liabilities including changes in our assessment of valuation allowances and changes in the relevant tax laws or interpretation of these tax laws.

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

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using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to an amount whose realization is more likely than not.

We only recognize the tax benefit of an income tax position if we judge that it is more likely than not that the tax position will be sustained, solely on its technical merits, in a tax audit including resolution of any related appeals or litigation processes. To make this judgment, we must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If we judge that an income tax position meets this recognition threshold, then we must measure the amount of the tax benefit to be recognized by estimating the largest amount of tax benefit that has a greater than 50% cumulative probability of being realized upon settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible settlement outcomes. We must reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, the lapse of applicable statute of limitations, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. For a more detailed description of our unrecognized tax benefits, see Note 12 in the notes to consolidated financial statements.

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, source of future taxable income, tax planning strategies and nature and history of current or cumulative financial reporting income or losses. 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 as a reduction to the income tax provision.

Stock-based Compensation

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

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

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

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

We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We estimate expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as

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

Cash, Cash Equivalents, and Restricted Cash

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

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

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

Accounts Receivable

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

Impairment of Long-lived Assets

The Company reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment of long-lived assets exists when the carrying amount of a long-lived asset group exceeds its fair value. Such impairment arises in circumstances when such assets are assessed and determined to have no continuing or future benefit. Impairment losses are recorded when the carrying amount of the impaired asset group is not recoverable. Recoverability is determined by comparing the carrying amount of the asset or asset group to the undiscounted cash flows which are expected to be generated from its use. If the carrying amount of the asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds its fair value. We did not record impairment losses related to long-lived assets in the years ended December 31, 2014 and 2015.

In 2016, the Company re-assessed the fair value of KP Connector which is an internal use software developed by the Company based on the specifications outlined in a client agreement. In the second quarter of 2016, the client notified the Company that it no longer required the services provided by the Company. Accordingly, the Company determined that KP Connector's carrying value was considered unrecoverable as of June 30, 2016, and recorded a \$3.7 million impairment charge to amortization, impairment and change in contingent consideration expense in the consolidated statements of income and a corresponding reduction of property and equipment, net, in the consolidated balance sheets. The Company also reversed previously recorded amortization expenses in each of the third and fourth quarters of 2016. In addition, the Company accelerated amortization of intangible assets for client contracts and broker relationships of \$3.8 million, triggered in the second quarter of 2016, related to the termination of a significant customer relationship in the health insurance exchange business.

Acquisitions, Goodwill and Definite lived Intangible Assets

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

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

The Company performs a goodwill impairment test annually on December 31st and more frequently if events and circumstances indicate that the asset might be impaired. The following are examples of triggering events that could indicate that the fair value of a reporting unit has fallen below the unit's carrying amount:

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

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

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

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

Customer Obligations Liability

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

The Company offsets on a customer by customer basis non-trade accounts receivable and customer obligation balances for financial reporting presentation. Additionally, the Company offsets outstanding trade and non-trade receivables, including

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any debit or credit memos, against any prefund balances after plan year close or upon termination of services both based on the completion of a full reconciliation with the customer.

Business Combination

We record acquisitions using the acquisition method of accounting. All of the assets acquired and liabilities assumed, are recognized at their fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The application of the acquisition method of accounting for business combinations requires management to make significant judgments, estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to allocate purchase price consideration. Our estimates are based on historical experience, information obtained from the management of the acquired companies and, assistance from independent third-party appraisal firms. Our significant assumptions and estimates include, but are not limited to, the cash flows for customer relationships, developed technology, the estimated cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. See Note 3, "Acquisitions and Channel Partner Arrangements" in the Notes to our Consolidated Financial Statements included in this Annual Report.

Recent Accounting Pronouncements

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

Results of Operations

Revenues

	Year Ended December 31,			Change from prior year	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
Revenues:	(in thousands)				
Healthcare	\$ 155,989	\$ 176,573	\$ 195,108	13%	10 %
Commuter	61,776	63,895	70,215	3%	10 %
COBRA	31,996	51,299	73,765	60%	44 %
Other	18,071	42,549	16,473	135%	(61)%
Total revenues	\$ 267,832	\$ 334,316	\$ 355,561	25%	6 %

Healthcare Revenue

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

The \$18.5 million, or 10% increase in healthcare revenue from 2015 to 2016 was primarily driven by an increase in FSA, HSA, and HRA revenue due to the addition of new clients, including FSAFEDS, and growth in new employee participation in the programs. The increase in healthcare revenue was further driven by the acquisition of the CHSA business from ADP as well as interchange fee revenue.

The \$20.6 million, or 13% increase in healthcare revenue from 2014 to 2015 was primarily driven by an increase in FSA, HSA and HRA revenues, the contribution of a full year of CONEXIS operations in 2015, which was acquired in August 2014, and the addition of new clients and growth in new employee participation in these programs. Healthcare revenue was further increased by an increase in interchange fee revenue, due to increase in debit card usage and an increase in number of debit cards issued.

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Commuter Revenue

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

The \$6.3 million, or 10% increase in commuter revenue from 2015 to 2016 was primarily due to the addition of new clients and growth in the number of employee participants resulting from the maximum pre-tax monthly benefit for transit and vanpooling increasing from \$130 in 2015 to \$255 in 2016. Commuter revenue was further increased by an increase in interchange fee revenue and vendor commission revenue from growth in our Commuter programs.

The \$2.1 million, or 3% increase in commuter revenue from 2014 to 2015 was primarily driven by an increase in employee participation in our commuter programs as well as interchange fee revenue.

COBRA Revenue

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

The \$22.5 million, or 44% increase in COBRA revenue from 2015 to 2016 was primarily driven by the transition of Ceridian's COBRA portfolio to the Company and the acquisition of the COBRA and direct bill businesses from ADP. The remainder of the COBRA revenue growth was primarily driven by increased participation by employer clients in our COBRA administration services. We expect to experience growth in COBRA revenue as a result of revenues generated from ADP COBRA business.

The \$19.3 million, or 60% increase in COBRA revenue from 2014 to 2015 was primarily driven by an increase related to a full year of CONEXIS operations in 2015, as well as the addition of new clients and growth in new employee participation in our COBRA programs.

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 derived other revenue from administrative services we provided to a significant customer to operate their health insurance exchange business which includes enrollment, billing, customer service and payment processing services. In September 2015, the aforementioned customer and we mutually agreed to terminate the relationship. As a result, revenues related to administrative services provided to this individual customer decreased as it transitioned out of the services we provide.

The \$26.1 million, or 61% decrease in other revenue from 2015 to 2016 was primarily driven by a decrease in revenue as a result of the termination of the relationship with the aforementioned customer in the health insurance exchange business, partially offset by other increases in administration of direct bill services to employee participants.

The \$24.5 million, or 135% increase in other revenue from 2014 to 2015 was primarily driven by an increase related to a full year of CONEXIS operations in 2015 contributed by increased development and administrative services rendered to the aforementioned customer to operate their health insurance exchange business and direct bill services. The remainder increase in other revenue was due primarily to growth in development and administrative services we provide to our customers as well as administration of direct bill services to employee participants.

Cost of Revenues

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	Year Ended December 31,			Change from prior year	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
	(in thousands)				
Cost of revenues (excluding amortization of internal use software)	\$ 100,226	\$ 117,170	\$ 129,046	17%	10%
Percent of revenue	37%	35%	36%		

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

The \$11.9 million, or 10% increase in cost of revenues from 2015 to 2016 was due primarily to an increase of \$11.2 million in compensation related costs to administer FSAFEDS and service new clients transitioned under the channel partner arrangement with Ceridian. The increase was further driven by a \$2.4 million increase in stock-based compensation expense as a result of new grants of restricted stock units, performance-based restricted stock units, and stock options. The increases were partially offset by a decrease in printing and postage related to customer support, as a result of termination of the relationship with a significant customer in the health insurance exchange business.

The \$16.9 million or 17% increase in cost of revenues from 2014 to 2015 was due primarily to an increase of \$15.7 million related to a full year of CONEXIS operations in 2015, an increase of \$1.6 million in stock-based compensation expense due to new grants of performance-based restricted stock units as well as stock options granted in the first quarter of 2015. The increase in cost of revenues was offset by a decrease in temporary help and contractors mainly in product support functions.

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	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
	(in thousands)				
Technology and development	\$ 27,741	\$ 43,041	\$ 44,719	55%	4%
Percent of revenue	10%	13%	13%		

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

The \$1.7 million, or 4% increase in technology and development expenses from 2015 to 2016 was due primarily to \$3.6 million increase in compensation and outsourced service costs, and services and hardware related expense to administer FSAFEDS and to support clients transitioned under the channel partner agreement with Ceridian. The change was further driven by a \$1.3 million increase in stock-based compensation expense as a result of new grants of service-based restricted stock units and stock options. The increases were offset by a decrease in temporary help, consulting and outsourced services expenses as a result of the termination of a significant customer relationship in the health insurance exchange business in the third quarter of 2015.

The \$15.3 million, or 55% increase in technology and development expenses from 2014 to 2015 was due primarily to an increase of \$13.7 million related to a full year of CONEXIS operations in 2015. The remainder of the increase was due primarily to the loss on disposal of assets no longer in use and continued investment in product development to improve features and customer satisfaction in our proprietary platform.

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

Sales and Marketing

	Year Ended December 31,			Change from prior year	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
	(in thousands)				
Sales and marketing	\$ 44,940	\$ 50,540	\$ 57,083	12%	13%
Percent of revenue	17%	15%	16%		

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

The \$6.5 million or 13% increase in sales and marketing expense from 2015 to 2016 was due primarily to a \$6.4 million increase in compensation and outsourced services, printing and reproduction services, and stock-based compensation expense to support the increase in our client base from administering FSAFEDS and channel partner arrangement with Ceridian. These increases were offset by a decrease of \$1.0 million in outside commissions expense due to termination of our relationship with certain brokers.

The \$5.6 million or 12% increase in sales and marketing expense from 2014 to 2015 was due primarily to an increase of \$5.4 million related to a full year of CONEXIS operations in 2015, as well as stock-based compensation expense of \$0.2 million due to new grants of restricted stock units and stock options. The remaining increase in sales and marketing expense was primarily driven by outside sales commissions to support the increase in our client base through our broker relationships and ongoing promotional marketing initiatives.

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

General and Administrative

	Year Ended December 31,			Change from prior year	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
	(in thousands)				
General and administrative	\$ 42,884	\$ 54,093	\$ 60,324	26%	12%
Percent of revenue	16%	16%	17%		

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

The \$6.2 million, or 12% increase in general and administrative expenses from 2015 to 2016 was primarily due to an increase in stock-based compensation expense for performance-based RSUs based on updated forecasts of revenue growth, given the addition of the newly acquired ADP CHSA/COBRA Business, channel partners, FSAFEDS, and significant customer wins, and new grants of time-based RSUs and stock options. The expense was further increased by increased headcount and outsourced services, and professional fees to support the increase in customer base and the preparation of a new Enterprise Resource Planning system implementation.

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The \$11.2 million, or 26% increase in general and administrative expenses from 2014 to 2015 was due primarily to an increase of \$3.7 million related to a full year of CONEXIS operations in 2015 and \$4.2 million in stock-based compensation expense, primarily due to new grants of restricted stock units, performance-based restricted stock units and stock options. The remainder of the increase was primarily due to an increase in rent expense associated with new lease agreements at our San Mateo corporate office and our Arizona facility and increase in salaries and personnel-related compensation expense attributable to an increase in headcount.

As we continue to grow, we expect our general and administrative expenses to increase in absolute dollars as we expand general and administrative headcount to support our continued growth.

Amortization, Impairment and Change in Contingent Consideration

	Year Ended December 31,			Change from prior year	
	2014	2015	2016	2015	2016
			As Restated Note 16		As Restated Note 16
	(in thousands)				
Amortization, impairment and change in contingent consideration	\$ 20,992	\$ 27,618	\$ 37,175	32%	35%

Our amortization, impairment and change in contingent consideration consists of three components: amortization of internal use software, amortization of acquired intangible assets, 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. Acquisition-related intangible assets are also amortized over their estimated useful lives.

The \$9.6 million or 35% increase in amortization from 2015 to 2016 was driven primarily by a \$3.8 million acceleration of amortization of intangible assets resulting from the termination of part of a significant customer relationship in the health insurance exchange business. Additionally, in 2016, we recorded a \$3.7 million impairment charge for KP Connector. These changes were further driven by an increase in amortization from additions to acquired intangible assets from the partner arrangement with Ceridian and acquired ADP CHSA/COBRA Business, offset by a decrease in expense for fully amortized intangibles.

The \$6.6 million or 32% increase in amortization, impairment and change in contingent consideration from 2014 to 2015 was driven by an increase of \$5.4 million in amortization of acquisition-related intangible assets as a result of the CONEXIS acquisition and increases from amortization of additions to internal use software offset by a decrease in amortization of intangible assets that were fully amortized in 2015.

Employee Termination and Other Charges

	Year Ended December 31,			Change from prior year	
	2014	2015	2016	2015	2016
			As Restated Note 16		As Restated Note 16
	(in thousands)				
Employee termination and other charges	\$ —	\$ 1,913	\$ 1,147	100%	(40)%

The \$0.8 million or 40% decrease from 2015 to 2016 was primarily attributable to severance related costs incurred in 2015 when we executed an organizational efficiency plan which reduced our headcount. These costs were partially offset by an increase in transaction costs related to the acquisition of the ADP CHSA/COBRA Business.

In the second quarter of 2015, we executed an organizational efficiency plan which reduced our headcount. We recognized charges of \$1.9 million in 2015, primarily for severance costs.

