

WAGWORKS, INC.
Form 10-Q/A
April 26, 2019

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35232

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

Delaware 94-3351864
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

1100 Park Place, 4th Floor
San Mateo, California 94403
(Address of principal executive offices, including zip code)

(650) 577-5200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 18, 2019, there were 39,852,857 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

In connection with our year-end financial statement close and preparation of our 2017 Form 10-K, misstatements were identified in certain of our previous financial statements. On April 5, 2018, the Board of Directors (the "Board") of WageWorks, Inc. (the "Company") 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 (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 impairment assessment for KP Connector, our internal use software, among other less material matters.

As described above, the restatement is the result of corrections in accounting under U.S. generally accepted accounting principles ("U.S. GAAP") primarily related to revenue recognition for a government contract, the timing of revenue recognition under certain contracts and arrangements, and the impact of the impairment assessment for KP Connector, our internal use software, which resulted in a decrease to amortization expense in the three and nine months ended September 30, 2017 after an impairment of the software was recorded in the restated 2016 Consolidated Financial Statements.

We are filing this Amendment No. 1 to the Quarterly Report on Form 10-Q ("Form 10-Q/A") for the quarterly period ended September 30, 2017, which was filed with the United States Securities and Exchange Commission ("SEC") on November 8, 2017, (the "Original Filing"), to reflect restatements of the Condensed Consolidated Balance Sheet at September 30, 2017, the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017, and Condensed Consolidated Cash Flows for the nine months ended September 30, 2017, and the related notes thereto. The December 31, 2016 Condensed Consolidated Balance Sheet, included in this interim Quarterly Report on Form 10-Q/A, was derived from audited financial statements, as restated, in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2016 which was filed with the SEC on April 26, 2019. The Condensed Consolidated Balance Sheet at September 30, 2017 and the Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2017, as restated, were previously included in Note 17, Selected Quarterly Financial Data, in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 which was filed with the SEC on March 18, 2019.

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

Part I - Item 1 - Financial Statements

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

Part I - Item 4 - Controls and Procedures

Part II - Item 1A - Risk Factors

Part II - Item 6 - Exhibits

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Pursuant to the rules of the SEC, Part II, Item 6 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-Q/A as Exhibits 31.1, 31.2 and 32.1.

For the convenience of the reader, this Form 10-Q/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 1, Note 1, this Form 10-Q/A does not reflect events occurring after the date of the Original Filing and should be read in conjunction with our filings with the SEC subsequent to the date of the Original Filing, in each case as those filings may have been superseded or amended.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WAGWORKS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2017	December 31, 2016
	(As Restated, Note 1)	Derived from Audited Financial Statements
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 799,579	\$ 672,609
Restricted cash	332	332
Short-term investments	94,087	—
Accounts receivable, net	159,489	93,413
Prepaid expenses and other current assets	19,627	20,258
Total current assets	1,073,114	786,612
Property and equipment, net	68,417	54,435
Goodwill	297,409	297,409
Acquired intangible assets, net	161,281	176,489
Deferred tax assets, net	18,803	15,690
Other assets	6,855	5,146
Total assets	\$ 1,625,879	\$ 1,335,781
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 91,590	\$ 72,677
Customer obligations	687,462	608,380
Other current liabilities	512	729
Total current liabilities	779,564	681,786
Long-term debt, net of financing costs	244,791	248,848
Other non-current liabilities	9,444	7,505
Total liabilities	1,033,799	938,139
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
Common stock, par value \$0.001 per share (authorized 1,000,000 shares; 40,095 shares issued and 39,616 shares outstanding at September 30, 2017 and 37,247 shares issued and 36,902 shares outstanding at December 31, 2016)	41	37
Additional paid-in capital	550,631	397,307
Treasury stock at cost (480 shares at September 30, 2017 and 345 shares at December 31, 2016)	(22,309)	(14,374)
Accumulated other comprehensive loss	(35)	—
Retained earnings	63,752	14,672
Total stockholders' equity	592,080	397,642
Total liabilities and stockholders' equity	\$ 1,625,879	\$ 1,335,781

See accompanying notes to the condensed consolidated financial statements.

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WAGWORKS, INC.

Condensed Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2017	2016	2017	2016
	(As Restated, Note 1)		(As Restated, Note 1)	
Revenues:				
Healthcare	\$65,893	\$45,163	\$208,769	\$141,148
Commuter	17,987	17,570	54,366	52,412
COBRA	26,897	18,302	82,465	50,916
Other	4,069	4,215	12,415	12,440
Total revenues	114,846	85,250	358,015	256,916
Operating expenses:				
Cost of revenues (excluding amortization of internal use software)	39,031	29,750	130,438	89,440
Technology and development	13,932	11,482	43,718	32,148
Sales and marketing	16,385	13,888	47,192	41,944
General and administrative	20,196	15,212	52,155	45,294
Amortization, impairment and change in contingent consideration	9,402	6,647	28,032	29,458
Employee termination and other charges	(148)	) 162	1,500	475
Total operating expenses	98,798	77,141	303,035	238,759
Income from operations	16,048	8,109	54,980	18,157
Other income (expense):				
Interest income	340	117	502	300
Interest expense	(2,059)	) (521)	) (5,261)	) (1,748)
Other income (expense), net	(30)	) 17	(260)	) (113)
Income before income taxes	14,299	7,722	49,961	16,596
Income tax provision	(5,236)	) (2,492)	) (4,563)	) (5,690)
Net income	\$9,063	\$5,230	\$45,398	\$10,906
Net income per share:				
Basic	\$0.23	\$0.14	\$1.19	\$0.30
Diluted	\$0.23	\$0.14	\$1.16	\$0.29
Shares used in computing net income per share:				
Basic	39,641	36,605	38,028	36,312
Diluted	40,264	37,454	39,106	37,078

See accompanying notes to the condensed consolidated financial statements.

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WAGWORKS, INC.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2017		Nine months Ended September 30, 2016	
	(As Restated, Note 1)	2016	(As Restated, Note 1)	2016
Net income	\$9,063	\$5,230	\$45,398	\$10,906
Other comprehensive loss, net of tax				
Net unrealized loss on investments	(35)	—	(35)	—
Other comprehensive loss, net of tax	(35)	—	(35)	—
Total comprehensive income	\$9,028	\$5,230	\$45,363	\$10,906

See accompanying notes to the condensed consolidated financial statements.

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WAGWORKS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands) (Unaudited)

	Nine Months Ended September 30, 2017 2016 (As Restated, Note 1)	
Cash flows from operating activities:		
Net income	\$45,398	\$10,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,172	6,349
Amortization, impairment and change in contingent consideration	28,031	29,457
Amortization of debt issuance costs	294	111
Stock-based compensation expense	17,988	20,177
Loss on disposal of fixed assets	98	185
Provision for doubtful accounts	90	943
Deferred taxes	592	(424)
Other	(99)	—)
Excess tax benefits related to stock-based compensation arrangements	—	(6,005)
Changes in operating assets and liabilities:		
Accounts receivable	(66,166)	(3,701)
Prepaid expenses and other current assets	130	(2,022)
Other assets	(1,709)	(50)
Accounts payable and accrued expenses	15,533	5,443
Customer obligations	79,082	147,146
Other liabilities	1,683	(2,723)
Net cash provided by operating activities	129,117	205,792
Cash flows from investing activities:		
Purchases of property and equipment	(28,489)	(20,529)
Purchases of short-term investments	(99,445)	—
Proceeds from sales of short-term investments	5,398	—
Purchases of intangible assets	(2,107)	(20,777)
Net cash used in investing activities	(124,643)	(41,306)
Cash flows from financing activities:		
Proceeds from public stock offering, net of underwriting discounts, commissions and other costs	130,832	—
Proceeds from exercise of common stock options	10,834	10,705
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,172	1,672
Payments of loan origination fee	(1,851)	(200)
Payments of debt principal	(2,500)	—
Payments of contingent consideration	—	(750)
Payments for treasury stock acquired	(7,935)	(9,371)
Payment of capital lease obligations	(224)	(276)
Taxes paid related to net share settlement of stock-based compensation arrangements	(8,832)	(5,997)
Excess tax benefits related to stock-based compensation arrangements	—	6,005
Net cash provided by financing activities	122,496	1,788
Net increase in cash and cash equivalents	126,970	166,274

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Cash and cash equivalents at beginning of period	672,609	500,918
Cash and cash equivalents at end of period	\$799,579	\$667,192
Supplemental cash flow disclosure:		
Cash paid during the period for:		
Interest	\$4,672	\$1,151
Income taxes	\$2,940	\$5,216
Noncash financing and investing activities:		
Property and equipment, accrued but not paid	\$3,732	\$2,882
Contingent payment, accrued but not paid	\$2,060	\$—
Property and equipment purchased under capital lease obligations	\$263	\$711

See accompanying notes to the condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 Summary of Business and Significant Accounting Policies

Business

WageWorks, Inc., (together with its subsidiaries, "WageWorks" or the "Company") was incorporated in the state of Delaware in 2000. The Company is a leader in administering Consumer-Directed Benefits ("CDBs"), which empower employees to 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.

Basis of Presentation

The unaudited interim condensed consolidated financial statements and the related notes have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP"). The results of the interim period presented herein are not necessarily indicative of the results of future periods or annual results for the year ending December 31, 2017.

These unaudited interim condensed consolidated financial statements and the related notes should be read in conjunction with the December 31, 2016 audited financial statements and related notes, as restated, together with management's discussion and analysis of financial condition and results of operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The December 31, 2016 consolidated balance sheet, included in this interim Quarterly Report on Form 10-Q/A, was derived from audited financial statements, as restated, in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2016 which was filed with the SEC on April 26, 2019. Certain prior year amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the current year's presentation as a result of the adoption of new accounting guidance Accounting Standards Update ("ASU") 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). See "Recent Accounting Pronouncements" section below.

Other than the adoption of ASU 2016-09, there have been no material changes in the Company's significant accounting policies from those that were disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2016 included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2016, as restated.

Principles of Consolidation

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

Use of Estimates

In preparing the condensed consolidated financial statements and related disclosure in conformity with GAAP, 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 condensed 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 website development cost classification, and recoverability and impairments of goodwill and long-lived assets. Actual results may be materially different from those estimates. In making its estimates, the Company considers the current economic and legislative environment.

Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

Restatement

Restatement Background

Subsequent to the issuance of the 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 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 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 impairment assessment for KP Connector, our internal use software, among other 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. generally accepted accounting principles related to revenue recognition for a government contract, the timing of revenue recognition under certain contracts and arrangements, the impairment assessment for KP Connector, the Company's internal use software, and adjustments made to the accounts receivable and customer obligations balances. Accordingly, the Company is restating its unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2017, to correct these errors, the most significant of which are described below.

Revenue Recognition Adjustments

In March 2016, the Company entered into an agreement to provide Flexible Spending Accounts ("FSA") services to the United States Government Office of Personnel Management ("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 revenue in 2016 and 2017 attributed to such services. In April 2018, the Company determined that it should not have recognized revenue related to these OPM professional services, and the related receivable should be reversed. Additionally, the Company identified a number of billing and revenue recognition errors. As a result, the Company has made adjustments to reduce revenue by \$0.9 million and \$2.6 million for the three and nine months ended September 30, 2017, respectively.

For the Three Months Ended September	
30, 2017	
Revenue Restatement Adjustments (In	
thousands)	
OPM	Total

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	Invoice	Revenue		
	Adjustments	Recognition	Timing	
Healthcare	\$(182)	\$ (157)	\$ 29	\$(310)
Commuter	—	21	0	21
COBRA	—	(111)	(532)	(643)
Other	—	32	—	32
Total	\$(182)	\$ (215)	\$ (503)	\$(900)

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(Unaudited)For the Nine Months Ended September 30,
2017Revenue Restatement Adjustments (In
thousands)

	OPM	Invoice Adjustments	Revenue Recognition Timing	Total
Healthcare	\$(476)	\$ (309)	\$ (633)	\$(1,418)
Commuter	—	(10)	—	(10)
COBRA	—	(394)	(722)	(1,116)
Other	—	(68)	—	(68)
Total	\$(476)	\$ (781)	\$ (1,355)	\$(2,612)

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 condensed consolidated statements of income. As a result of the change, the Company also reversed previously recorded amortization expenses in the three and nine months ended September 30, 2017 by \$0.3 million and \$0.9 million, respectively.

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 three and nine months ended September 30, 2017. 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:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017			
	As Previously Reported	As Adjusted restated	As Previously Reported	As Adjusted restated		
Stock-based compensation expense related to restricted stock units (in millions)	\$5.0	\$ (0.9)	\$4.1	\$16.2	\$ (7.1)	\$ 9.1

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At September 30, 2017

As	Adjustments	As
Previously		restated
Reported		

Total unrecorded stock-based compensation cost associated with restricted stock units (in millions)	\$41.7	\$ (23.2)	\$ 18.5
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Total restatement adjustments for stock-based compensation expense (in thousands):

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Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Previously Reported	Adjustments	As restated	As Previously Reported	Adjustments	As restated
Cost of revenues	\$ 1,824	\$ —	\$ 1,824	\$ 5,554	\$ 17	\$ 5,571
Technology and development	527	(17)	510	1,794	(73)	1,721
Sales and marketing	719	(17)	702	2,166	(55)	2,111
General and administrative	5,002	(861)	4,141	15,582	(6,997)	8,585
Total	\$ 8,072	\$ (895)	\$ 7,177	\$ 25,096	\$ (7,108)	\$ 17,988

The Company recorded additional adjustments to the condensed consolidated financial statements for the three and nine months ended September 30, 2017, 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 Form 10-Q/A, to reflect these adjustments in the three and nine months ended September 30, 2017.

The tax impact in connection with the restatement adjustments was recorded for the three and nine months ended September 30, 2017. See Note 12. Income Taxes, for details.

The following table presents the Company's condensed consolidated balance sheet as previously reported, restatement adjustments and the condensed consolidated balance sheet as restated as of September 30, 2017 (in thousands):

Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except per share amounts)

	September 30, 2017		
	As		
	Previously	Adjustments	As Restated
	Reported		
Assets			
Current assets:			
Cash and cash equivalents	\$ 798,266	\$ 1,313	(a) \$ 799,579
Restricted cash	332	—	332
Short-term investments	94,087	—	94,087
Accounts receivable, net	183,237	(23,748	) (b) 159,489
Prepaid expenses and other current assets	21,410	(1,783	) (c) 19,627
Total current assets	1,097,332	(24,218	) 1,073,114
Property and equipment, net	69,963	(1,546	) (d) 68,417
Goodwill	297,409	—	297,409
Acquired intangible assets, net	161,281	—	161,281
Deferred tax assets, net	16,562	2,241	(e) 18,803
Other assets	7,009	(154	) (f) 6,855
Total assets	\$ 1,649,556	\$ (23,677	) \$ 1,625,879
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 90,961	\$ 629	(g) \$ 91,590
Customer obligations	702,432	(14,970	) (h) 687,462
Other current liabilities	223	289	(i) 512
Total current liabilities	793,616	(14,052	) 779,564
Long-term debt, net of financing costs	244,791	—	244,791
Other non-current liabilities	10,468	(1,024	) (j) 9,444
Total liabilities	1,048,875	(15,076	) 1,033,799
Stockholders' Equity:			
Common stock, \$0.001 par value (authorized 1,000,000 shares; 40,095 shares issued and 39,616 shares outstanding at September 30, 2017 and 37,247 shares issued and 36,902 shares outstanding at December 31, 2016)	41	—	41
Additional paid-in capital	563,893	(13,262	) (k) 550,631
Treasury stock at cost (480 shares at September 30, 2017 and 345 shares at December 31, 2016)	(22,309	) —	(22,309
Accumulated other comprehensive loss	(35	) —	(35
Retained earnings	59,091	4,661	63,752
Total stockholders' equity	600,681	(8,601	) 592,080
Total liabilities and stockholders' equity	\$ 1,649,556	\$ (23,677	) \$ 1,625,879

(a) Adjustment of \$1.3 million relates to an increase to cash and cash equivalents to correct timing differences associated with obligation payments from employer clients and the receipt of cash in the Company's bank accounts,

resulting in a reclassification of \$0.6 million from cash and cash equivalents to customer obligations and from accounts receivable to cash and cash equivalents of \$2.0 million.