Other Income (Expense)

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	Year Ended December 31,			Change from prior year	
	2014	2015	2016	2015	2016
			As Restated Note 16		As Restated Note 16
	(in thousands)				
Interest income	\$ 5	\$ 153	\$ 406	2,960 %	165%
Interest expense	(1,612)	(1,925)	(2,717)	19 %	41%
Other income (expense)	743	(182)	1,075	(124)%	691%

The \$0.8 million or 41% increase in interest expense was due to the first amendment to the Amended and Restated Credit Agreement entered into in August 2016 resulting in a higher credit limit with a subsequent borrowing under the revolving credit facility related to acquisition of ADP CHSA/COBRA Business. The change in other income (expense) from 2015 to 2016 was due primarily to the insurance settlement proceeds related to an insurance claim in 2015.

The \$0.3 million or 19% increase in interest expense from 2014 to 2015 was due to an increase in borrowing under the revolving credit facility with MUFG Union Bank, N.A. related to the acquisition of CONEXIS. The change in other income (expense) as compared to 2014 was due primarily to expense in insurance claims reserve offset by gain related to the second and final payment from the settlement of a dispute in 2014.

Income Taxes

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

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

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, 2016, our unrecognized tax benefits approximated \$4.8 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 as a reduction of the income tax provision.

	Year Ended December 31,			Change from prior year	
	2014	2015	2016 As Restated Note 16	2015	2016 As Restated Note 16
	(in thousands)				
Income before income taxes	30,185	37,987	24,831		
Income taxes provision	\$ (11,943)	\$ (15,037)	\$ (8,929)	26%	(41)%
Effective tax rate	39.57%	39.58%	35.96%		

The Company's 2016 restated tax provision was reduced by \$3.0 million for the tax-effects of pre-tax restatement adjustments (see Note 16, "Restatement of the Consolidated Financial Statements" in the Notes to our Consolidated Financial Statements included in this Annual Report for additional information).

The \$6.1 million or 41% decrease in the provision for income taxes from 2015 to 2016 was due primarily to a decrease in income before income taxes in 2016 as compared with 2015.

The \$3.1 million or 26% increase in the provision for income taxes from 2014 to 2015 was due primarily to an increase in federal income taxes as result of higher income before income taxes in 2015 as compared to 2014.

Liquidity and Capital Resources

At December 31, 2016, our principal sources of liquidity were cash and cash equivalents totaling \$672.6 million comprised primarily of funding by clients of amounts to be paid on behalf of employee participants as well as other cash flows from operating activities. For the year ended December 31, 2016, our cash flow from operating activities provided \$262.8 million.

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

Prefunds

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

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

MUFG Union Bank, N.A. Revolving Credit Facility

On June 5, 2015, the Company entered into an Amended and Restated Credit Agreement ("Credit Agreement") with certain lenders, including MUFG Union Bank, N.A., as administrative agent. With a \$15.0 million subfacility for the issuance of letters of credit, the amendment provides for a \$150.0 million revolving credit facility, and an increase option permitting the Company to arrange with existing lenders and/or new lenders to provide up to an aggregate of \$100.0 million in additional commitments. The amendment extended the term of the credit facility from July 21, 2017 to June 5, 2020 and reduced the margin added to the London Interbank Offered Rate ("LIBOR") to a range of 125 to 175 basis points.

On August 1, 2016, the Company entered into a first amendment to the Credit Agreement (the "Amendment") increasing the credit limit of the revolving credit facility to \$250.0 million. The Amendment did not change the subfacility limit, terms, or maturity date of the credit facility which remained at June 5, 2020. Subsequent to the Amendment, the Company borrowed additional funds in the amount of \$169.9 million from the revolving credit facility in connection with the acquisition of ADP CHSA/COBRA Business. The interest rate applicable to the revolving credit facility as of December 31, 2016 is 1.90%. In connection with the Credit Agreement, the Company incurred fees of approximately \$0.2 million, which are being amortized over the term of the amendment. The fees incurred are classified as a direct deduction from the long-term debt line item in the consolidated balance sheets. As of December 31, 2016, the Company had \$249.5 million outstanding under the credit facility.

Amounts borrowed, outstanding letters of credit and amounts available to borrow, were as follows (dollars in thousands):

	December 31, 2015	December 31, 2016 As Restated Note 16
Amounts borrowed	\$ 79,600	\$ 249,500
Outstanding letters of credit	2,700	500
Amounts available to borrow ⁽¹⁾	67,700	—

(1) Amounts available to borrow at December 31, 2015 excludes \$100.0 million increase option

As collateral for the revolving credit facility, we granted MUFG Union Bank, N.A. 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 revolving credit facility. Such guarantees by existing and future material subsidiaries are and will be secured by substantially all of the property of such material subsidiaries.

The revolving credit facility contains customary affirmative and negative covenants and also has financial covenants relating to a consolidated leverage ratio and an interest coverage ratio. We are obligated to pay customary commitment fees and letter of credit fees for a facility of this size and type. As of the date this 2016 Annual Report on Form 10-K/A was filed with the U.S. Securities and Exchange Commission, we are in compliance with all financial and non-financial covenants under the revolving credit facility.

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

Cash Flows

The following table presents information regarding our financial position including cash and cash equivalents:

	December 31,	
	2015	2016 As Restated Note 16
	(in thousands)	
Cash and cash equivalents	\$ 500,918	\$ 672,609

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The following table presents information regarding our cash:

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
	(in thousands)		
Net cash provided by operating activities	\$ 54,423	\$ 114,260	\$ 262,834
Net cash used in investing activities	(65,535)	(37,968)	(283,404)
Net cash provided by financing activities	64,455	11,325	192,261
Net increase in cash and cash equivalents	\$ 53,343	\$ 87,617	\$ 171,691

Cash Flows from Operating Activities

Net cash provided by operating activities increased in 2016 as compared to 2015 by \$148.6 million. Cash provided by operating activities in 2016 was composed of net income of \$15.9 million, adjusted upward for non-cash items related to depreciation, amortization, impairment, and contingent consideration of \$46.0 million, stock-based compensation of \$27.2 million, provision for doubtful accounts of \$0.9 million, and other non-cash upward adjustments of \$0.3 million in aggregate, offset by downward adjustments for non-cash items related to deferred taxes and excess tax benefits related to stock-based compensation of \$20.7 million, and changes in operating assets and liabilities providing a net increase of \$193.2 million.

Net cash provided by operating activities increased in 2015 as compared to 2014 by \$59.8 million, due primarily to a \$4.7 million increase in profits and a \$36.7 million increase in cash provided by our working capital. Cash from operating activities in 2015 resulted primarily from our net income of \$23.0 million being adjusted for the following non-cash items: \$6.7 million for depreciation, \$27.6 million for amortization, impairment and change in contingent consideration and \$20.6 million for stock-based compensation expense. Cash from operating activities in 2015 compared to 2014 was further increased by changes in our working capital due primarily to an \$18.9 million increase in customer obligation as well as a \$2.4 million increase in accounts payable and accrued expenses due to the increase in prefunts and timing of payments to transit agencies.

Cash Flows from Investing Activities

Net cash used in investing activities increased by \$245.4 million from 2015 to 2016. Cash used in investing activities in 2016 was composed of cash consideration for the ADP CHSA/COBRA business, net of cash received, of \$234.0 million, capital expenditures of \$28.3 million, and purchases of intangible assets of \$21.1 million.

Net cash used in investing activities decreased in 2015 as compared to 2014 by \$27.6 million, due primarily to a decrease in cash consideration for business acquisitions of \$34.9 million, in which \$44.3 million was paid for the acquisition of CONEXIS in 2014 and \$9.4 million was paid in 2015 for the amount held back to cover for any indemnification losses incurred by us, which we are entitled to recover. This decrease was offset by increased expenditures of \$6.9 million for internal use software and project costs for the new CONEXIS office.

Cash Flows from Financing Activities

Net cash provided by financing activities increased in 2016 as compared to the 2015 by \$180.9 million, due primarily to an increase in proceeds from long-term debt of \$169.7 million, net of debt issuance costs, from our revolving credit facility to finance the acquisition of ADP CHSA/COBRA Business in 2016. It was further increased by proceeds from exercise of stock options, an increase in the excess tax benefit related to stock-based compensation arrangements, offset by a decrease in payments related to contingent consideration and payments made for share repurchase activities in 2016.

Net cash provided by financing activities decreased in 2015 as compared to 2014 by \$53.1 million, due primarily to a decrease in proceeds from long-term debt of \$49.7 million related to borrowings under our revolving credit facility to partially fund the acquisition of CONEXIS in 2014. There were no borrowings under the revolving credit facility in 2015. Cash provided by financing activities was further decreased by payments of \$5.0 million for share repurchase activities in 2015.

Contractual Obligations

The following table describes our contractual obligations as of December 31, 2016:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Long-term debt obligations (1)	\$ 249,500	\$ —	\$ —	\$ 249,500	\$ —
Interest on long-term debt obligations (2)	16,503	4,811	9,622	2,070	—
Operating lease obligations (3)	46,755	8,364	16,423	15,778	6,190
Purchase Commitments (4)	559	559	—	—	—
Total	\$ 313,317	\$ 13,734	\$ 26,045	\$ 267,348	\$ 6,190

- (1) As of December 31, 2016, maximum borrowings under the revolving credit facility are \$250.0 million with a base rate determined in accordance with the credit agreement or, at our option, LIBOR plus a spread of 1.25% to 1.75% per annum, and a maturity date of June 5, 2020. At December 31, 2016, we had \$249.5 million of outstanding principal which is recorded net of debt issuance costs on our consolidated balance sheets. The debt issuance costs are not included in the table above.
- (2) Estimated interest payments assume the interest rate applicable as of December 31, 2016 of 1.90% per annum on a \$249.5 million principal amount.
- (3) We lease facilities under non-cancelable operating leases expiring at various dates through 2023.
- (4) Purchase commitments related to leasehold improvements at one of our office facilities.

Future minimum lease payments under capital lease obligations are not included in the table above. As of December 31, 2016, there were \$0.6 million of future capital lease obligation payments. The Company has no future minimum lease payments under capital leases obligations extending beyond 2020.

Off-Balance Sheet Arrangements

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

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, 2016, we had cash and cash equivalents of \$672.6 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, 2016, we had outstanding principal of \$249.5 million under our credit facility. Each loan under the credit facility bears interest at a base rate determined in accordance with the credit agreement, or at our option, a LIBOR rate determined in accordance with the credit agreement, plus a spread of 1.25% to 1.75%, as of December 31, 2016. 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
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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders
WageWorks, Inc.

Opinion on the Consolidated Financial Statements

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

Restatement

As discussed in Note 16, the Company has restated its 2016 consolidated financial statements to correct for misstatements.

Basis for Opinion

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

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

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

/s/ Macias, Gini & O’Connell, LLP

We have served as the Company's auditor since 2018.

Newport Beach, California

March 18, 2019, except as to the last paragraph of “Subsequent events footnote 17” as to which the date is April 26, 2019.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
WageWorks, Inc.:

We have audited the accompanying consolidated balance sheet of WageWorks, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015. 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 provides 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, 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California
February 25, 2016

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

	December 31, 2015	December 31, 2016 As Restated Note 16
Assets		
Current assets:		
Cash and cash equivalents	\$ 500,918	\$ 672,609
Restricted cash	332	332
Accounts receivable, net	72,271	93,413
Prepaid expenses and other current assets	13,254	20,258
Total current assets	586,775	786,612
Property and equipment, net	47,955	54,435
Goodwill	157,109	297,409
Acquired intangible assets, net	82,616	176,489
Deferred tax assets	9,837	15,690
Other assets	4,447	5,146
Total assets	\$ 888,739	\$ 1,335,781
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 60,541	\$ 72,677
Customer obligations	400,821	608,380
Short-term contingent consideration	739	—
Other current liabilities	2,893	729
Total current liabilities	464,994	681,786
Long-term debt, net of financing costs	78,996	248,848
Other non-current liabilities	7,780	7,505
Total liabilities	551,770	938,139
Stockholders' Equity:		
Common stock, \$0.001 par value (authorized 1,000,000 shares; 36,055 shares issued and 35,936 shares outstanding at December 31, 2015; 37,247 shares issued and 36,902 shares outstanding at December 31, 2016)	36	37
Additional paid-in capital	343,166	397,307
Treasury stock at cost (119 shares at December 31, 2015 and 345 shares at December 31, 2016)	(5,003)	(14,374)
Retained earnings (accumulated deficit)	(1,230)	14,672
Total stockholders' equity	336,969	397,642
Total liabilities and stockholders' equity	\$ 888,739	\$ 1,335,781

See accompanying Notes to the Consolidated Financial Statements.

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

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Revenues:			
Healthcare	\$ 155,989	\$ 176,573	\$ 195,108
Commuter	61,776	63,895	70,215
COBRA	31,996	51,299	73,765
Other	18,071	42,549	16,473
Total revenues	<u>267,832</u>	<u>334,316</u>	<u>355,561</u>
Operating expenses:			
Cost of revenues (excluding amortization of internal use software)	100,226	117,170	129,046
Technology and development	27,741	43,041	44,719
Sales and marketing	44,940	50,540	57,083
General and administrative	42,884	54,093	60,324
Amortization, impairment and change in contingent consideration	20,992	27,618	37,175
Employee termination and other charges	—	1,913	1,147
Total operating expenses	<u>236,783</u>	<u>294,375</u>	<u>329,494</u>
Income from operations	31,049	39,941	26,067
Other income (expense):			
Interest income	5	153	406
Interest expense	(1,612)	(1,925)	(2,717)
Other income (expense)	743	(182)	1,075
Income before income taxes	30,185	37,987	24,831
Income tax provision	(11,943)	(15,037)	(8,929)
Net income	<u>\$ 18,242</u>	<u>\$ 22,950</u>	<u>\$ 15,902</u>
Net income per share:			
Basic	\$ 0.52	\$ 0.64	\$ 0.44
Diluted	\$ 0.50	\$ 0.63	\$ 0.43
Shares used in computing net income per share:			
Basic	35,145	35,784	36,404
Diluted	36,330	36,595	37,210

See accompanying Notes to the Consolidated Financial Statements.

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

	Common stock		Treasury stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
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
Issuance of restricted stock units, net of shares withheld for employee taxes	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
Exercise of stock options	465	—	—	—	6,598	—	6,598
Issuance of common stock under Employee Stock Purchase Plan	54	—	—	—	2,145	—	2,145
Issuance of restricted stock units, net of shares withheld for employee taxes	57	—	—	—	(949)	—	(949)
Tax benefit from the exercise of stock options	—	—	—	—	11,198	—	11,198
Treasury stock acquired	—	—	(119)	(5,003)	—	—	(5,003)
Stock-based compensation	—	—	—	—	20,606	—	20,606
Net income	—	—	—	—	—	22,950	22,950
Balance at December 31, 2015	36,055	\$ 36	(119)	\$ (5,003)	\$ 343,166	\$ (1,230)	\$ 336,969
Exercise of stock options	926	1	—	—	16,069	—	16,070
Issuance of common stock under Employee Stock Purchase Plan	53	—	—	—	2,194	—	2,194
Issuance of restricted stock units, net of shares withheld for employee taxes	213	—	—	—	(6,108)	—	(6,108)
Tax benefit from the exercise of stock options (As restated) Note 16	—	—	—	—	14,806	—	14,806
Treasury stock acquired	—	—	(226)	(9,371)	—	—	(9,371)
Stock-based compensation (As restated) Note 16	—	—	—	—	27,180	—	27,180
Net income (As restated) Note 16	—	—	—	—	—	15,902	15,902
Balance at December 31, 2016 (As restated) Note 16	37,247	\$ 37	(345)	\$ (14,374)	\$ 397,307	\$ 14,672	\$ 397,642

See accompanying Notes to the Consolidated Financial Statements.

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

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Cash flows from operating activities:			
Net income	\$ 18,242	\$ 22,950	\$ 15,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,386	6,671	8,696
Amortization, impairment and change in contingent consideration	20,992	27,618	37,175
Amortization of debt issuance costs	—	—	159
Stock-based compensation expense	14,558	20,606	27,180
Loss on disposal of fixed assets	98	1,096	273
Provision for doubtful accounts	(367)	396	947
Deferred taxes	10,582	13,066	(5,853)
Excess tax benefit related to stock-based compensation arrangements	(10,433)	(11,198)	(14,806)
Changes in operating assets and liabilities:			
Accounts receivable	(20,969)	(18,214)	(22,088)
Prepaid expenses and other current assets	(2,743)	961	7,901
Other assets	(2,877)	2,084	(699)
Accounts payable and accrued expenses	2,684	5,062	3,380
Customer obligations	19,480	38,370	207,559
Other liabilities	790	4,792	(2,892)
Net cash provided by operating activities	<u>54,423</u>	<u>114,260</u>	<u>262,834</u>
Cash flows from investing activities:			
Purchases of property and equipment	(21,200)	(28,141)	(28,319)
Cash consideration for business acquisitions, net of cash acquired	(44,334)	(9,445)	(233,965)
Cash paid for acquisition of intangible assets	—	(382)	(21,120)
Change in restricted cash	(1)	—	—
Net cash used in investing activities	<u>(65,535)</u>	<u>(37,968)</u>	<u>(283,404)</u>
Cash flows from financing activities:			
Proceeds from long-term debt	50,000	—	169,900
Proceeds from exercise of common stock options	6,744	6,598	16,070
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,100	2,145	2,194
Payments of debt issuance costs	(337)	(366)	(207)
Payment of contingent consideration	(4,485)	(3,247)	(750)
Payment for treasury stock acquired	—	(5,003)	(9,371)
Payment of capital lease obligations	—	—	(381)
Excess tax benefit related to stock-based compensation arrangements	10,433	11,198	14,806
Net cash provided by financing activities	<u>64,455</u>	<u>11,325</u>	<u>192,261</u>
Net increase in cash and cash equivalents	53,343	87,617	171,691
Cash and cash equivalents at beginning of the year	359,958	413,301	500,918
Cash and cash equivalents at end of the year	<u>\$ 413,301</u>	<u>\$ 500,918</u>	<u>\$ 672,609</u>
Supplemental cash flow disclosure:			
Cash paid during the year for:			
Interest	\$ 866	\$ 2,542	\$ 1,825
Taxes	836	455	5,534
Noncash financing and investing activities:			
Accrued capital expenditures	\$ 556	\$ 800	\$ 2,412
Property and equipment purchased under capital lease obligations	—	—	835

See accompanying Notes to the Consolidated Financial Statements.

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

(1) Summary of Business and Significant Accounting Policies

Business

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

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

Principles of Consolidation

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

Use of Estimates

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

Cash, Cash Equivalents, and Restricted Cash

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

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

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

Fair Value of Financial Instruments

The Company’s financial assets and liabilities are recognized or disclosed at fair value in the financial statements on a recurring basis. The carrying amount of financial instruments approximates fair value because of their short maturity. Other financial instruments not measured at fair value on the Company’s consolidated balance sheet at December 31, 2016, 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 certain lenders. The estimated fair value of such instruments at December 31, 2016 approximates their carrying value as reported on the consolidated balance sheets. The fair

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

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 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 payables related to the acquisitions of Benefit Concepts, Inc. ("BCI") Crosby Benefit Systems, Inc. ("CBS") 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 resulted from changes in anticipated revenue levels and changes in assumed discount periods and rates. As the fair value measure was based on significant inputs that are not observable in the market, they are categorized as Level 3. The final contingent consideration payment for BCI was paid during the first quarter of 2016.

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) (in thousands):

	Contingent Consideration BCI	Contingent Consideration CBS
Balance at December 31, 2014	\$ 2,705	\$ 1,170
Gains or losses included in earnings:		
Losses on revaluation of contingent consideration	104	7
Payment of contingent consideration	(2,070)	(1,177)
Balance at December 31, 2015	\$ 739	\$ —
Gains or losses included in earnings:		
Losses on revaluation of contingent consideration	11	—
Payment of contingent consideration	(750)	—
Balance at December 31, 2016	\$ —	\$ —

The Company measures outstanding contingent consideration elements each reporting period at fair value and recognizes changes in fair value in earnings each period as an operating expense on the consolidated statements of income, until the contingency is resolved. Losses on revaluation of contingent consideration result from accretion charges due to the passage of time and fair value adjustments due to changes in forecasted revenue levels.

The Company recorded a \$0.1 million and an immaterial charge related to the change in fair value of the contingent considerations during 2015 and 2016, respectively, as a result of accretion charges due to the passage of time.

Accounts Receivable

Accounts receivable represent both amounts receivable from customers in relation to fees for the Company's services and unpaid amounts for benefit services provided by third-party vendors, such as transit agencies and healthcare providers for which the Company records a receivable for funding and a corresponding customer obligations liability until the Company

WAGeworks, INC.
Notes to Consolidated Financial Statements

disburses the balances to the vendors. The Company provides for an allowance for doubtful accounts by specifically identifying accounts with a risk of collectability and providing an estimate of the loss exposure. The Company reviews its allowance for doubtful accounts on a quarterly basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Write-offs for 2014, 2015 and 2016 were not significant.

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

Property and Equipment

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

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

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

Software and Web Site Development Costs

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

Impairment of Long-lived Assets

The Company reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment of long-lived assets exists when the carrying amount of a long-lived asset group, exceeds its fair value. Such impairment arises in circumstances when such assets are assessed and determined to have no continuing or future benefit. Impairment losses are recorded when the carrying amount of the impaired asset group is not recoverable. Recoverability is determined by comparing the carrying amount of the asset or asset group to the undiscounted cash flows which are expected to be generated from its use. If the carrying amount of the asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds its fair value. The Company did not record impairment losses related to long-lived assets in the years ended December 31, 2014 and 2015.

In 2016, the Company re-assessed the fair value of KP Connector which is an internal use software developed by the Company based on the specifications outlined in a client agreement. In the second quarter of 2016, the client notified the Company that it no longer required the services provided by the Company. Accordingly, the Company determined that KP Connector's carrying value was considered unrecoverable as of June 30, 2016, and recorded a \$3.7 million impairment charge to amortization, impairment and change in contingent consideration expense in the consolidated statements of income and a corresponding reduction of property and equipment, net, in the consolidated balance sheets. The Company also reversed previously recorded amortization expenses in each of the third and fourth quarters of 2016. In addition, the Company accelerated amortization of intangible assets for client contracts and broker relationships of \$3.8 million, triggered in the second quarter of 2016, related to the termination of a significant customer relationship in the health insurance exchange business.

WAGeworks, INC.
Notes to Consolidated Financial Statements

Acquisitions, Goodwill and Definite lived Intangible Assets

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

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

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 following are examples of triggering events (none of which occurred in 2015 or 2016) 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; and
- 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.

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

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

If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. At December 31, 2014, 2015 and 2016 the Company completed its annual goodwill impairment assessment and management concluded that goodwill is not impaired.

Income Taxes

The Company reports income taxes using an asset and liability approach. Deferred tax assets and liabilities arise from the differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements, as well as from net operating loss and tax credit carryforwards. Deferred tax amounts are determined by using the tax rates expected to

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be in effect when the taxes will actually be paid or refunds received, as provided under current enacted tax law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized.

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

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

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

Customer Obligations Liability

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

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

Revenue Recognition

The Company reports revenue based on the following product lines: Healthcare, Commuter, COBRA and Other revenue. Healthcare and Commuter include revenues generated from benefit service fees based on employee participant levels and interchange and other commission revenues. Interchange and other commission revenues are subject to revenue share arrangements and are based on a percentage of total healthcare and commuter dollars transacted using cards distributed by the Company 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' Health Reimbursement Arrangements ("HRAs"), and certain healthcare Flexible Spending Accounts ("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 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

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management to make any significant judgments or assumptions regarding any potential uncertainties. Fees received for initial setup of clients and renewal fees are deferred and recognized on a monthly basis as services are rendered over the agreed benefit period. Contracts with initial setup fees generally 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 and annual renewal 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.

Other 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.

Professional service fees are related to services provided to the Company's employer clients to accommodate their reporting or administrative requirements. These projects are discrete contracts and are not entered into contemporaneously with any other services the Company provides. The professional services revenues are recognized upon completion of services or projects in accordance with agreed upon 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. Cost of revenue is presented on an aggregate basis because the Company provides for services at the client level and not by product.

Stock-based Compensation

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

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

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

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

We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We estimate expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures. We based the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with

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remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the option pricing model. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The estimated attainment of performance-based awards and related expense is based on the expectations of revenue and earnings before interest, tax and depreciation and amortization ("EBITDA") target achievement over a specified three year performance period. If we use different assumptions for estimating stock-based compensation expense in future periods, or if actual forfeitures differ materially from our estimated forfeitures, future stock-based compensation expense may differ significantly from what we have recorded in the current period and could materially affect our income from operations, net income and net income per share.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The FASB subsequently issued a one year deferral of the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP (ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date"). In accordance with the deferral, the guidance is effective for annual reporting periods beginning after December 15, 2017. Subsequent to the issuance of ASU 2014-09, the FASB has issued several ASUs such as ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customer, among others. These ASUs do not change the core principle of the guidance stated in ASU 2014-09.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

During the three months ended March 31, 2018, the Company adopted ASU 2014-09.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases*, ("ASU 2016-02"). Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently assessing what impact, the adoption of this ASU will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standard Update No. 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*, ("ASU 2016-04"). The new guidance creates an exception under ASC 405-20, *Liabilities-Extinguishments of Liabilities*, to derecognize financial liabilities related to certain prepaid stored-value products using a revenue-like breakage model. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. This guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. During the three months ended March 31, 2018, the Company adopted ASU 2016-04.

In March 2016, the FASB Issued Accounting Standards Update No 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, ("ASU 2016-09"). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. The Company plans to adopt ASU 2016-09 on a prospective basis in the first quarter of fiscal 2017 which is expected to have an impact on the recording of excess tax benefits in the consolidated balance sheets and consolidated statements of income, as well as the operating and financing cash flows on the consolidated statements of cash flows. The

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magnitude of such impact is dependent upon future grants, the Company's future stock price in relation to the fair value of awards on the grant date and the stock option exercise behavior. During the three months ended March 31, 2018, the Company adopted ASU 2016-09.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash flows: Classification of Certain Cash Receipts and Cash Payments*, ("ASU 2016-15"). The update provides specific guidance on a number of cash flow classification issues including contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, and separately identifiable cash flows and application of the predominance principle. During the three months ended March 31, 2018, the Company adopted ASU 2016-15.

(2) Net Income per Share

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

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Numerator for basic net income per share:			
Net income	\$ 18,242	\$ 22,950	\$ 15,902
Denominator for basic net income per share:			
Weighted-average common shares outstanding	35,145	35,784	36,404
Basic net income per share	\$ 0.52	\$ 0.64	\$ 0.44
Numerator for diluted net income per share:			
Net income	\$ 18,242	\$ 22,950	\$ 15,902
Denominator for diluted net income per share:			
Weighted-average common shares outstanding	35,145	35,784	36,404
Dilutive stock options and restricted stock units	1,185	811	806
Dilutive stock options, restricted stock and performance restricted stock units and employee stock purchase plan shares	36,330	36,595	37,210
Diluted net income per share	\$ 0.50	\$ 0.63	\$ 0.43

Stock options and restricted stock units to purchase common stock are not included in the computation of diluted earnings per share if their effect would be anti-dilutive. There were 1.1 million, 0.9 million and 0.9 million anti-dilutive shares for 2014, 2015 and 2016.