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

- Adjustment relates to (i) a \$15.6 million reduction from the reclassification of accounts receivable to customer obligations based on the correction of the timing of customer billing and payments and an adjustment to the allowance for doubtful accounts; (ii) a \$3.0 million reduction in accounts receivable due to accruals to correct the recording of invoices, credit memos and billing adjustments in the proper period; and (iii) a \$5.1 million reduction in accounts receivable from the restatement of OPM revenue (as discussed above), of which \$4.1 million relates to the reduction of revenue and \$1.0 million relates to the reduction of short-term and long-term deferred revenue.
- (b) Adjustment of \$1.8 million relates to change in income tax receivable as result of restated taxable income.
- Adjustment of \$1.5 million relates to (i) the impairment charge for IDS of \$3.7 million, as discussed above, offset by the reversal of accumulated depreciation of \$1.5 million associated with IDS previously recorded during the year ended December 31, 2016 and (ii) \$0.8 million for equipment originally recognized incorrectly as operating leases purchased under capital lease obligations, offset by recognizing \$0.2 million of capital lease depreciation.
- (d) Adjustment relates to \$2.2 million increase in deferred tax asset due to restated taxable income.
- (e) Adjustment to write-off uncollectible deposit
- Adjustment primarily relates to \$0.8 million accrual related to interest and penalties for unreported employee participant and employer clients unclaimed property, offset by a \$0.2 million reduction related to customer related billing errors.
- Adjustment primarily relates to (i) a \$15.6 million reduction for the reclassification of customer obligations from Accounts Receivable based on the correction of the timing of employer client billings and payments, partially offset by a \$0.6 million increase 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.
- (h) Adjustment to record the current portion of capital lease obligations originally recognized incorrectly as operating leases.
- (i) Adjustment of \$1.0 million relates to the reduction of long-term deferred revenue of \$1.4 million in connection with the Company's OPM restatement as noted above, partially offset by an increase of \$0.3 million related to the long-term portion of capital lease obligations originally reported incorrectly as operating leases.
- (j) Adjustment of \$13.3 million relates to a \$10.2 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.
- (k)

The following table presents the Company's condensed consolidated statement of income as previously reported, restatement adjustments and the condensed consolidated statement of income as restated for the three and nine months ended September 30, 2017 (in thousands, except per share amounts):

Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)Condensed Consolidated Statements of Income (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Revenues:						
Healthcare	\$66,203	\$ (310)	(l) \$65,893	\$210,187	\$ (1,418)	(l) \$208,769
Commuter	17,966	21	(n) 17,987	54,376	(10)	(n) 54,366
COBRA	27,540	(643)	(m) 26,897	83,581	(1,116)	(m) 82,465
Other	4,037	32	(n) 4,069	12,483	(68)	(n) 12,415
Total revenues	115,746	(900)	114,846	360,627	(2,612)	358,015
Operating expenses:						
Cost of revenues (excluding amortization of internal use software)	38,805	226	(o) 39,031	129,410	1,028	(o) 130,438
Technology and development	13,949	(17)	(p) 13,932	43,852	(134)	(p) 43,718
Sales and marketing	16,401	(16)	(q) 16,385	47,244	(52)	(q) 47,192
General and administrative	20,220	(24)	(r) 20,196	63,410	(11,255)	(r) 52,155
Amortization, impairment and change in contingent consideration	9,698	(296)	(s) 9,402	28,920	(888)	(s) 28,032
Employee termination and other charges	(148)	—	(148)	1,500	—	1,500
Total operating expenses	98,925	(127)	98,798	314,336	(11,301)	303,035
Income from operations	16,821	(773)	16,048	46,291	8,689	54,980
Other income (expense):						
Interest income	340	—	340	502	—	502
Interest expense	(1,987)	(72)	(t) (2,059)	(5,047)	(214)	(t) (5,261)
Other income (expense), net	(25)	(5)	(30)	(246)	(14)	(260)
Income before income taxes	15,149	(850)	14,299	41,500	8,461	49,961
Income tax provision	\$(5,464)	228	(u) (5,236)	(1,613)	(2,950)	(u) (4,563)
Net income	\$9,685	\$ (622)	\$9,063	\$39,887	\$ 5,511	\$45,398
Net income per share:						
Basic	\$0.24	\$ (0.01)	\$0.23	\$1.05	\$ 0.14	\$1.19
Diluted	\$0.24	\$ (0.01)	\$0.23	\$1.02	\$ 0.14	\$1.16
Shares used in computing net income per share:						
Basic	39,641	—	39,641	38,028	—	38,028
Diluted	40,264	—	40,264	39,106	—	39,106

(l) Revenue adjustment of \$0.3 million for the three months ended September 30, 2017 was primarily due reduction 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. Revenue adjustment of \$1.4 million for the nine months ended September 30, 2017 was primarily due to (i) a \$0.6 million reversal of ADP revenue, (ii) a \$0.5 million adjustment of revenue related to OPM,

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

and (iii) a \$0.3 million increase 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.

(m) Revenue adjustment of \$0.6 million for the three months ended September 30, 2017 was primarily due to (i) a \$0.5 million reversal of ADP revenue and (ii) a \$0.1 million reduction 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. Revenue adjustment of \$1.1 million for the nine months ended September 30, 2017 was a result of (i) a \$0.7 million reversal of ADP revenue and (ii) a \$0.4 million correction of billing errors and the recognition of invoices and related invoice adjustments in the proper reporting period.

(n) Revenue adjustments primarily as a result of the correction of billing errors and the recognition of invoices and related invoice adjustments in the proper reporting period.

(o) Adjustment of \$0.2 million for the three months ended September 30, 2017 related to an adjustment to the reserve of potentially uncollectible customer obligations for pass through employee participant reimbursement. Adjustment of \$1.0 million for the nine months ended September 30, 2017 primarily related to (i) adjustment of \$0.6 million as a result of under-accrual of platform technology related expenses and (ii) adjustment of \$0.4 million related to the reserve of potentially uncollectible customer obligations for pass through employee participant reimbursement.

(p) Adjustment for the three and nine months ended September 30, 2017 was primarily related to stock-based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units (see above for details).

(q) Adjustment for the three and nine months ended September 30, 2017 was primarily related to reduction in stock-based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units (see above for details).

(r) Adjustment for the three months ended September 30, 2017 was principally related to (i) reduction in stock-based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units (see above for details) partially offset by additional reserve of potentially uncollectible customer account related to the re-valuation of the allowance for bad debt. Adjustment of \$11.3 million for the nine months ended September 30, 2017 primarily related to (i) a \$6.6 million reduction in stock-based compensation expense as a result of reduced target attainment percentages expected for performance-based restricted stock units as discussed above, (ii) a \$4.2 million reduction for the re-valuation of the allowance for bad debt, and (iii) a reduction of \$0.1 million of expenses recorded in the proper period.

(s) Adjustments for the three and nine months ended September 30, 2017 relate to the reduction in amortization expense previously recorded in connection with the IDS related to KP Connector that was impaired by the Company in 2016.

(t) Adjustments for the three and nine months ended September 30, 2017 are due to accrued interest expense on unreported employee participant and employer clients' unclaimed property.

(u) Adjustments for the three and nine months ended September 30, 2017 are as a result of the impact of the restatement adjustments in (l) through (t).

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

The following table presents the Company's condensed consolidated statement of cash flows for the nine months ended previously reported, restatement adjustments and the condensed consolidated statement of cash flows as restated for the nine months ended September 30, 2017 (in thousands). Footnote references below refer to footnotes (a) through (u) in the condensed consolidated balance sheet and condensed consolidated statement of income tables as at and for the three and nine months ended September 30, 2017 above.

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(Unaudited)Condensed Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30, 2017		
	As Previously Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net income	\$39,887	\$ 5,511	(l)-(u)\$45,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,941	231	(d) 8,172
Amortization, impairment and change in contingent consideration	28,920	(889)	) (s) 28,031
Amortization of debt issuance costs	294	—	294
Stock-based compensation expense	25,096	(7,108)	) (r) 17,988
Loss on disposal of fixed assets	98	—	98
Provision for doubtful accounts	4,299	(4,209)	) (r) 90
Deferred taxes	—	592	(e) 592
Other	(99)	) —	(99)
Changes in operating assets and liabilities:			
Accounts receivable	(94,648)	) 28,482	(b) (66,166)
Prepaid expenses and other current assets	(2,488)	) 2,618	(c) 130
Other assets	(1,709)	) —	(1,709)
Accounts payable and accrued expenses	14,615	918	(g) 15,533
Customer obligations	98,590	(19,508)	) (h) 79,082
Other liabilities	1,093	590	(i) 1,683
Net cash provided by operating activities	121,889	7,228	129,117
Cash flows from investing activities:			
Purchases of property and equipment	(28,489)	) —	(28,489)
Purchases of short-term investments	(99,445)	) —	(99,445)
Proceeds from sales of short-term investments	5,398	—	5,398
Purchases of intangible assets	(2,107)	) —	(2,107)
Net cash used in investing activities	(124,643)	) —	(124,643)
Cash flows from financing activities:			
Proceeds from public stock offering, net of underwriting discounts, commissions and other costs	130,832	—	130,832
Proceeds from exercise of common stock options	10,834	—	10,834
Proceeds from issuance of common stock under Employee Stock Purchase Plan	2,172	—	2,172
Payments of loan origination fee	(1,851)	) —	(1,851)
Payments of debt principal	(2,500)	) —	(2,500)
Payments for treasury stock acquired	(7,935)	) —	(7,935)
Payment of capital lease obligations	—	(224)	) (d) (224)
Taxes paid related to net share settlement of stock-based compensation arrangements	(8,832)) —	(8,832)
Net cash provided by financing activities	122,720	(224)) 122,496

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Net increase in cash and cash equivalents	119,966	7,004	126,970
Cash and cash equivalents at beginning of period	678,300	(5,691)	672,609
Cash and cash equivalents at end of period	\$798,266	\$ 1,313	\$799,579

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

Cash, Cash Equivalents, and Restricted Cash

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

The majority of the Company's cash and cash equivalents represent funding and pre-funding balances received from customers for which the Company has a corresponding current obligation. In all cases where we have collected cash from a customer but not fulfilled services (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 condensed consolidated balance sheets.

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

Marketable Securities

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

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. Write-offs for the three and nine months ended September 30, 2017 and 2016 were not significant.

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

Fair Value of Financial Instruments

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

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

characteristics. The determination of the fair value of the Company's marketable securities is further explained in Note 4 Investments and Fair Value Measurements.

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

• Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

• Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

• Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Property and Equipment

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

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

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

Software and Website Development Costs

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

Impairment of Long-lived Assets

The Company reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. An impairment of long-lived assets exists

when the carrying amount of a long-lived asset group, exceeds its fair value. Such impairment arises in circumstances when such assets are assessed and determined to have no continuing or future benefit. Impairment losses are recorded when the carrying amount of the impaired asset group is not recoverable. Recoverability is determined by comparing the carrying amount of the asset or asset group to the undiscounted cash flows which are expected to be generated from its use. If the carrying amount of the asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset or asset group exceeds its fair value. The Company did not record impairment losses related to long-lived assets in the nine months ended September 30, 2017.

In 2016, the Company re-assessed the fair value of KP Connector which is an internal use software developed by the Company based on the specifications outlined in a client agreement. In the second quarter of 2016, the client notified the Company that it no longer required the services provided by the Company. Accordingly, the Company determined that KP Connector's carrying value was considered unrecoverable as of June 30, 2016, and recorded a \$3.7 million impairment charge

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

to amortization, impairment and change in contingent consideration expense in the condensed consolidated statements of income and a corresponding reduction of property and equipment, net, in the condensed 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

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, impairment and change in contingent consideration expense on the condensed 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.

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 in a manner similar to a purchase price allocation. 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.

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

Income Taxes

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

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

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

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

Customer Obligations Liability

Many of our customer agreements include provisions whereby our customers 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 condensed 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' HRAs, and certain healthcare Flexible Spending Accounts ("FSAs"). Other revenue includes services related to enrollment and eligibility, non-

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

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 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 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, 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.

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

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

We estimate expected volatility based on the historical volatility of comparable companies from a representative peer-group as well as our own historical volatility. We estimate the expected term based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior such as exercises and forfeitures. We base the risk-free interest rate on zero-coupon yields implied from U.S. Treasury issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future, and therefore, use 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.

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new accounting guidance clarifies the definition of a business and provides additional guidance to assist entities with evaluating whether transactions should be accounted for as asset acquisitions (or asset disposals) or business combinations (or disposals of a business). Under this guidance, an entity first determines whether substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this criterion is met, the transaction should be accounted for as an asset acquisition as opposed to a business combination. This distinction is important because the accounting for an asset acquisition significantly differs from the accounting for a business combination. This guidance eliminates the requirement to evaluate whether a market participant could replace missing elements (e.g. inputs or processes), narrows the definition of outputs and requires that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. During the third quarter of 2017, the Company elected to early adopt this standard in connection with the Tango Health's Savings Account ("HSA") business asset acquisition as recorded in Note 3 - Goodwill and Intangible Assets.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when an award vests or is settled. In addition, cash flows related to excess tax benefits will no

longer be separately classified as financing activity but should be classified as operating activities. The standard also increases the amount of shares an employer can withhold for tax purposes without triggering liability accounting, clarifies that all cash payments made on employee's behalf for withheld shares should be presented as a financing activity in the statements of cash flows, and provides an entity-wide accounting policy election to account for forfeitures as they occur.

The Company adopted this standard during the first quarter of 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our condensed consolidated statements of income as a component of the provision for income taxes rather than additional paid-in capital on a prospective basis. The cumulative effect of this accounting change resulted in an increase of \$3.6 million to deferred tax assets and an offset to the opening retained earnings of \$3.6 million in the condensed consolidated balance sheets as of January 1, 2017. For the three and nine months ended September 30, 2017, the Company recorded excess tax benefits in the amount of \$0.4 million and \$14.7 million within our provision for income taxes in the condensed consolidated statements of income.

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Notes to Condensed Consolidated Financial Statements (continued)
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For presentation requirements, the Company elected to prospectively apply the change in the presentation of excess tax benefits wherein excess tax benefits recognized on stock-based compensation expense were classified as operating activities on the condensed consolidated statements of cash flows. Prior period classification of cash flows related to excess tax benefits were not adjusted.

The Company elected to retrospectively apply the presentation requirements for cash flows related to employee taxes paid for withheld shares to be presented as financing activities. The condensed consolidated statement of cash flows for the nine months ended September 30, 2016 was reclassified with a \$6.0 million increase in net cash provided by operating activities and a decrease in net cash used in financing activities.

Further, the Company did not elect an accounting change to record forfeitures as they occur. The Company continues to estimate forfeitures at each period.

Recently Issued Accounting Pronouncements

In May 2014, the 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, 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. Subsequently, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients; and ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842).

The Company will adopt the standard on January 1, 2018 and will apply the modified retrospective method of adoption to those contracts which were not completed as of that date. Upon adoption, the Company will recognize the cumulative effect of adopting this guidance as an adjustment to its opening balance of retained earnings. Prior periods will not be retrospectively adjusted.

The Company anticipates the primary impact of adopting the new standard will result in the increase in assets from the deferral of incremental commission related to the cost of obtaining subscription contracts. Under Topic 605, the Company expensed all direct and incremental commission costs to obtain a contract. Under the new standard, the Company will defer all incremental commission costs to obtain the contract. These costs are amortized to sales and marketing expense on a consistent basis that reflects the transfer of services to the customer over an estimated period of benefit that has been determined to be six years. The Company expects the impact of adopting ASC 606 to result in an approximate increase in total assets of \$9.3 million and an increase in retained earnings of \$6.9 million (net of tax effect) as of January 1, 2018. For tax purposes, this change in accounting policy will change the timing of the book deduction, which will result in a book/tax difference. Since tax is deducting the commission expense before books, this will result in a taxable temporary difference and deferred tax liability. The Company expects the tax impact to increase deferred tax liability in the amount of \$2.4 million with a decreasing offset to retained earnings upon adoption.