(3) Acquisitions and Channel Partner Arrangements

Ceridian Channel Partner Arrangement

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

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

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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 CDBs 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 sheets in the other current liabilities line item. The holdback obligation of \$10.0 million was settled for \$9.4 million in the third quarter of 2015 after the working capital adjustments. The CONEXIS acquisition was accounted for as a business combination using the acquisition method of accounting. Under the acquisition method of accounting, the total purchase consideration, assets acquired and the liabilities assumed are measured at fair value as of the date of acquisition when control was obtained. The results of operations for CONEXIS have been included in the Company’s financial results since the acquisition date.

Acquisition of the ADP CHSA/COBRA Business

On November 28, 2016, the Company completed the Asset Purchase Agreement (“APA”) with Automatic Data Processing Inc. (“ADP”), a leading global provider of Human Capital Management solutions, to acquire ADP’s Consumer Health Spending Account (“CHSA”), COBRA, and direct bill businesses (together defined as the “ADP CHSA/COBRA Business”) for approximately \$235.0 million in cash. In connection with the APA, the Company borrowed \$169.9 million against its \$250.0 million revolving credit facility which had a maturity date of June 5, 2020. See Note 8. Long-term Debt for updated credit facility information.

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

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

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

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

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

	Weighted Average Useful Life	Amount
	(in years)	(in thousands)
Cash		\$ 1,035
Accounts payable and accrued expenses		(1,035)
Intangible assets subject to amortization:		
Customer relationships	10	93,900
Existing technology - CHSA	2	500
Existing technology - COBRA	2	300
Total estimated fair value of net identifiable assets acquired		\$ 94,700

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The unaudited pro forma condensed combined statement of income of the Company and ADP CHSA/COBRA Business for the years ended December 31, 2015 and 2016 are presented as if the acquisition had closed on January 1, 2015. The pro forma information was prepared based on the historical financial statements and related notes of the Business and the Company, as adjusted for the pro forma impact of applying the acquisition method of accounting in accordance with U.S. GAAP. The unaudited pro forma condensed combined statements of income were prepared using the acquisition method of accounting with the Company treated as the acquiring entity.

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

	Year Ended December 31,	
	2015	2016 As Restated Note 16
	(In thousands, except per share data) (Unaudited)	
Total revenue	\$ 466,278	\$ 469,119
Net income	\$ 39,610	\$ 28,543
Net income per share:		
Basic	\$ 1.11	\$ 0.78
Diluted	\$ 1.08	\$ 0.77

(4) Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2016 is as follows (in thousands):

Balance at December 31, 2015	\$ 157,109
Additions: ADP CHSA/COBRA Business acquisition (see Note 3)	140,300
Balance at December 31, 2016 (As Restated) Note 16	\$ 297,409

Acquired intangible assets at December 31, 2015 and December 31, 2016 were comprised of the following (in thousands):

	December 31, 2015			December 31, 2016 As Restated Note 16		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Amortizable intangible assets:						
Client contracts and broker relationships	\$ 124,261	\$ 47,013	\$ 77,248	\$ 232,560	\$ 60,569	\$ 171,991
Trade names	3,880	2,405	1,475	3,880	3,078	802
Technology	13,846	11,039	2,807	14,646	11,867	2,779
Noncompete agreements	2,232	1,870	362	2,232	1,941	291
Favorable lease arrangements	1,136	412	724	1,136	510	626
Total	\$ 145,355	\$ 62,739	\$ 82,616	\$ 254,454	\$ 77,965	\$ 176,489

Included in the gross carrying amount in client contracts and broker relationships intangible assets as of December 31, 2016 are the additions of \$20.9 million and \$93.9 million related to the channel partner arrangement with Ceridian and the acquisition of ADP CHSA/COBRA Business, respectively. Amortization expense of intangible assets totaled \$11.8 million, \$15.7 million and \$21.9 million in 2014, 2015 and 2016, respectively.

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

The estimated expected amortization expense in future periods at December 31, 2016 is as follows (in thousands)

2017	\$	25,629
2018		24,966
2019		24,043
2020		22,059
2021		19,255
Thereafter		60,537
Total	\$	176,489

(5) Accounts Receivable

Accounts receivable at December 31, 2015 and 2016 was comprised of the following (in thousands):

	December 31, 2015	December 31, 2016 As Restated Note 16
Trade receivables	\$ 37,999	\$ 54,887
Unpaid amounts for benefit services	35,343	40,542
	73,342	95,429
Less allowance for doubtful accounts	(1,071)	(2,016)
Accounts receivable, net	\$ 72,271	\$ 93,413

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

Allowance for Doubtful Accounts:	Balance at Beginning of Fiscal Year	Charged to Operations	Recoveries (Deductions)	Balance at End of Fiscal Year
Year ended December 31, 2016	\$ 1,071	\$ 947	\$ (2)	\$ 2,016
Year ended December 31, 2015	767	475	(171)	1,071
Year ended December 31, 2014	467	259	41	767

(6) Property and Equipment

Property and equipment at December 31, 2015 and 2016 was comprised of the following (in thousands):

	December 31, 2015	December 31, 2016 As Restated Note 16
Computers and equipment	\$ 14,461	\$ 17,254
Software and capitalized software development costs	92,898	102,998
Furniture and fixtures	5,083	6,784
Leasehold improvements	13,594	19,477
	126,036	146,513
Less accumulated depreciation and amortization	(78,081)	(92,078)
Property and equipment, net	\$ 47,955	\$ 54,435

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During 2014, 2015 and 2016, the Company capitalized software development costs of \$16.5 million, \$15.7 million, and \$14.8 million, respectively. Amortization expense related to capitalized software development costs was \$8.8 million, \$11.8 million and \$15.2 million for 2014, 2015, and 2016, respectively. These costs are included in amortization, impairment and change in contingent consideration in the accompanying consolidated statements of income. At December 31, 2016, the unamortized capitalized software development costs included in property and equipment in the accompanying consolidated balance sheets was \$26.8 million.

Total depreciation expense for the years ended December 31, 2014, 2015 and 2016 was \$13.2 million, \$18.5 million, and \$23.9 million, respectively.

As a result of the Company's restatement, the Company recorded assets under capital lease obligations which were originally recognized incorrectly as operating leases. As of December 31, 2016, property and equipment acquired under capital lease obligations was \$1.7 million and classified as computers and equipment. Accumulated depreciation for assets acquired under capital lease obligations was \$0.8 million as of December 31, 2016.

In 2016, the Company re-assessed the fair value of KP Connector which is an internal use software developed by the Company based on the specifications outlined in a client agreement. In the second quarter of 2016, the client notified the Company that it no longer required the services provided by the Company. Accordingly, the Company determined that KP Connector's carrying value was considered unrecoverable as of June 30, 2016, and recorded a \$3.7 million impairment charge to amortization, impairment and change in contingent consideration expense in the consolidated statements of income and a corresponding reduction of property and equipment, net, in the consolidated balance sheets. The Company also reversed previously recorded amortization expenses for the year ended December 31, 2016 by \$0.6 million.

(7) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2015 and 2016 were comprised of the following (in thousands):

	December 31, 2015	December 31, 2016 As Restated Note 16
Accounts payable	\$ 2,542	\$ 2,718
Payable to benefit providers and transit agencies	23,169	24,528
Accrued payables	11,198	18,805
Accrued compensation and related benefits	18,538	20,223
Other accrued expenses	2,891	4,059
Deferred revenue	2,203	2,344
Accounts payable and accrued expenses	<u>\$ 60,541</u>	<u>\$ 72,677</u>

(8) Long-term Debt

On June 5, 2015, the Company entered into an Amended and Restated Credit Agreement ("Credit Agreement") with certain lenders, including MUFJ Union Bank, N.A., as administrative agent. With a \$15.0 million subfacility for the issuance of letters of credit, the amendment provides for a \$150.0 million revolving credit facility, and an increase option permitting the Company to arrange with existing lenders and/or new lenders to provide up to an aggregate of \$100.0 million in additional commitments. The amendment extended the term of the credit facility from July 21, 2017 to June 5, 2020 and reduced the margin added to the London Interbank Offered Rate ("LIBOR") to a range of 125 to 175 basis points.

On August 1, 2016, the Company entered into a first amendment to the Credit Agreement (the "Amendment") to increase the revolving credit facility limit to \$250.0 million. The Amended Credit Agreement did not change the subfacility limit, terms, or maturity date of the credit facility which remained at June 5, 2020. Subsequent to the Amendment, the Company borrowed additional funds in the amount of \$169.9 million from the revolving credit facility in connection to the acquisition of ADP CHSA/COBRA Business. The interest rate applicable to the revolving credit facility as of December 31, 2016 is 1.90%. In connection with the Amendment, the Company incurred fees of approximately \$0.2 million, which are being amortized over the

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term of the amendment. The fees incurred are classified as a direct deduction from the long-term debt line item in the consolidated balance sheets.

Amounts borrowed, outstanding letters of credit and amounts available to borrow, were as follows (dollars in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2016 As Restated Note 16</u>
Amounts borrowed	\$ 79,600	\$ 249,500
Outstanding letters of credit	2,700	500
Amounts available to borrow ⁽¹⁾	67,700	—

(1) Amounts available to borrow at December 31, 2015 excludes \$100.0 million increase option

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

The credit facility contains customary affirmative and negative covenants and also has financial covenants relating to a liquidity ratio, a consolidated leverage ratio and an interest coverage ratio. The Company is obligated to pay customary commitment fees and letter of credit fees for a facility of this size and type. The Company is currently in compliance with all financial and non-financial covenants under the credit facility.

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

(9) Common Stock

Share Repurchase Program

On August 6, 2015, the Company's Board of Directors authorized a \$100.0 million stock repurchase program for 3 years which commenced on November 5, 2015 and expires on November 4, 2018. Repurchases made under this program may be made in the open market as the Company deems appropriate and market conditions allow. In 2015, the Company repurchased 118,772 shares of common stock for a total cost of \$5.0 million, or an average price of \$42.13 per share. In 2016, the Company repurchased 226,170 shares of common stock for a total cost of \$9.4 million, or an average price of \$41.43 per share. As of December 31, 2016, the Company had \$85.6 million available for future purchases under the stock repurchase program.

(10) Organizational Efficiency Plan

Starting in 2015, the Company initiated a plan to integrate ancillary operations and consolidated certain positions resulting in employee headcount reduction and facility closures. As a result, the Company incurred employee termination and other charges consisting of severance and other employee termination costs, facility closure costs and other operational costs. During the years ended December 31, 2015 and 2016, the Company incurred employee termination and other charges totaling \$1.9 million and \$1.1 million, respectively. The Company continually evaluates ways to improve business processes to ensure that its operations align with its strategy and vision for the future.

Changes in the Company's accrued liabilities for workforce reduction costs in 2016 were as follows (dollars in thousands):

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	Amount
Beginning balance as of December 31, 2015	\$ 183
Employee termination and other charges	1,147
Cash paid	(1,330)
Ending balance as of December 31, 2016 (As Restated) Note 16	\$ —

(11) Employee Benefit Plans

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

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Cost of revenue	\$ 2,227	\$ 3,836	\$ 6,213
Technology and development	1,209	1,190	2,448
Sales and marketing	2,466	2,724	3,004
General and administrative	8,656	12,856	15,515
Total	14,558	20,606	27,180

(a) Employee Stock Option Plan

On May 26, 2010, the Company adopted the 2010 Equity Incentive Plan (“2010 Plan”). Under the 2010 Plan, the Company can grant share-based awards to all employees, including executive officers, outside consultants and non-employee directors. As of December 31, 2016, the 2010 Plan has a total of 2.7 million common stock shares available for issuance.

The Company’s 2000 Stock Option/Stock Issuance Plan adopted in June 2000, as amended and restated, (“2000 Plan”), provides for the issuance of options and other stock-based awards. As of December 31, 2016, the 2000 Plan has a total of 0.3 million options outstanding. Any forfeitures or shares remaining under the plan are canceled and not available for reissue. No further grants will be made under the 2000 Plan.

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

As of December 31, 2016, there was \$18.3 million of total unrecognized stock-based compensation expense associated with stock options, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of 3.0 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

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

	Year Ended December 31,		
	2014	2015	2016
Stock options granted (in thousands)	1,026	501	825
Weighted-average fair value at date of grant	\$ 20.06	\$ 18.89	\$ 18.38

Stock option activity for the year ended December 31, 2016 is as follows (shares in thousands):

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	Shares	Weighted-average exercise price	Remaining contractual term (years)	Aggregate intrinsic value (dollars in thousands)
Outstanding at December 31, 2015	3,037	\$ 25.18	6.41	\$ 65,229
Granted	825	48.36		
Exercised	(926)	17.36		
Forfeited	(92)	47.01		
Outstanding as of December 31, 2016	<u>2,844</u>	\$ 33.74	7.00	\$ 110,256
Vested and expected to vest at December 31, 2016	2,715	\$ 33.12	6.92	\$ 106,927
Exercisable at December 31, 2016	1,484	\$ 21.81	5.45	\$ 75,213

The total intrinsic value of options exercised during the years ended December 31, 2014, 2015 and 2016, was \$28.4 million, \$17.1 million and \$37.0 million, respectively. Cash received from option exercises under all share-based payment arrangements was \$6.7 million, \$6.6 million and \$16.1 million for the years ended December 31, 2014, 2015 and 2016, respectively. The Company elected to follow the tax law method of determining realization of excess tax benefits for stock-based compensation. There was approximately \$10.4 million, \$11.2 million and \$14.8 million of excess tax benefits related to stock-based compensation that was recorded to stockholders' equity during the years ended December 31, 2014, 2015 and 2016, 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,		
	2014	2015	2016
Expected volatility	46.90%	43.48%	42.63%
Risk-free interest rate	1.87%	1.56%	1.17%
Expected term (in years)	6.09	4.74	4.87
Dividend yield	—%	—%	—%

Stock-based compensation expense is measured at the grant date based on the fair value of the award. The determination of the fair value of stock-based awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. Expected volatility is determined using weighted-average volatility of peer publicly traded companies as well as the Company's own historical volatility. The Company 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 not paid cash dividends on its common stock. The Company estimates the expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures.