In February 2016, the FASB issued ASC No. 842, Leases, (Topic 842). The Company currently expects that its operating lease commitments will be subject to the new standard and be recognized as operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase the total assets and total liabilities that we report relative to such amounts prior to adoption. Refer to Note 12 for further information on our operating lease commitments. The Company plans to adopt Topic 842 using the alternative modified retrospective approach with the cumulative effect of adoption recognized to retained earnings on January 1, 2019. The Company does not believe the new standard will have a material impact on its consolidated statements of income, nor will it have a notable impact on its liquidity. The standard will also have no impact on our debt-covenant compliance under our current agreements. The Company expects the adoption of the standard to have a material impact on the balance sheet as a result of recording a right-of-use asset and lease liability associated with a number of lease arrangements.

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In March 2016, the FASB issued ASU 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. The Company does not expect the adoption of this ASU to have a significant impact on its condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 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. The update to the standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this ASU to have a significant impact on its condensed consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance principally affects accounting standards for equity investments, financial liabilities where the fair value option has been elected, and the presentation and disclosure requirements for financial instruments. Upon the effective date of the new guidance, all equity investments in unconsolidated entities, other than those accounted for using the equity method of accounting, will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification and therefore, no changes in fair value will be reported in other comprehensive income (loss) for equity securities with readily determinable fair values. The new guidance on the classification and measurement will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures.

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

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories are no longer presented in the Statement of Cash Flows. The Company will adopt this standard on January 1, 2018 using the

retrospective method. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures.

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

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In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation: Scope of Modification Accounting (ASU 2017-09). The update amends the scope of modification accounting for share-based payment arrangements to specify that modification accounting would not be applicable if the fair value, vesting conditions and classification of the share-based awards are the same immediately before and after the modification. This update is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures.

Note 2 Net Income per Share

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

	Three months ended		Nine months Ended September	
	September 30, 2017	2016	2017	2016
	(As Restated, Note 1)		(As Restated, Note 1)	
Numerator for basic net income per share:				
Net income	\$9,063	\$5,230	\$45,398	\$10,906
Denominator for basic net income per share:				
Weighted-average common shares outstanding	39,641	36,605	38,028	36,312
Basic net income per share	\$0.23	\$0.14	\$1.19	\$0.30
Numerator for diluted net income per share:				
Net income	\$9,063	\$5,230	\$45,398	\$10,906
Denominator for diluted net income per share:				
Weighted-average common shares outstanding	39,641	36,605	38,028	36,312
Dilutive stock options and restricted stock units	622	849	1,057	733
Dilutive vested performance restricted stock units and employee stock purchase plan shares	1	—	21	33
Diluted weighted-average common shares outstanding	40,264	37,454	39,106	37,078
Diluted net income per share	\$0.23	\$0.14	\$1.16	\$0.29

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. The Company excluded 1.0 million and 0.4 million anti-dilutive share equivalents in the calculation of diluted earnings per share for the three months ended September 30, 2017 and 2016, respectively; and 0.8 million and 1.1 million anti-dilutive shares for the nine months ended September 30, 2017 and 2016, respectively.

Note 3 Goodwill and Intangible Assets

Goodwill

There is no change in the carrying amount of goodwill for the three and nine months ended September 30, 2017.

Intangible Assets

Acquired intangible assets at September 30, 2017 and December 31, 2016 were comprised of the following (in thousands):

	September 30, 2017 (As Restated, Note 1)			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Amortizable intangible assets:						
Client contracts and broker relationships	\$236,730	\$ (78,539)	\$ 158,191	\$232,560	\$ (60,569)	\$ 171,991
Trade names	3,880	(3,469)	411	3,880	(3,078)	802
Technology	14,646	(12,752)	1,894	14,646	(11,867)	2,779
Noncompete agreements	2,232	(1,995)	237	2,232	(1,941)	291
Favorable lease	1,134	(586)	548	1,136	(510)	626
Total	\$258,622	\$ (97,341)	\$ 161,281	\$254,454	\$ (77,965)	\$ 176,489

In September 2017, the Company acquired certain intangible assets from Tango Health ("Tango") related to Tango's Health Savings Account ("HSA") business for \$4.1 million.

Amortization expense of intangible assets totaled \$6.4 million and \$4.1 million for the three months ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, amortization expense of intangible assets was \$19.4 million and \$17.0 million, respectively. These costs are included in amortization, impairment and change in contingent consideration in the condensed consolidated statements of income.

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 amortization expense in future periods at September 30, 2017 is as follows (in thousands):

Remainder of 2017	\$6,354
2018	25,382
2019	24,459
2020	22,475
2021	19,671
Thereafter	62,940
Total	\$161,281

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Note 4 Investments and Fair Value Measurements

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

	September 30, 2017					
	Carrying Amount	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Level 1	Level 2
Cash equivalents:						
Money market funds	\$11,874	\$ —	\$ —	\$11,874	\$11,874	\$—
Commercial paper	19,229	—	—	19,229	—	19,229
Total cash equivalents	31,103	\$ —	\$ —	\$31,103	\$11,874	\$19,229
Short-term investments:						
Corporate debt securities	\$42,148	\$ —	\$ (34)	\$42,114	\$—	\$42,114
Commercial paper	25,637	1	—	25,638	—	25,638
Asset-backed securities	9,369	—	(10)	9,359	—	9,359
U.S. treasury securities	4,507	—	(4)	4,503	4,503	—
U.S. government agency securities	4,984	—	(2)	4,982	—	4,982
Non-U.S. government and agency securities	7,500	—	(9)	7,491	—	7,491
Total short-term investments	\$94,145	\$ 1	\$ (59)	\$94,087	\$4,503	\$89,584
Total cash equivalents and short-term investments	\$125,248	\$ 1	\$ (59)	\$125,190	\$16,377	\$108,813

The gross unrealized losses related to fixed income securities were due to changes in interest rates. As of September 30, 2017, the Company had no investments that were in an unrealized loss position for a period of twelve months or greater and have determined that the gross unrealized losses on investments are temporary in nature. The Company had no investments in marketable securities as of December 31, 2016.

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

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

September 30, 2017	
Amortized Costs	Fair Value
Due	
less	
\$76,568	\$76,561
one	
year	
48,680	48,629

Due
in
one
to
five
years
Total \$5,248 \$125,190

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Note 5 Accounts Receivable

Accounts receivable at September 30, 2017 and December 31, 2016 were comprised of the following (in thousands):

	September 30, 2017	December 31, 2016
	(As Restated, Note 1)	
Trade receivables	\$ 64,228	\$ 54,887
Unpaid amounts for benefit services	97,170	40,542
Accounts receivable, gross	161,398	95,429
Less: allowance for doubtful accounts	(1,909	) (2,016
Accounts receivable, net	\$ 159,489	\$ 93,413

Note 6 Property and Equipment

Property and equipment at September 30, 2017 and December 31, 2016 were comprised of the following (in thousands):

	September 30, 2017	December 31, 2016
	(As Restated, Note 1)	
Computers and equipment	\$ 22,362	\$ 17,254
Software and software development costs	119,768	102,998
Furniture and fixtures	7,674	6,784
Leasehold improvements	25,088	19,477
	\$ 174,892	\$ 146,513
Less: accumulated depreciation and amortization	(106,475	) (92,078
Property and equipment, net	\$ 68,417	\$ 54,435

The Company capitalized software development costs of \$5.8 million and \$4.0 million for the three months ended September 30, 2017 and 2016, respectively; and \$15.4 million and \$11.0 million for the nine months ended September 30, 2017 and 2016, respectively. Amortization expense related to capitalized software development costs was \$3.0 million and \$2.6 million for the three months ended September 30, 2017 and 2016, respectively; and \$8.7 million and \$12.5 million for the nine months ended September 30, 2017 and 2016, respectively. These costs are included in amortization, impairment and change in contingent consideration in the condensed consolidated statements of income. At September 30, 2017, the unamortized software development costs included in property and equipment in the condensed consolidated balance sheets were \$33.4 million.

Total depreciation expense plus amortization of capitalized software development costs, for the three months ended September 30, 2017 and 2016 was \$6.0 million and \$5.0 million, respectively; and \$16.8 million and \$18.8 million for the nine months ended September 30, 2017 and 2016, respectively.

As a result of the restatement, the Company recorded assets under capital lease obligations which were originally recognized incorrectly as operating leases. As of September 30, 2017, total assets under capital lease obligations were \$1.9 million, and were classified as computers and equipment. Accumulated depreciation for assets under capital lease obligations was \$1.3 million as of the September 30, 2017.

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

income and a corresponding reduction of property and equipment, net, in the condensed consolidated balance sheets. The Company also reversed previously recorded amortization expenses for each of the three months ended September 30, 2017 and 2016 by \$0.3 million, respectively, and reversed previously recorded amortization expenses for each of the nine months ended September 30, 2017 and 2016 by \$0.9 million and \$0.6 million, respectively.

Note 7 Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2017 and December 31, 2016 were comprised of the following (in thousands):

	September 30, December 31,	
	2017	2016
	(As Restated, Note 1)	
Accounts payable and accrued liabilities	\$ 28,006	\$ 21,830
Payable to benefit providers and transit agencies	24,363	24,528
Accrued compensation and related benefits	27,391	20,223
Other accrued expenses	5,456	3,752
Deferred revenue	6,374	2,344
Accounts payable and accrued expenses	\$ 91,590	\$ 72,677

Note 8 Long-term debt

As of September 30, 2017 and December 31, 2016, long-term debt consisted of the following (in thousands):

	September 30, December 31,	
	2017	2016
Revolving credit facility used	\$ 249,830	\$ 250,000
Less: Outstanding letters of credit	(2,830)	(500)
Outstanding revolving credit facility	247,000	249,500
Unamortized loan origination fees	(2,209)	(652)
Long-term debt	\$ 244,791	\$ 248,848

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

The loans bear interest, at the Company’s option, at either (i) a London Interbank Offered Rate (LIBOR) determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 1.25% to 2.25%, or (ii) a base rate determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 0.25% to

1.25%, in either case with such margin determined based on the Company's consolidated leverage ratio for the preceding four fiscal quarter period. Interest is due and payable in arrears quarterly for base rate loans and at the end of an interest period for LIBOR rate

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Notes to Condensed Consolidated Financial Statements (continued)
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loans. Principal, together with all accrued and unpaid interest, is due and payable on April 4, 2022. The Company elected option (i) and, as of September 30, 2017, the interest rate applicable to the revolving credit facility was 2.74%.

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

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

As of September 30, 2017, the Company had \$247.0 million outstanding under the revolving credit facility and \$150.2 million unused revolving credit facility still available to borrow under the Second Amended Credit Agreement.

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

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

Note 9 Organizational Efficiency Plan

In 2015, the Company initiated the organizational efficiency plan and continued to evaluate ways to improve business processes to ensure that operations align with its strategy and vision for the future. The Company integrated operations and consolidated certain positions resulting in employee headcount reductions during the three and nine months ended September 30, 2017, and recognized a charge of \$(0.1) million and \$1.5 million, respectively, as employee termination and other charges. In the three months and nine months ending September 30, 2016, the Company recognized an immaterial amount and \$0.5 million, respectively, in employee termination and other charges

primarily due to severance and other costs associated with the closure of an office location. The Company recorded these costs within accounts payable and accrued expenses in the condensed consolidated balance sheets.

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Changes in the Company's accrued liabilities for workforce reduction costs during the nine months ended September 30, 2017 were as follows (in thousands):

	Amount
Beginning balance as of December 31, 2016	\$ —
Employee termination and other charges	1,500
Releases	(1,489)
Ending balance as of September 30, 2017	\$ 11

Note 10 Employee Benefit Plans

Stock-based compensation

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2017	2016	2017
	(As Restated, Note 1)		(As Restated, Note 1)	
Cost of revenues	\$1,824	\$1,581	\$5,571	\$4,549
Technology and development	510	646	1,721	1,752
Sales and marketing	702	754	2,111	2,200
General and administrative	4,141	3,672	8,585	11,676
Total	\$7,177	\$6,653	\$17,988	\$20,177

Employee Stock Option Plan

In May 2010, the Company adopted the 2010 Equity Incentive Plan ("2010 Plan"). Under the 2010 Plan, the Company can grant share-based awards to all employees, including executive officers, outside consultants and non-employee directors. Options under the 2010 Plan generally have a term of 10 years and vest over 4 years with 25% vesting after one year of service and monthly vesting over the remaining period. As of September 30, 2017, the 2010 Plan has a total of 3.5 million common stock shares available for issuance.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2017	2016	2017
Stock options granted (in thousands)	63	27	608	804

Weighted-average fair value at date of grant \$23.27 \$22.86 \$26.36 \$18.30

Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

Stock option activity for the nine months ended September 30, 2017 was as follows (shares in thousands):

	Shares	Weighted-average exercise price	Remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2016	2,844	\$ 33.74	7.00	\$ 110,256
Granted	608	72.13		
Exercised	(670)	16.16		
Forfeited and cancelled	(178)	53.46		
Outstanding as of September 30, 2017	2,604	\$ 45.87	7.38	\$ 45,050
Vested and expected to vest at September 30, 2017	2,494	\$ 45.33	7.32	\$ 44,230
Exercisable at September 30, 2017	1,322	\$ 33.84	6.12	\$ 35,516

As of September 30, 2017, there was \$20.0 million of total unrecognized stock-based compensation expense associated with stock options which will be recognized over a weighted-average period of approximately three years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Restricted Stock Units

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

In the first quarter of 2017 and 2016, the Company granted a total of 343,000 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 performance period for which participants have the ability to receive up to 200% for 2017 and 2016 of the target number of shares originally granted, depending on the terms of the grant agreement.

In the first quarter of 2017, the market-based performance RSUs achieved 50% of the target attainment because the Company's common stock achieved a certain per share price, reported on the New York Stock Exchange ("NYSE"), for 20 consecutive trading days during the 36 month performance period ended April 7, 2017.

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

Stock-based compensation expense related to restricted stock units was \$4.1 million and \$3.9 million for the three months ended September 30, 2017 and 2016, respectively; and \$9.1 million and \$12.6 million for the nine months ended September 30, 2017 and 2016, respectively. Total unrecorded stock-based compensation expense at September 30, 2017 associated with restricted stock units was estimated at \$18.5 million, which is expected to be recognized over a weighted-average period of approximately two years.

Table of ContentsNotes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

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

	(Shares in thousands)			Weighted-average grant date fair value		
	Service-based RSUs	Performance-based RSUs	Market-based RSUs	Service-based RSUs	Performance-based RSUs	Market-based RSUs
Unvested at December 31, 2016	257	491	166	\$50.49	\$ 51.03	\$ 49.38
Granted ⁽¹⁾	77	379	—	71.45	71.02	—
Vested ⁽²⁾	(102)	(124)	(83)	44.92	57.10	49.38
Forfeited and cancelled	(27)	(21)	(83)	61.06	58.57	49.38
Unvested at September 30, 2017	205	725	—	\$59.75	\$ 60.21	\$ —

(1) Performance-based RSUs include additional shares granted as specified financial metrics for the performance-based restricted stock units, granted to certain executives in 2014, during the performance period of January 1, 2014 through December 31, 2016 were met, resulting in actual shares vesting at 141% of the target number of shares originally granted. The weighted average grant date fair value of these additional shares was \$57.10. In addition, there are additional shares granted as specified financial metrics for the performance-based RSUs, which were granted to certain executives in February 2017.

(2) Performance-based RSUs include approximately 123,750 shares vested from performance-based restricted stock units granted to certain executives in 2014 representing 141% of the target number of shares originally granted.