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

(c) Restricted Stock Units

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

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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 used in the specific grant's performance criteria. Management's estimate of the number of shares expected to vest is based on the anticipated achievement of the specified performance criteria.

Market-based performance 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 a four year period in equal annual installments commencing upon the first anniversary date of the grant date.

In the first quarter of 2014, 2015, and 2016, the Company granted a total of 106,500, 140,000, and 263,000, respectively, of performance-based restricted stock units to certain executive officers. 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 three year performance period for which participants have the ability to receive up to a maximum of 150%, for 2014 and 2015 grants, or 200%, for 2016 grants, of the target number of shares originally granted.

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 resigned 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 ("NYSE"), for any 20 consecutive trading day period during the specified performance period.

On April 5, 2018, the Company's Board of Directors concluded that the previously issued financial statements for (i) the quarterly periods ended September 30, June 30 and March 31, 2017, (ii) the annual period ended December 31, 2016 and (iii) the quarterly periods ended September 30 and June 30, 2016 should be restated and should no longer be relied upon. As a result, the previously issued financial statements for the aforementioned reporting periods are considered not issued. The Company updates the stock-based compensation expense based on the number of performance-based RSUs it expects to vest as of each period end. During the Non-Reliance Period, the expected achievement for performance-based RSUs granted in 2016 was reassessed based on the restated financial statement resulting in their expected achievement percentage being reduced from 130% to 81% for 2016 grants. On March 18, 2019, the financial statements for the aforementioned reporting periods were restated and incorporated into the the Company's 2017 Form 10-K filed with the U.S. Security Exchange Commission.

Stock-based compensation expense related to restricted stock units was \$6.0 million, \$13.0 million and \$16.8 million in 2014, 2015 and 2016, respectively. Total unrecognized stock-based compensation expense at December 31, 2016 associated with restricted stock units was \$19.4 million, which is expected to be recognized over a weighted-average period of 2.00 years.

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

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	Service-based RSUs	Performance-based RSUs	Market-based RSUs	Weighted-average grant date fair value		
				Service-based RSUs	Performance-based RSUs	Market-based RSUs
(shares in thousands)						
Unvested at December 31, 2015	193	404	166	\$ 41.89	\$ 44.36	\$ 49.38
Granted ⁽¹⁾	171	351	—	54.88	38.88	—
Vested ⁽²⁾	(84)	(264)	—	39.62	24.68	—
Forfeitures	(23)	—	—	50.76	—	—
Unvested at December 31, 2016	257	491	166	\$ 50.49	\$ 51.03	\$ 49.38

- (1) Includes additional shares issued as specified financial metrics for the performance-based restricted stock units, granted to certain executives in 2013, during the performance period of January 1, 2013 through December 31, 2015 were met, resulting in actual shares vesting at 150% of the target number of shares originally granted. The weighted average grant date fair value of these additional shares was \$24.68.
- (2) Includes 264,000 shares vested from performance-based restricted stock units granted to certain executives in 2013 representing 150% of the target number of shares originally granted.

(d) Employee Stock Purchase Plan

In May 2012, the Company established the 2012 Employee Stock Purchase Plan (“ESPP”) which is intended to qualify under Section 423 of the Internal Revenue Code of 1986. The Company issued 52,727 common stock shares for which it received \$2.2 million from employee contributions during 2016. At December 31, 2016, a total of 1,534,692 shares of the Company’s common stock are available for sale under the ESPP. In addition, the ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year, equal to the least of:

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

Under the ESPP, employees are eligible to purchase common stock through payroll deductions of up to 25% of their eligible compensation, subject to any plan limitations. The ESPP has four consecutive offering periods of approximately three months in length during the year and the purchase price of the shares is 85% of the lower of the fair value of the Company’s common stock on the first trading day of the offering period or on the last day of the offering period. Stock-based compensation expense related to the ESPP was \$0.6 million in 2016.

(e) 401(k) Plan

The Company participates in the WageWorks 401(k) Plan (“401(k) Plan”), a tax-deferred savings plan covering all of its employees working more than 1,000 hours per year. Employees become participants in the 401(k) Plan on the first day of any month following the first day of employment. Eligible employees may contribute up to 85% of their compensation to the 401(k) Plan, limited to the maximum allowed under the Internal Revenue Code. The Company, at its discretion, may match up to 40% of the first 6% of employees’ contributions and may make additional contributions to the 401(k) Plan. The Company contributed approximately \$1.0 million, \$1.3 million, and \$1.8 million for each 2014, 2015, and 2016, respectively.

(12) Income Taxes

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

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

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	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Current:			
Federal	\$ (9,459)	\$ (9,873)	\$ (13,290)
State	(1,539)	(3,296)	(1,501)
	<u>(10,998)</u>	<u>(13,169)</u>	<u>(14,791)</u>
Deferred:			
Federal	(828)	(2,902)	5,175
State	(117)	1,034	687
	<u>(945)</u>	<u>(1,868)</u>	<u>5,862</u>
Total provision for income taxes	<u>\$ (11,943)</u>	<u>\$ (15,037)</u>	<u>\$ (8,929)</u>

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

	December 31, 2015	December 31, 2016 As Restated Note 16
Deferred tax assets		
Net operating loss carryforwards	1,725	1,439
Stock-based compensation	14,970	17,899
Research and development and other credits	4,270	5,528
Reserves-noncurrent	7,018	7,846
Intangible assets	—	1,672
Gross deferred tax assets	<u>27,983</u>	<u>34,384</u>
Deferred tax liabilities		
Property and equipment	(4,123)	(4,781)
Intangible assets	(4,122)	—
Goodwill	(9,901)	(13,913)
Gross deferred tax liabilities	<u>(18,146)</u>	<u>(18,694)</u>
Net deferred tax assets and liabilities	<u>9,837</u>	<u>15,690</u>

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Tax provision at U.S. statutory rate	35 %	35 %	35 %
State income taxes, net of federal benefit	5	5	2
Permanent items - other	1	1	2
Research and development credits	—	(1)	(3)
Other	(1)	—	—
Provision (benefit) for tax	<u>40 %</u>	<u>40 %</u>	<u>36 %</u>

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

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are used to manage the business. The Company has concluded there was sufficient positive evidence at the end of 2014, 2015 and 2016 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, 2016, unrecognized tax benefits approximated \$4.8 million, which would impact income tax expense if recognized. As of December 31, 2016, no current year tax positions which would affect the Company's income tax expense if recognized are included in the balance. The Company does not anticipate that any adjustments would result in a material change to its financial position within the next twelve months. For the years ended December 31, 2014, 2015 and 2016, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

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

	Year Ended December 31,		
	2014	2015	2016 As Restated Note 16
Balance, beginning of year	3,716	4,109	4,429
Increase in tax positions for prior years	—	134	201
Decrease in tax positions for prior years	(90)	—	—
Increase in tax positions for current year	483	319	271
Other decreases	—	(133)	(136)
Balance, end of year	<u>\$ 4,109</u>	<u>\$ 4,429</u>	<u>\$ 4,765</u>

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 2002 through 2015 tax years are open and may be subject to potential examination in one or more jurisdictions.

At December 31, 2016, the Company has federal and state operating loss carryforwards of approximately \$9.1 million and \$24.3 million, respectively, available to offset future regular and alternative minimum taxable income. The Company's state net operating loss carryforward has been prepared on a post-apportionment basis. The Company's federal net operating loss carryforwards expire in the years 2025 through 2034, if not utilized. The state net operating loss carryforwards expire in the years 2017 through 2033.

In addition, the Company had federal and California and other state research and development credit carryforwards of approximately \$6.8 million and \$3.5 million, respectively, available to offset future tax liabilities. The federal research credit carryforwards expire beginning in the years 2035 through 2036, if not fully utilized. The state research credit carries forward indefinitely for the state of California, and other states begin to expire the year 2017. In addition, we have \$0.1 million of state investment tax credits that will begin to expire in years 2017 through 2019, if not fully utilized.

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. During 2016, the Company recorded approximately \$14.8 million of excess tax benefits related to stock-based compensation that was credited to stockholders' equity during the year.

(13) Commitments and Contingencies

(a) Operating Leases

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The Company leases office space and equipment under non-cancelable operating leases with various expiration dates through 2023. Future minimum lease payments under non-cancelable operating leases, excluding the contractual sublease income of \$11.8 million, are as follows (in thousands):

	December 31, 2016 As Restated Note 16
2017	8,364
2018	8,143
2019	8,280
2020	8,086
2021	7,691
Thereafter	6,191
Total future minimum lease payments	\$ 46,755

Rent expense was \$4.7 million, \$7.6 million, and \$7.1 million for 2014, 2015, and 2016 respectively. Sublease income for 2016 was \$0.7 million and there was no sublease income recognized in 2014 and 2015. As of December 31, 2016 the Company has \$0.6 million in future minimum lease payments under capital leases.

(b) Legal Matters

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

On March 9, 2018, a putative class action - captioned Government Employees' Retirement System of the Virgin Islands v. WageWorks, Inc., et al., No. 4:18-cv-01523-JSW - was filed in the United States District Court for the Northern District of California (the "Securities Class Action") against the Company, our former Chief Executive Officer, and our former Chief Financial Officer. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") on behalf of persons and entities that acquired WageWorks securities between May 6, 2016 and March 1, 2018, and alleges, among other things, that the defendants issued false and misleading financial statements. The plaintiffs seek unspecified damages, fees, interest, and costs. The Company believes that the claims are without merit. On August 7, 2018, the Court entered an order granting the motion of the Public Pension Group, consisting of Public Employees' Retirement System of Mississippi, the Government Employees' Retirement System of the Virgin Islands, and the New Mexico Public Employees Retirement Association of New Mexico, to be lead plaintiff. Under the schedule stipulated by the parties, and approved by the Court, lead plaintiff will file its consolidated amended complaint no later than forty-five (45) days following issuance of the Company's Restatement.

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

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similar derivative lawsuit was filed against certain of our officers and directors and the Company (as nominal defendant) in the United States District Court for the Northern District of California (together, the “Derivative Suits”). The Derivative Suits purport to allege claims related to breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. In addition, the complaint in District Court includes a claim for abuse of control, and the complaint in Superior Court includes a claim to require the Company to hold an annual shareholder meeting. The allegations in the Derivative Suits relate to substantially the same facts as those underlying the Securities Class Action described above. The plaintiffs seek unspecified damages and fees and costs. In addition, the complaint in the Superior Court seek for us to provide past operational reports and financial statements, to publish timely and accurate operational reports and financial statements going forward, to hold an annual shareholder meeting, and to take steps to improve its corporate governance and internal procedures.

Under the schedule stipulated by the parties, and approved by the Superior Court, the plaintiff in the Superior Court action will file its Consolidated Complaint within 45 days from the date we issue our Restatement. As stipulated by the parties, and approved by the District Court, the District Court action is stayed. The parties in the District Court action are to notify the District Court within 15 days of (1) the dismissal of the Securities Class Action, (2) the denial of defendants' motion(s) to dismiss, or (3) a party giving notice that they no longer consent to the voluntary stay.

From time to time, the Company may become involved in legal proceedings, claims and litigation arising in the ordinary course of business.

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

The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on currently available information, the Company does not believe that any additional liabilities relating to other unresolved matters are probable or that the amount of any resulting loss is estimable. In addition, in accordance with the relevant authoritative guidance, for matters which the likelihood of material loss is at least reasonable possible, the Company provides disclosure of the possible loss or range of loss. If a reasonable estimate cannot be made, the Company will provide disclosure to that effect. However, litigation is subject to inherent uncertainties and the Company's view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations or cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

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

(14) Related Party

The National Flex Trust (“the Trust”), established by one of the previously acquired entities of the Company, is to provide reimbursement of qualified expenses to plan participants under certain employer plans that have contracted with the Company to provide the plan services using a custodial account (“the Trust Account”). The client is responsible for maintaining the employer plan for their participants, including the establishment of eligibility and paying all eligible claim amounts owed to their participants. The Company is an independent contractor engaged to perform administration services. 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 provides services to the Trust, including accounting, treasury, tax, administration, and management. The Trust pays 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. Trust expenses subsidized by the Company were \$100,000, \$71,000 and \$80,000 in 2014, 2015 and 2016, respectively.