Note 11 Stockholders' Equity

Public Stock Offering

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

Share Repurchase Program

On August 6, 2015, the Company's Board of Directors authorized a \$100 million stock repurchase program 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 August 2017, the Company repurchased

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

134,900 shares of its common stock at an average price of \$58.82 per share for a total cost of \$7.9 million. During the nine months ended September 30, 2016, the Company repurchased 226,170 shares of its common stock at an average price of \$41.43 per share for a total cost of \$9.4 million. As of September 30, 2017, the Company had \$77.7 million available for future purchases under the stock repurchase program.

Note 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 Company's effective tax rate was 36.6% and 32.3% for the three months ended September 30, 2017 and 2016, respectively and 9.1% and 34.3% for the nine months ended September 30, 2017 and 2016, respectively. The income tax provision for the three months ended September 30, 2017 and 2016 was \$5.2 million and \$2.5 million, respectively, and \$4.6 million and \$5.7 million for the nine months ended September 30, 2017 and 2016, respectively. The income tax provision for the three and nine months ended September 30, 2017 includes tax benefits of \$0.4 million and \$14.7 million, respectively, primarily due to the current year excess tax benefits on stock-based compensation pursuant to the adoption of ASU 2016-09. See Note 1 - Summary of Business and Significant Accounting Policies for more details regarding the adoption of this accounting standard.

As of September 30, 2017, the Company remains in a net deferred tax asset position. The realization of the Company's deferred tax assets depends primarily on its ability to generate sufficient U.S. taxable income in future periods. The amount of deferred tax assets considered realizable may increase or decrease in subsequent quarters as management reevaluates the underlying basis for the estimates of future domestic taxable income.

Note 13 Commitments and Contingencies

(a) Capital Lease Obligations

The Company leases equipment under capital lease obligations that expire at various dates through 2021. Future minimum lease payments under capital lease obligations as of September 30, 2017 are \$0.7 million. The Company recorded the current and long-term portions of capital lease obligations of \$0.3 million under other current liabilities and \$0.4 million under non-current liabilities, respectively, in the condensed consolidated balance sheets.

(b) Operating Leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through 2023. As of September 30, 2017, future minimum lease payments under noncancelable operating leases, excluding the contractual sublease income of \$10.6 million which is expected to be received through February 2023, are as follows (in thousands):

	As of September 30, 2017 (As Restated, Note 1)
Remainder of 2017	\$ 2,272
2018	9,108
2019	9,247
2020	9,003
2021	8,591
Thereafter	6,566
Total future minimum lease payments	\$ 44,787

Rent expense for the three months ended September 30, 2017 and 2016 was \$1.9 million and \$1.9 million, respectively, and \$5.8 million and \$5.2 million for the nine months ended September 30, 2017 and 2016, respectively. Sublease income for the three and nine months ended September 30, 2017 was \$0.5 million and \$1.2 million, respectively. There was \$0.3 million sublease income recognized during the three and nine months ended September 30, 2016.

(c) Legal Matters

The Company is pursuing affirmative claims against the OPM to obtain payment for services provided by the Company between March 1, 2016 and August 31, 2016 pursuant to our contract with OPM for the Government's Federal Flexible Account Program ("FSAFEDS"). The Company initially issued its invoice for these services in February 2017. On December 22, 2017, the Company received the Contracting Officer's "final decision" refusing payment of the invoiced amount and otherwise denying the Company's Certified Claim. As a result of this decision, and a related Certified Claim that OPM subsequently denied, on February 8, 2018, we filed an appeal to the Civilian Board of Contract Appeals ("CBCA") against OPM for services provided by the Company between March 1, 2016 and August 31, 2016. On August 3, 2018, we also filed an appeal to the CBCA of OPM's June 21, 2018 denial of a Request for Equitable Adjustment for extra work associated with a contract modification imposing new security and other requirements not part of the original scope of FSAFED's contract work. In 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.

(14) 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 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.

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

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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q/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," "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, opportunities for portfolio purchases, acquisitions, channel partnerships and carrier relationships, 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 in Part I, Item 1A, "Risk Factors", of our Annual Report on Form 10-K/A for the year ended December 31, 2016. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Overview

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

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

Our CDB programs assist employees and their families in saving money by using pre-tax dollars to pay for certain portions of their healthcare, dependent care, and commuter expenses. Employers financially benefit from our programs through reduced payroll taxes, the benefits of which are realized even after factoring in our fees. Under 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.

Our services are priced based on the estimated number and types of claims, whether payment processing and client support activities will be provided within or outside of the United States, the estimated number of calls to our

customer support center, and any specific client requirements. In addition, we derive a portion of our revenues from interchange fees that we receive when employee participants use the prepaid debit cards we provide to them for healthcare and commuter expenses.

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 1 to our Condensed Consolidated Financial Statements in Part I, Item 1 included in this Quarterly Report on Form 10-Q/A.

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Critical Accounting Policies and Significant Management Estimates

Refer to Note 1 of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q/A, which is incorporated into this Item 2 by reference.

Results of Operations

Revenue

Revenue and changes in revenue by product for the three and nine months ended September 30, 2017 and 2016 were:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Amount	Amount	\$ Change	% Change	Amount	Amount	\$ Change	% Change
(Dollars in thousands)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Revenues:								
Healthcare	\$65,893	\$45,163	\$20,730	46 %	\$208,769	\$141,148	\$67,621	48 %
Commuter	17,987	17,570	417	2 %	54,366	52,412	1,954	4 %
COBRA	26,897	18,302	8,595	47 %	82,465	50,916	31,549	62 %
Other	4,069	4,215	(146)	(3)%	12,415	12,440	(25)	— %
Total revenues	\$114,846	\$85,250	\$29,596	35 %	\$358,015	\$256,916	\$101,099	39 %

Revenue by product as a percentage of total revenue for the three and nine months ended September 30, 2017 and 2016 were:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(Dollars in thousands)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Revenues:								
Healthcare	\$65,893	57 %	\$45,163	53 %	\$208,769	58 %	\$141,148	55 %
Commuter	17,987	16 %	17,570	21 %	54,366	15 %	52,412	20 %
COBRA	26,897	23 %	18,302	21 %	82,465	23 %	50,916	20 %
Other	4,069	4 %	4,215	5 %	12,415	4 %	12,440	5 %
Total revenues	\$114,846	100 %	\$85,250	100 %	\$358,015	100 %	\$256,916	100 %

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.

Healthcare revenue increased by \$20.7 million, or 46% for the three months ended September 30, 2017, as compared to the same period in 2016. Healthcare revenue increased by \$67.6 million, or 48% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increases were primarily driven by the revenue associated with the acquisition of ADP's CHSA and COBRA businesses, which includes related interchange fee revenue, and revenue generated from administering FSAFEDS. Healthcare revenue was further increased due to the addition of new clients and growth in new employee participation for FSA and HSA; and an increase in interchange fee and other incentive revenue as a result of a contract renegotiation for our debit card usage, offset by a slight decline in HRA revenue.

Commuter Revenue

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

Commuter revenue increased by \$0.4 million, or 2% for the three months ended September 30, 2017, as compared to the same period in 2016. Commuter revenue increased by \$2.0 million, or 4% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increases were primarily due to the addition of new clients and growth in the number of employee participation and an increase in 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.

COBRA revenue increased by \$8.6 million, or 47% for the three months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily driven by the revenue associated with the acquisition of ADP's CHSA and COBRA businesses.

COBRA revenue increased by \$31.5 million, or 62% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily driven by the revenue associated with the acquisition of ADP's CHSA and COBRA businesses and the transition of the COBRA portfolio in connection with our channel partner agreement with Ceridian. The remainder of the COBRA revenue growth was due to an increase in participation by employer clients in our COBRA administration services.

Other Revenue

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

Other revenue decreased by \$0.1 million, or 3% for the three months ended September 30, 2017, as compared to the same period in 2016. The decrease was primarily due to a decrease in revenue from enrollment and eligibility services.

Other revenue for the nine months ended September 30, 2017 remained the same as compared to the same period in 2016.