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

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(15) Selected Quarterly Financial Data (unaudited)

	Fiscal Quarter Ended							
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
						As Restated	As Restated	As Restated
(in thousands, except per share amounts)								
Revenues:								
Healthcare	\$ 47,289	\$ 43,814	\$ 42,204	\$ 43,266	\$ 50,370	\$ 45,615	\$ 45,163	\$ 53,959
Commuter	15,897	16,028	16,003	15,967	17,376	17,466	17,570	17,803
COBRA	12,570	12,313	12,229	14,187	15,406	17,207	18,302	22,850
Other	9,540	10,602	12,724	9,683	3,850	4,375	4,215	4,033
Total revenues	85,296	82,757	83,160	83,103	87,002	84,663	85,250	98,645
Operating expenses:								
Cost of revenues (excluding amortization of internal use software)	32,071	29,775	26,364	28,960	31,260	28,429	29,750	39,606
Technology and development, sales and marketing, general and administrative, and employee termination and other charges	37,281	39,472	37,147	35,687	38,366	40,753	40,744	43,410
Amortization, impairment and change in contingent consideration	6,279	6,732	6,935	7,672	7,445	15,364	6,647	7,719
Total operating expenses	75,631	75,979	70,446	72,319	77,071	84,546	77,141	90,735
Income from operations	9,665	6,778	12,714	10,784	9,931	117	8,109	7,910
Other, net	(507)	(370)	(281)	(796)	(323)	(851)	(387)	325
Income before income taxes	9,158	6,408	12,433	9,988	9,608	(734)	7,722	8,235
Income tax provision	(3,519)	(2,890)	(4,835)	(3,793)	(3,812)	614	(2,492)	(3,239)
Net income	\$ 5,639	\$ 3,518	\$ 7,598	\$ 6,195	\$ 5,796	\$ (120)	\$ 5,230	\$ 4,996
Net income per share:								
Basic	\$ 0.16	\$ 0.10	\$ 0.21	\$ 0.17	\$ 0.16	\$ —	\$ 0.14	\$ 0.14
Diluted	\$ 0.15	\$ 0.10	\$ 0.21	\$ 0.17	\$ 0.16	\$ —	\$ 0.14	\$ 0.13
Shares used in computing net income per share:								
Basic	35,555	35,761	35,880	35,936	35,916	36,361	36,605	36,404
Diluted	36,668	36,596	36,516	36,597	36,529	36,361	37,454	37,210

As indicated in the Explanatory Note, the Company has restated its quarterly financial data for the second, third and fourth quarter of 2016. On March 18, 2019, the Company has filed amended Form 10-Qs for the second and third quarter of 2016. The following table presents the Company's unaudited consolidated statement of income as previously reported, restatement adjustments and the unaudited consolidated statement of income as restated for the three months ended December 31, 2016 (in thousands):

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	Three Months Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
(In thousands, except per share amounts)			
Revenues:			
Healthcare	\$ 55,979	\$ (2,020) (a)	\$ 53,959
Commuter	17,824	(21) (b)	17,803
COBRA	23,291	(441) (b)	22,850
Other	3,968	65 (b)	4,033
Total revenues	101,062	(2,417)	98,645
Operating expenses:			
Cost of revenues (excluding amortization of internal use software)	39,987	(381) (c)	39,606
Technology and development, sales and marketing, general and administrative, and employee termination and other charges	44,323	(913) (d)	43,410
Amortization, impairment and change in contingent consideration	8,013	(294) (e)	7,719
Total operating expenses	92,323	(1,588)	90,735
Income from operations	8,739	(829)	7,910
Other, net	390	(65) (f)	325
Income before income taxes	9,129	(894)	8,235
Income tax provision	(3,467)	228 (g)	(3,239)
Net income	\$ 5,662	\$ (666)	\$ 4,996
Net income per share:			
Basic	\$ 0.15	\$ (0.01)	\$ 0.14
Diluted	\$ 0.15	\$ (0.02)	\$ 0.13
Shares used in computing net income per share:			
Basic	36,404		36,404
Diluted	37,210		37,210

- (a) Adjustments during the three months ended December 31, 2016 consists primarily of (i) a \$1.0 million reversal of revenue as a result of the correction of billing errors and the recognition of invoices and related invoice adjustments in the proper reporting period, (ii) \$0.8 million reversal of revenue due to the netting of healthcare revenue against certain cost of revenue expenses, and (iii) \$0.2 million reversal of OPM revenue as discussed in Note 16.
- (b) Revenue adjustment for the year ended December 31, 2016 related to the correction of billing errors and the recognition of invoices and credit memos in the correct reporting periods.
- (c) Adjustment primarily consists of \$0.8 million reversal of cost of revenue due to netting of healthcare revenue against certain cost of revenue expenses, partially offset by (i) \$0.3 million reserve for potentially uncollectible customer obligations for pass through employee participant reimbursement and (ii) a \$0.2 million reversal as a result of an uncollectible contractor prepayment.
- (d) Reduction related primarily to a \$0.8 million reduction in stock based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units (see Note 16 for details)
- (e) Adjustment in the three months ended December 31, 2016 consisted of the reversal of previously recorded amortization expense in the fourth quarter of 2016 of \$0.3 million.
- (f) Adjustment related to accrued interest expense on unreported employee participant and employer clients unclaimed property.
- (g) Reduction in tax expense relates to the tax effect of the restatement adjustments noted above.

(16) Restatement of Consolidated Financial Statements

Restatement Background

As indicated in the Explanatory Note, the Company has restated its annual and quarterly financial data for the second, third and fourth quarters of 2016, and for the year ended December 31, 2016. On March 18, 2019, the Company filed amended 10-Qs for the second and third quarters of 2016, and has included the restated year ended December 31, 2016 information in its

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2017 Form 10-K. The Company thought it was appropriate to include the same restatement details in this 2016 Form 10-K/A. The following information includes details on the restatement, and the tables present the Company's consolidated income statement as previously reported, restatement adjustments and the consolidated statement of income statement as restated for the year ended December 31, 2016, the Company's consolidated balance sheet as previously reported, restatement adjustments and the consolidated balance sheet as restated as of December 31, 2016 and the Company's consolidated statement of cash flows as previously reported, restatement adjustments and the consolidated statement of cash flows as restated as of the year ended December 31, 2016.

Subsequent to the issuance of the Company's unaudited condensed consolidated financial statements as of September 30, 2017, and as previously disclosed on April 5, 2018, the Board concluded that the Company's financial statements for (i) the quarterly and year-to-date periods ended June 30 and September 30, 2016, (ii) the year ended December 31, 2016 and (iii) the quarterly and year-to-date periods ended March 31, June 30 and September 30, 2017 (collectively, the "Non-Reliance Periods") should be restated and should no longer be relied upon. Further, the Company's disclosures related to such financial statements and related communications issued by or on behalf of the Company with respect to the Non-Reliance Periods, including management's assessment of internal control over financial reporting as of December 31, 2016, should also no longer be relied upon. The determination was made upon the recommendation of the Audit Committee as a result of the investigation described below and after consultation with the Company's then current independent auditors and management team. The investigation has included a review of certain issues, including revenue recognition, related to the accounting for a government contract during fiscal 2016 and 2017 and associated issues with whether there was an open flow of information and appropriate tone at the top for an effective control environment, the timing and presentation of revenue recognition under certain contracts and arrangements, and the impact of the impairment assessment for KP Connector, our internal use software, among other less material matters.

During the course of this investigation and the audit of the financial statements, accounting and financial reporting errors were identified. The matters primarily resulted in corrections in accounting under U.S. GAAP related to revenue recognition for a government contract, the timing of revenue recognition under certain contracts and arrangements, the impairment assessment for KP Connector and adjustment of the customer obligations liability balance. Accordingly, the Company restated its consolidated financial statements as of and for the year ended December 31, 2016, the three and six months ended June 30, 2016 and 2017, the three and nine months ended September 30, 2016 and 2017 and the three months ended March 31, 2017 to correct these errors, the most significant of which are described below as it relates to the year ended December 31, 2016.

Revenue Recognition Adjustments

United States Government Office of Personnel Management ("OPM")

In March 2016, the Company entered into an agreement to provide Flexible Spending Accounts ("FSA") services to the OPM through 2020. Upon commencement of the agreement, the Company performed certain professional services that it believed were within the scope of the agreement and accordingly recognized \$3.6 million in revenue in the twelve months ended December 31, 2016. In April 2018, the Company determined that it should not have recognized revenue related to the OPM professional services, and the related receivable should be reversed. As a result, the Company has made adjustments to reduce revenue by \$3.6 million for the twelve months ended December 31, 2016.

Revenue Recognition Timing and Presentation

Starting in Q2 2016, the Company inconsistently applied its policy to net expenses against healthcare revenue which led to an accounting error that impacted healthcare revenue and cost of revenue.

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For the Year-Ended December 31, 2016

Revenue Restatement Adjustments (In thousands)

	OPM	Invoice Adjustments	Revenue Recognition Timing and Presentation	Total
Healthcare	\$ (3,609)	\$ (1,163)	\$ (3,017)	\$ (7,789)
Commuter	—	108	(56)	52
COBRA	—	(1,094)	(387)	(1,481)
Other	—	66	—	66
Total	\$ (3,609)	\$ (2,083)	\$ (3,460)	\$ (9,152)

Internally Developed Software Impairment

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

Stock-Based Compensation Adjustments

The Company adjusted stock-based compensation expense related to performance-based restricted stock units. These shares 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. The metrics included items that have changed as a result of the restatement, and therefore the Company has re-measured the stock-based compensation expense for performance-based restricted stock units as of the year ended December 31, 2016. The following tables summarize the impact of the restatement on performance-based restricted stock units and on the Company's total stock-based compensation expense:

	Year Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Stock-based compensation expense related to restricted stock units (in millions)	\$ 19.9	\$ (3.1)	\$ 16.8

	At December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Total unrecognized stock-based compensation expense associated with restricted stock units (in millions)	\$ 29.3	\$ (9.9)	\$ 19.4

Total restatement adjustments for stock-based compensation expense (in thousands):

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	Year Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Cost of revenue	\$ 6,214	\$ (1)	\$ 6,213
Technology and development	2,536	(88)	2,448
Sales and marketing	3,127	(123)	3,004
General and administrative	18,391	(2,876)	15,515
Total	\$ 30,268	\$ (3,088)	\$ 27,180

The Company recorded additional adjustments to the consolidated financial statements for the year ended December 31, 2016, primarily related to the following transactions:

- to correct for billing errors and the recognition of invoices and related invoice adjustments in the proper reporting period.
- to account for the reserve of potentially uncollectible customer obligations for pass-through employee participant reimbursements in the proper period
- to correct timing differences between the obligation payments from employer clients and the receipt of cash in the Company's bank accounts, which resulted in a reclassification from *Cash and cash equivalents* to *Customer Obligations*
- to record interest and penalties for unreported employee participant and employer clients unclaimed property
- to record capital lease obligations originally recognized incorrectly as operating leases
- to record the reclassification of *Customer Obligations* from *Accounts Receivable* based on the correction of the timing of employer client billings and payments; and
- to record the reduction in certain operating expense due to over-accrual.

Please see the tables below for further details regarding the adjustments. In conjunction with the restatement, the Company determined that it would be appropriate, within this Annual Report on Form 10-K/A, to reflect these adjustments in the twelve months ended December 31, 2016.

The tax impact in connection with the restatement adjustments were recorded for the year ended December 31, 2016.

The following table presents the Company's consolidated income statement as previously reported, restatement adjustments and the consolidated statement of income statement as restated for the year ended December 31, 2016 (in thousands, except per share amounts):

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Consolidated Statement of Income

	Year Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Revenues:			
Healthcare	\$ 202,897	\$ (7,789) (a)	195,108
Commuter	70,163	52 (b)	70,215
COBRA	75,246	(1,481) (b)	73,765
Other	16,407	66 (b)	16,473
Total revenues	364,713	(9,152)	355,561
Operating expenses:			
Cost of revenues (excluding amortization of internal use software)	130,224	(1,178) (c)	129,046
Technology and development	45,271	(552) (d)	44,719
Sales and marketing	57,496	(413) (e)	57,083
General and administrative	63,732	(3,408) (f)	60,324
Amortization, impairment and change in contingent consideration	34,097	3,078 (g)	37,175
Employee termination and other charges	1,147	—	1,147
Total operating expenses	331,967	(2,473)	329,494
Income from operations	32,746	(6,679)	26,067
Other income (expense):			
Interest income	406	—	406
Interest expense	(2,192)	(525) (h)	(2,717)
Other income (expense)	1,221	(146) (i)	1,075
Income before income taxes	32,181	(7,350)	24,831
Income tax provision	\$ (11,976)	3,047 (j)	(8,929)
Net income	\$ 20,205	\$ (4,303)	\$ 15,902
Net income per share:			
Basic	\$ 0.56	\$ (0.12)	\$ 0.44
Diluted	\$ 0.54	\$ (0.11)	\$ 0.43
Shares used in computing net income per share:			
Basic	36,404		36,404
Diluted	37,210		37,210

- (a) Revenue adjustments for the year ended December 31, 2016 of \$7.8 million consists primarily of (i) \$3.6 million from the reversal of the OPM revenue as discussed above, and (ii) \$2.1 million reversal of revenue as a result of the correction of billing errors and the recognition of invoices and related invoice adjustments in the proper reporting period, and (iii) \$2.1 million reversal of revenue due to the netting of healthcare revenue against certain cost of revenue expenses.
- (b) Revenue adjustment for the year ended December 31, 2016 related to the correction of billing errors and the recognition of invoices and credit memos in the correct reporting periods.
- (c) Adjustment primarily consists of (i) \$2.1 million reversal of cost of revenue due to netting of healthcare revenue against certain cost of revenue expenses, and (ii) offset by \$0.9 million related to the reserve of potentially uncollectible customer obligations for pass through employee participant reimbursement.
- (d) Reduction related primarily to the over-accrual of platform technology related expenses.
- (e) Reduction related primarily to the over-accrual of commission expenses.
- (f) Adjustment related primarily to (i) a \$2.9 million reduction in stock based compensation expense as a result reduced target attainment percentages expected for performance-based restricted stock units (see above for details) (ii) the reversal of \$0.5 million related to the re-valuation of the allowance for bad debt and (iii) a \$0.2 million expense reduction related to the re-valuation and write-off of customer obligations.

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Notes to Consolidated Financial Statements

- (g) Adjustment consisted of \$3.7 million in connection with the Company's Internally Developed Software ("IDS") impairment charge, partially offset by the reversal of previously recorded amortization expense during 2016 of \$0.6 million.
- (h) Adjustment related to accrued interest expense on unreported employee participant and employer clients unclaimed property.
- (i) Adjustment related to accrued penalties on unreported employee participant and employer clients unclaimed property.
- (j) Reduction in tax expense relates to the tax effect of the restatement adjustments noted above.

The following table presents the Company's consolidated balance sheet as previously reported, restatement adjustments and the consolidated balance sheet as restated as of December 31, 2016 (in thousands):

Consolidated Balance Sheet

	December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 678,300	(5,691) (a)	\$ 672,609
Restricted cash	332	—	332
Accounts receivable, net	92,888	525 (b)	93,413
Prepaid expenses and other current assets	19,422	836 (c)	20,258
Total current assets	790,942	(4,330)	786,612
Property and equipment, net	56,902	(2,467) (d)	54,435
Goodwill	297,409	—	297,409
Acquired intangible assets, net	176,489	—	176,489
Deferred tax assets	16,309	(619) (e)	15,690
Other assets	5,300	(154) (f)	5,146
Total assets	\$ 1,343,351	\$ (7,570)	\$ 1,335,781
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 72,966	\$ (289) (g)	\$ 72,677
Customer obligations	603,842	4,538 (h)	608,380
Other current liabilities	467	262 (i)	729
Total current liabilities	677,275	4,511	681,786
Long-term debt	248,848	—	248,848
Other non-current liabilities	9,131	(1,626) (j)	7,505
Total liabilities	935,254	2,885	938,139
Stockholders' Equity:			
Common stock	37	—	37
Additional paid-in capital	403,459	(6,152) (k)	397,307
Treasury stock at cost	(14,374)	—	(14,374)
Retained earnings	18,975	(4,303)	14,672
Total stockholders' equity	408,097	(10,455)	397,642
Total liabilities and stockholders' equity	\$ 1,343,351	\$ (7,570)	\$ 1,335,781

- (a) Adjustment primarily to correct for the proper recognition of employee participant credit card disbursements of \$7.0 million, offset by timing differences associated with differences between the obligation payments from employer clients and the receipt of cash in the Company's bank accounts of \$1.3 million. The adjustment resulted in a net reclassification from customer obligations to cash and cash equivalents.
- (b) Adjustment relates to (i) a \$6.3 million reduction in accounts receivable from the restatement of OPM revenue as discussed above, of which \$3.6 million relates to the reduction of revenue and \$2.7 million relates to the reduction of short-term and long-term deferred revenue, and (ii) a \$3.0 million decrease due to accruals to correct the recording of

WAGeworks, INC.
Notes to Consolidated Financial Statements

invoices, credit memos and billing adjustments in the proper period, offset by a \$9.9 million increase from the reclassification of customer obligations to accounts receivable based on the correction of the timing of customer billing and payments.

- (c) Adjustment to record a correction of \$0.6 million for income tax receivable because of the restatement and \$0.2 million of other receivables for the anticipated collection of commission over-payments.
- (d) Adjustment relates to the impairment charge for IDS of \$3.7 million, as discussed above, and depreciation expense of \$0.2 million for equipment purchased under capital lease obligations, offset by \$0.8 million of capital lease obligations originally recognized incorrectly as operating leases and \$0.6 million for the reversal of amortization expense associated with IDS previously recorded during the year ended December 31, 2016.
- (e) Adjustment of \$0.6 million relates to the tax effect of the restatement adjustments noted in (a) through (k).
- (f) Adjustment to write-off uncollectible deposit.
- (g) Adjustment relates to a \$0.7 million reduction in short-term deferred revenue as result of the OPM restatement discussed above and a \$0.8 million reduction due to the over accrual of operating expenses, partially offset by a \$0.7 million accrual related to interest and penalties for unreported employee participant and employer clients unclaimed property, a \$0.2 million accrual for a customer cash refund related to billing errors, and a \$0.3 million increase in the corporate bonus accrual.
- (h) Adjustment relates to a \$9.9 million increase for the reclassification of customer obligations from accounts receivable based on the correction of the timing of employer client billings and payments, a \$0.9 million increase in customer obligations, partially offset by a \$7.0 million decrease to correct for the proper recognition of employee participant credit card disbursements, a decrease of \$0.6 million to record a reserve for potentially uncollectible customer obligations for pass through employee participant reimbursements and an increase of \$1.3 million due to the timing differences between the obligation payments from employer clients and the receipt of cash in the Company's bank accounts, which resulted in a reclassification from customer obligations to cash and cash equivalents.
- (i) Adjustment to record the current portion of capital lease obligations originally recognized incorrectly as operating leases.
- (j) Adjustment relates to the reduction of long-term deferred revenue of \$2.0 million in connection with the Company's OPM restatement as noted above, partially offset by an increase of \$0.4 million related to the long-term portion of capital lease obligations originally reported incorrectly as operating leases.
- (k) Adjustment of \$6.2 million relates to a \$3.1 million reduction in stock-based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units and a \$3.1 million tax provision modification related to the restatement.

The following table presents the Company's consolidated statement of cash flows as previously reported, restatement adjustments and the consolidated statement of cash flows as restated as of the year ended December 31, 2016 (in thousands):

WAGEWORKS, INC.
Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

	Year Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net income	\$ 20,205	\$ (4,303)	\$ 15,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,473	223	8,696
Amortization, impairment and change in contingent consideration	34,000	3,175	37,175
Amortization of debt issuance costs	—	159	159
Stock-based compensation expense	30,268	(3,088)	27,180
Loss on disposal of fixed assets	273	—	273
Provision for doubtful accounts	1,527	(580)	947
Deferred taxes	(6,472)	619	(5,853)
Excess tax benefit related to stock-based compensation arrangements	(17,871)	3,065	(14,806)
Changes in operating assets and liabilities:			
Accounts receivable	(22,144)	56	(22,088)
Prepaid expenses and other current assets	11,802	(3,901)	7,901
Other assets	(853)	154	(699)
Accounts payable and accrued expenses	3,669	(289)	3,380
Customer obligations	203,021	4,538	207,559
Other liabilities	(916)	(1,976)	(2,892)
Net cash provided by operating activities	264,982	(2,148)	262,834
Cash flows from investing activities:			
Purchases of property and equipment	(28,319)	—	(28,319)
Cash consideration for business acquisitions, net of cash acquired	(233,965)	—	(233,965)
Cash paid for acquisition of intangible assets	(21,120)	—	(21,120)
Net cash used in investing activities	(283,404)	—	(283,404)
Cash flows from financing activities:			
Proceeds from long-term debt	169,693	207	169,900
Proceeds from exercise of common stock options	16,070	—	16,070
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,194	—	2,194
Payment of debt issuance costs	—	(207)	(207)
Payment of contingent consideration	(653)	(97)	(750)
Payment for treasury stock acquired	(9,371)	—	(9,371)
Payment of capital lease obligations	—	(381)	(381)
Excess tax benefit related to stock-based compensation arrangements	17,871	(3,065)	14,806
Net cash provided by financing activities	195,804	(3,543)	192,261
Net increase in cash and cash equivalents	177,382	(5,691)	171,691
Cash and cash equivalents at beginning of the year	500,918	—	500,918
Cash and cash equivalents at end of the year	\$ 678,300	\$ (5,691)	\$ 672,609

(17) Subsequent Events

At the beginning of the second quarter of 2018, and in conjunction with the Company's announcement of its intention to restate its financial statements for (i) the quarterly and year-to-date periods ended June 30 and September 30, 2016, (ii) the year

WAGeworks, INC.
Notes to Consolidated Financial Statements

ended December 31, 2016 and (iii) the quarterly and year-to-date periods ended March 31, June 30 and September 30, 2017, the Company announced certain changes to its management team, effective April 5, 2018, including:

Mr. Joseph L. Jackson resigning from his position as Chief Executive Officer, and being appointed Executive Chairman of the Company.

Mr. Edgar O. Montes being appointed President and Chief Executive Officer, and being appointed to serve as a member of the Board.

Mr. Colm M. Callan resigning from his position as Chief Financial Officer, and continuing his employment with the Company to effect a seamless transition to the incoming interim chief financial officer, followed by the termination of his employment on July 4, 2018.

Ms. Kimberly L. Wilford resigning from her position as Senior Vice President, General Counsel and Corporate Secretary of the Company, and continuing her employment with the Company to effect a seamless transition, followed by the termination of her employment on July 4, 2018.

The transition arrangements are described in the Form 8-K filed with the U.S. Securities and Exchange Commission on April 5, 2018.

Mr. Jackson resigned from his position as Executive Chairman of the Company effective September 6, 2018. Mr. Jackson executed a release of claims with the Company as part of his resignation providing him with certain compensation and benefits, as described in the Form 8-K filed with the U.S. Securities and Exchange Commission on September 12, 2018.

On October 15, 2018, Mr. Ismail Dawood was appointed Chief Financial Officer of the Company after previously serving as the Interim Chief Financial Officer and principal financial officer since April 9, 2018, and on January 14, 2019, Mr. John G. Saia joined the Company as Senior Vice President, General Counsel and Corporate Secretary.

In March 2019, the Company reduced the long-term debt principal with a \$60.0 million payment.

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

As reported in the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on November 6, 2018 and in this Annual Report on Form 10-K/A, the Company terminated its engagement of KPMG LLP as the Company's independent registered public accounting firm on October 31, 2018. The Company's decision to change its independent registered public accounting firm was driven by a desire to accelerate the audit process.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2016. The term "disclosure controls and procedures" means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the 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.

Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, due to the existence of unremediated material weaknesses in the Company's internal control over financial reporting as described below, the Company's disclosure controls and procedures were not effective.

Notwithstanding the existence of the material weaknesses described below, management believes that the consolidated financial statements and related financial information included in this Annual Report on Form 10-K/A fairly present, in all material respects, our financial position, results of operations and cash flows as of and for the periods presented, in conformity with generally accepted accounting principles in the United States of America ("GAAP"). Management's belief is based on a number of factors, including, but not limited to:

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- a) the completion of the Audit Committee's investigation and the substantial resources expended (including the use of external consultants and experts) to respond to the findings and the resulting restatement of certain of our previously issued financial statements; the Audit Committee engaged independent professionals to assist its investigation throughout the process and, the Audit Committee has concluded its investigation;
- b) the completion of the Special Committee's investigation. The Board had formed a Special Committee of directors independent from the Audit Committee, comprised of Messrs. Bevilacqua, Gramaglia and Harvey, with the assistance of independent counsel Sidley Austin LLP, to carry out an independent investigation and review the procedures, scope and findings of the Audit Committee's investigation as well as the additional allegations, and the Special Committee has concluded its investigation.
- c) our internal review that identified certain accounting errors and control deficiencies, leading to the restatement of certain of our previously issued financial statements for the quarterly periods ended June 30, 2016, September 30, 2016;
- d) based on the efforts in (a) and (b) above, we have updated, and in some cases corrected, our accounting policies and have applied these to our previously issued financial results and to our fiscal year 2016 financial results; and
- e) certain remediation actions we have undertaken to address the identified material weaknesses, as discussed below.

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 overseen by our Board of Directors (the "Board"), 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 GAAP. 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 GAAP, and that 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 the 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 and procedures included in such controls may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Based on the results of that evaluation, which included information identified during the Audit Committee investigation and the work undertaken by management and the Company's advisors, management has concluded that our internal control over financial reporting as of December 31, 2016 was not effective due to the existence of the following material weaknesses in internal control over financial reporting described below.

Control Environment, Risk Assessment, Control Activities and Monitoring

Based on the investigations conducted under the direction of the Audit Committee of the Board, it was concluded that there was an inadequate open flow, transparency, communication and dissemination of relevant and pertinent information from former senior management concerning a complex transaction with the federal government that contributed to an ineffective control environment driven by the tone at the top. Management's failure to timely communicate all pertinent information resulted in an

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environment which led to an error in the financial statements for the year ended December 31, 2016 and the related interim periods within that year.

In addition, we did not maintain effective internal control over financial reporting related to the following areas: control environment, risk assessment, control activities and monitoring:

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

These material weakness in control environment contributes to each of the following identified material weaknesses:

A. Accounting Close and Financial Reporting

We had inadequate or ineffective tone at the top and process level and monitoring controls in the area of accounting close and financial reporting specifically, but not exclusively, around the review of account reconciliations, account estimates and related cut-off, and monitoring of the accounting close cycle.

We did not have robust, established and documented accounting policies that were implemented effectively, which led to adjustments in areas such as, but not exclusive to Impairment of Internally Developed Software (IDS) and Unclaimed Liability. As a result of these adjustments the accounts related to Amortization of IDS, Fixed Assets, and operating expenses as they relate to interest and penalties were impacted.

B. Contract to Cash Process

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

These gaps resulted in several adjustments in Revenue, Accounts Receivable, and Accounts Receivable Reserves in the financial statement as of the end of the period covered by this report.

C. Risk Assessment and Management of Change

We did not maintain an effective risk assessment and monitoring process to manage the expansion of our existing business. Hence, there were inadequate and ineffective business and financial reporting control activities associated with change and growth in the business.

As a result, the Company did not properly estimate, reserve and record certain transactions which resulted in errors in the financial statement as of the end of the period covered by this report

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

We did not have adequate risk assessment controls to continuously formally assess the financial reporting risks associated with executing new, significant or unusual transactions, contracts or business initiatives. As a result, the Company did not adequately identify and analyze changes in the business and hence implement effective process level controls and monitoring controls that were responsive to these changes and aligned with financial reporting objectives. This failure to identify and analyze changes occurred in connection with the integration of acquisitions and the monitoring and recording of certain revenues associated with a complex government contract. As a result, the Company did not properly account for certain transactions including Revenue and Customer Obligation Accounts, which resulted in errors in the financial statement as of the end of the period covered by this report.

E. Manual Reconciliations of High-Volume Standard Transactions

We did not have effective business processes and controls as well as resources with adequate training and support to conduct an effective review of manual reconciliations including the complex data feeds into the reconciliations of high-volume standard transactions. This resulted in several errors mainly to balance sheet classifications around Accounts Receivable, Customer Obligations and other related accounts as of the end of the period covered by this report.

In addition to the material weaknesses noted above, management identified several significant deficiencies and deficiencies. These deficiencies relate to several areas that are partially routed in the weaknesses in the internal control environment documented above.

Our independent registered public accounting firm for the fiscal year ended December 31, 2016, Macias, Gini & O'Connell, LLP, did not issue an opinion on the Company's internal control over financial reporting given the restatement. As announced on April 5, 2018, management had concluded that their assessment of the Company's internal control over financial reporting for the fiscal year ended December 31, 2016 could no longer be relied upon, and accordingly, have concluded in this report under Item 9A, Controls and Procedures, that there were a number of unremediated material weaknesses. For more information on the restatement and management's assessment of the Company's internal control over financial reporting, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on March 18, 2019.

Remediation Plan and Status for Reported Material Weaknesses

We have been working and are currently working to remediate the material weaknesses described above, including assessing the need for additional remediation steps and implementing additional measures to remediate the underlying causes that gave rise to the material weaknesses. The Company is committed to a strong internal control environment and to ensure that a proper, consistent tone is communicated throughout the organization, including the expectation that previously existing deficiencies will be remediated through implementation of processes and controls to ensure strict compliance with GAAP and 2013 COSO framework.

To address the material weaknesses in the *overall control environment, in addition to the specific remediations noted under each subsection*, the Company has and is in the process of taking the following measures:

- The Company has undergone a leadership transition, and we have a new CEO, CFO and General Counsel. Clear lines of responsibilities have been drawn in new roles to ensure effective controls.
- We are establishing regular working group meetings, with appropriate oversight by the Audit Committee and leadership of the Company, to strengthen accountability for performance of internal control over financial reporting responsibilities and prioritization of corrective actions.
- We will be enhancing our compensation practices to further incorporate risk and operational goals.
- We will be assessing and enhancing adequacy and quality of resources in areas impacting financial reporting including, but not limited to conducting additional training programs for our employees to enhance their skill sets which will complement their work.
- We are augmenting accounting staff with additional technical expertise in GAAP to assist with enhanced financial reporting procedures, controls and remediation efforts.

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To address the material weakness in the *Accounting Close and Financial Reporting* area (Material Weakness A., noted above), the Company has taken the following measures:

- We are establishing senior level oversight and executive reporting around the accounting close and financial reporting process with an enhanced focus on improving process level controls to strengthen the existing control environment around formalizing and documenting accounting policies as well as implementing a robust accounting close process with enhanced review of financial statements.
- In addition to enhancing processes and controls over adoption of new accounting standards, we will also be enhancing GAAP expertise within the accounting department.

To address the material weakness in the *Contract to Cash Process* (Material Weakness 1B., noted above), the Company has taken the following measures:

- We are establishing senior level oversight and executive reporting around the contract to cash process with an enhanced focus on improving process level controls to strengthen the existing control environment around the contract to cash process and revenue recognition. This includes but is not limited to enhancing the process for record retention of contracts and agreements, assessment of collectability from customers, analysis of complex contracts as well as automation of select billing processes.

To address the material weakness in the *Risk Assessment and Change Management Process* (Material Weakness C., noted above), the Company has taken the following measures:

- We are developing a plan to implement a periodic risk assessment process, review of control procedures and documentation around impact of changes on accounting processes.
- We are developing a plan to enhance documentation and review around accounting estimates, and interpretations with formal approval of the detailed review.
- We are developing a plan to proactively design manual controls around implementation of new systems impacting financial reporting.
- We have reallocated Company resources to improve the oversight over operational changes across the business and business trends.

To address the material weakness in the *Review of New, Unusual or Significant Transactions and Contracts* (Material Weakness D., noted above), the Company is in process of strengthening its processes and controls as follows:

- We are designing and implementing enhanced internal controls surrounding identification, analysis and governance and monitoring of new, significant or unusual contracts or transactions to ensure that these contracts or transactions are recorded in accordance with Company's policies and GAAP. This will entail enhanced documentation of analysis, as well as review and cross functional approval of company policies and interpretations.

To address the material weakness in the *Manual Reconciliations of High-Volume Standard Transactions* (Material Weakness E, noted above), the Company has taken the following measures:

- We are providing leadership oversight to ensure prioritization of funding and resources for the remediation efforts.
- We are strengthening the review controls and supporting documentation related to reconciliations of high-volume standard transactions. With an enhanced focus on supporting documentation review, we are implementing a comprehensive review methodology over data, inputs and reports used for the reconciliations.

The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Additional remediation measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Except for the material weaknesses described above, no other change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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/A that is found in our 2017 Proxy Statement that was filed with the SEC on March 17, 2017, in connection with the solicitation of proxies for the Company's 2017 Annual Meeting of Stockholders is incorporated by reference to our 2017 Proxy Statement.

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 of Form 10-K/A is incorporated by reference to our 2017 Proxy Statement for the Company's then independent registered public accounting firm and to our 2017 Annual Report on Form 10-K filed on March 18, 2019 for Macias, Gini & O'Connell, LLP.

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/A.

2. Exhibits:

The documents listed in the Exhibit Index of this Annual Report on Form 10-K/A 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).

All other financial statement schedules have been omitted because they are either inapplicable or the information required is provided in the Company's consolidated financial statements and accompanying footnotes of this Annual Report on Form 10-K/A.

Exhibit Index

Exhibit Number	Exhibit Description	Form	Incorporated by Reference		
			File No.	Exhibit	Filing Date

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3.1	Amended and Restated Certificate of Incorporation of Registrant	S-1	333-173709	3.2	7/19/2011
3.2	Amended and Restated Bylaws of Registrant	S-1	333-173709	3.4	7/19/2011
4.1	Specimen common stock certificate of Registrant	S-1	333-173709	4.1	7/19/2011
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	7/19/2011
10.1*	Form of Indemnification Agreement entered into between Registrant, its affiliates and its directors and officers	S-1	333-173709	10.1	7/19/2011
10.2*	Amended and Restated 2010 Equity Incentive Plan	8-K	001-35232	10.1	4/17/2013
10.3*	Forms of Stock Option Agreements under the Amended and Restated 2010 Equity Incentive Plan	S-1	333-173709	10.3	7/19/2011
10.4*	2000 Stock Option/Stock Issuance Plan	S-1	333-173709	10.4	4/25/2011
10.5*	Form of Stock Option Agreement under the 2000 Stock Option/Stock Issuance Plan	S-1	333-173709	10.5	4/25/2011
10.6*	2012 Employee Stock Purchase Plan	10-K	001-35232	10.6	2/27/2013
10.6A	Registration statement for Amended and Restated 2010 Equity Incentive Plan and 2012 Employee Stock Purchase Plan	S-8	001-35232	10.6A	5/15/2015
10.7*	Form of Subscription Agreement under 2012 Employee Stock Purchase Plan	S-1	333-173709	10.7	3/7/2012
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	6/8/2011
10.9*	Form of Amended and Restated Executive Severance Benefit Agreement Purchase Plan	S-1	333-173709	10.9	4/25/2011
10.10	Commercial Credit Agreement, between Registrant and Union Bank, N.A., dated as of August 31, 2010	S-1	333-173709	10.10	4/25/2011
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	3/7/2012
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	3/7/2012
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	9/24/2012
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	2/27/2013
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-K	001-35232	10.10E	2/26/2015
10.10F	Second 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 June 5, 2015	10-K	001-35232	10.10F	2/25/2016
10.10G	First Amendment to the Second 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 August 1, 2016.	10-Q	001-35232	10.10G	11/9/2016
10.11	Sublease Agreement between Oracle USA, Inc. and Registrant, dated as of September 13, 2006	S-1	333-173709	10.11	4/25/2011

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10.12	First Amendment to Sublease between Oracle USA, Inc. and Registrant, dated as of October 30, 2006	S-1	333-173709	10.12	4/25/2011
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	4/25/2011
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	4/25/2011
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	4/25/2011
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	4/25/2011
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	4/25/2011
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	4/25/2011
10.25	Second Amendment to Sublease between Oracle America, Inc. and Registrant, dated as of May 1, 2011	S-1	333-173709	10.25	6/8/2011
10.26	Lease Agreement by and between Liberty Property Limited Partnership and Registrant, dated as of March 26, 2014	10-K	001-35232	10.26	2/26/2015
10.27	Lease by and between Corporate Center Phase II Limited Partnership and CONEXIS Benefits Administrators, LP, dated as of August 26, 2004	10-K	001-35232	10.27	2/26/2015
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-K	001-35232	10.27A	2/26/2015
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-K	001-35232	10.27B	2/26/2015

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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-K	001-35232	10.27C	2/26/2015
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-K	001-35232	10.27D	2/26/2015
10.1	Lease Agreement by and between Park Place Realty Holding Company, Inc. and Registrant, dated April 10, 2014	10-Q	001-35232	10.1	5/5/2015
10.2	Second Amendment to lease, by and between Potawatomi Properties, L.L.C. and Registrant, dated February 9, 2015	10-Q	001-35232	10.2	5/5/2015
10.3	Lease Agreement by and between Freeport 9 Office Center, L.P. and Registrant, dated March 25, 2015	10-Q	001-35232	10.3	5/5/2015
10.29*	Executive Bonus Plan	8-K	001-35232	10.2	4/17/2013
21.1	List of subsidiaries of Registrant				
23.1	Consent of Macias, Gini & O'Connell LLP, Independent Registered Public Accounting Firm				
23.2	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				

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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/A, 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/A, irrespective of any general incorporation language contained in such filing.

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: April 26, 2019

By: /s/ ISMAIL DAWOOD

Ismail Dawood

Chief Financial Officer

(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Edgar O. Montes and Ismail Dawood, 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/A 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.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/ S/ EDGAR O MONTES</u> Edgar O. Montes	Chief Executive Officer, President and Director (Principal Executive Officer)	April 26, 2019
<u>/ S/ ISMAIL DAWOOD</u> Ismail Dawood	Chief Financial Officer (Principal Financial and Accounting Officer)	April 26, 2019
<u>/ S/ THOMAS A BEVILACQUA</u> Thomas A. Bevilacqua	Director	April 26, 2019
<u>/ S/ BRUCE G BODAKEN</u> Bruce G. Bodaken	Director	April 26, 2019
<u>/ S/ Carol Goode</u> Carol Goode	Director	April 26, 2019
<u>/ S/ JEROME D GRAMAGLIA</u> Jerome D. Gramaglia	Director	April 26, 2019
<u>/ S/ STUART C HARVEY</u> Stuart C. Harvey	Director	April 26, 2019
<u>/ S/ ROBERT L METZGER</u> Robert L Metzger	Director	April 26, 2019
<u>/ S/ GEORGE P SCANLON</u> George P Scanlon	Director	April 26, 2019

SUBSIDIARIES OF WAGeworks, INC.

- Benefit Concepts, Inc. of Rhode Island (Rhode Island)
- WageWorks India, Inc.
- WageWorks Service LLP (India)

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. 333-218815) on Form S-3 and the registration statements (Nos. 333-181300, 333-188658, 333-194863, 333-204219, 333-211559, and 333-217759) on Form S-8 of WageWorks, Inc. of our report dated March 18, 2019, except as to the last paragraph of “Subsequent events footnote 17” as to which the date is April 26, 2019, with respect to the consolidated balance sheet of WageWorks, Inc. and subsidiaries as of December 31, 2016, and the related consolidated statements of income, stockholders’ equity, and cash flows for the year ended December 31, 2016, which report appears in the December 31, 2016 annual report on Form 10-K/A of WageWorks, Inc. Our report refers to the fact that the 2016 consolidated financial statements have been restated to correct for misstatements

/s/ Macias, Gini & O’Connell, LLP

Newport Beach, California

April 26, 2019

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. 333-218815) on Form S-3 and the registration statements (Nos. 333-181300, 333-188658, 333-194863, 333-204219, 333-211559 and 333-217759) on Form S-8 of WageWorks, Inc. of our report dated February 25, 2016, with respect to the consolidated balance sheet of WageWorks, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2015, which report appears in the December 31, 2016 annual report on Form 10-K/A of WageWorks, Inc.

/s/ KPMG LLP

San Francisco, California
April 26, 2019

**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, Edgar O. Montes, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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: April 26, 2019

/s/ Edgar O. Montes

Name: Edgar O. Montes

Title: *Chief Executive Officer and President*
(Principal Executive Officer)

**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, Ismail Dawood, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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
 - (a) 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: April 26, 2019

/s/ Ismail Dawood

Name: Ismail Dawood

Title: *Chief Financial Officer*
(Principal Financial Officer)

**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), Edgar O. Montes, Chief Executive Officer and President (Principal Executive Officer) of WageWorks, Inc. (the "Company"), and Ismail Dawood, 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/A for the year ended December 31, 2016, 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: April 26, 2019

/s/ Edgar O. Montes

Name: Edgar O. Montes

Title: *Chief Executive Officer and President
(Principal Executive Officer)*

/s/ Ismail Dawood

Name: Ismail Dawood

Title: *Chief Financial Officer
(Principal Financial Officer)*