Cost of Revenues

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
(Dollars in thousands)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)
Cost of revenues (excluding amortization of internal use software)	\$39,031	\$29,750	\$ 9,281	31 %	\$130,438	\$89,440	\$40,998	46 %
Percent of revenue	34	% 35	%		36	% 35	%	

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

Cost of revenues increased by \$9.3 million or 31% for the three months ended September 30, 2017, as compared to the same period in 2016. Cost of revenues increased by \$41.0 million or 46% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increases were primarily due to an increase in compensation and related benefits associated with the headcount and outsourced services to support the acquired ADP's CHSA and COBRA businesses, the administration of the FSAFEDS, and new clients transitioned under the channel partner arrangement with Ceridian.

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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, 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.

Operating Expenses

Technology and Development

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
Technology and development	\$ 13,932	\$ 11,482	\$ 2,450	21 %	\$ 43,718	\$ 32,148	\$ 11,570	36 %
Percent of revenue	12	% 13	%		12	% 13	%	

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

Technology and development expenses increased by \$2.5 million, or 21% for the three months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to an increase in compensation and related benefits to administer FSAFEDS and to support the growth from the acquisition of ADP's CHSA and COBRA businesses and the clients transitioned under the channel partner agreement with Ceridian. The increase was further driven by increases in outsourced services and costs associated with development and enhancement projects.

Technology and development expenses increased by \$11.6 million, or 36% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to an increase in compensation and related benefits, software related expenses to administer FSAFEDS and to support the growth from the acquisition of ADP's CHSA and COBRA businesses and the clients transitioned under the channel partner agreement with Ceridian and, to a lesser extent, depreciation and software maintenance expenses.

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

Sales and Marketing

Three Months Ended September 30,				Nine Months Ended September 30,			
2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change

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(Dollars in thousands)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)	(As Restated)			
Sales and marketing	\$16,385	\$13,888	\$2,497	18	%	\$47,192	\$41,944	\$5,248	13	%
Percent of revenue	14	%	16	%		13	%	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.

Sales and marketing expenses increased by \$2.5 million or 18% for the three months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to an increase in compensation and related benefit costs, and direct and outside sales commissions associated with overall growth in revenue.

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Sales and marketing expenses increased by \$5.2 million or 13% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to an increase in compensation and related benefit costs, partially offset by a decrease in advertising and promotional expenses.

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

General and Administrative

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
(Dollars in thousands)	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
General and administrative	\$20,196	\$15,212	\$ 4,984	33 %	\$52,155	\$45,294	\$ 6,861	15 %
Percent of revenue	18	% 18	%		15	% 18	%	

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

General and administrative expenses increased by \$5.0 million or 33% for the three months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to increases in compensation and related benefit costs and outsourced service expenses to support the overall growth in our business.

General and administrative expenses increased by \$6.9 million or 15% for the nine months ended September 30, 2017, as compared to the same period in 2016. The increase was primarily due to an increase in the provision for doubtful accounts, compensation and related benefit costs, outsourced service expenses and facility related expenses to support the overall growth in our business. Additionally, stock-based compensation expense increased due to equity grants to new hires and existing employees and performance-based restricted stock units which the related expense increased as result of expected revenue growth.

Amortization, Impairment and Change in Contingent Consideration

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
(Dollars in thousands)	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
Amortization, impairment and change in contingent consideration	\$9,402	\$6,647	\$ 2,755	41 %	\$28,032	\$29,458	\$ (1,426)	(5)%
Percent of revenue	8	% 8	%		8	% 11	%	

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

Amortization, impairment and change in contingent consideration increased by \$2.8 million or 41% and decreased by \$1.4 million or 5% for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The increase in the three months ended September 30, 2017 was primarily driven by an increase in amortization resulting from the acquired intangibles from ADP's CHSA and COBRA businesses in November 2016. The decrease for the nine months ended September 30, 2017 was primarily driven by amortization expense related to the acquired ADP's CHSA and COBRA intangibles, offset by a decrease in amortization expense related to two one-time impairment events that occurred in 2016. In second quarter of 2016, we terminated a significant customer relationship in our health insurance exchange business resulting

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in a \$3.8 million acceleration of amortization expense and we recorded a \$3.7 million impairment charge for KP Connector, as mentioned above.

Employee Termination and Other Charges

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
Employee termination and other charges	\$ (148)	\$ 162	\$ (310)	(191)%	\$ 1,500	\$ 475	\$ 1,025	216 %
Percent of revenue	— %	— %			— %	— %		

Employee termination and other charges decreased by \$0.3 million for the three months ended September 30, 2017 as compared to the same periods in 2016, due to employee termination cost savings. Employee termination and other charges increased by \$1.0 million for the nine months ended September 30, 2017 as compared to the same periods in 2016 primarily due to our continued assessment of organizational efficiency by outsourcing our marketing initiatives which reduced our headcount.

Other Income (Expense)

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
Interest income	\$ 340	\$ 117	\$ 223	191 %	\$ 502	\$ 300	\$ 202	67 %
Interest expense	(2,059)	(521)	(1,538)	(295)%	(5,261)	(1,748)	(3,513)	(201)%
Other income (expense), net	(30)	17	(47)	(276)%	(260)	(113)	(147)	130 %

Interest income increased for the three and nine months ended September 30, 2017 due to our investment strategy implemented during the third quarter of 2017.

Interest expense increased by \$1.5 million or 295% and \$3.5 million or 201% for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The increase in interest expense primarily relates to borrowings on our revolving credit facility used to acquire ADP's CHSA and COBRA businesses in November 2016 and interest expense on unreported employee participant and employer clients unclaimed property.

The decrease in other income (expense) for the nine months ended September 30, 2017, as compared to the same periods in 2016, was primarily due to a one-time loss in our share of an equity investment.

Income Taxes

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
(Dollars in thousands)	(As Restated)		(As Restated)	(As Restated)	(As Restated)		(As Restated)	(As Restated)
Income before income taxes	\$ 14,299	\$ 7,722			\$ 49,961	\$ 16,596		
Income tax provision	\$(5,236)	\$(2,492)	\$(2,744)	(110)%	\$(4,563)	\$(5,690)	\$ 1,127	20%
Effective tax rate	36.6%	32.3%			9.1%	34.3%		

Income tax provision increased by \$2.7 million or 110% and decreased by \$1.1 million or 20% for the three and nine months ended September 30, 2017, respectively, as compared to the same periods in 2016. The change was primarily due to the change in pre-tax net income. The income tax provision for the three and nine months ended September 30, 2017 included net discrete tax benefits of \$0.4 million and \$14.7 million, respectively, primarily due to the recognition of excess tax benefits on stock-based compensation, pursuant to the adoption of ASU 2016-09.

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Liquidity and Capital Resources

As of September 30, 2017, our principal sources of liquidity were cash and cash equivalents totaling \$799.6 million and short-term investments totaling \$94.1 million comprised primarily of funding by clients of amounts to be paid on behalf of employee participants, public stock offerings and cash generated from ongoing operations.

We believe that our existing cash and cash equivalents, short-term investments, and the available credit from our revolving credit facility will be sufficient to meet our working capital, debt, 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 condensed consolidated balance sheet with an equivalent customer obligation recorded as a liability as the prefund is received. Changes in these prefunds and the corresponding customer obligations are reflected in our cash flows from operating activities. The timing of when employer clients make their prefunds as well as the timing of when we make payments on behalf of employee participants can significantly affect our cash flows.

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

Public Stock Offering

On June 20, 2017, we closed and underwritten a public stock offering and sold 1,954,852 shares of our common stock at \$69.25 per share, for proceeds of approximately \$130.8 million, net of underwriting discounts and commissions and other offering costs. Certain selling stockholders sold 545,148 shares of our common stock in the offering. We did not receive any proceeds from the sale of shares by the selling stockholders.

Revolving Credit Facility (Credit Agreement)

On April 4, 2017, we entered into a Second Amended and Restated Credit Agreement (the "Second Amended Credit Agreement") with MUFG Union Bank, N.A., as administrative agent, to increase the borrowing capacity under the revolving credit facility to \$400.0 million, with a \$15.0 million letter of credit subfacility. The Second Amended Credit Agreement contains an increase option permitting us, subject to certain conditions and requirements, to arrange with existing lenders and/or new lenders to provide up to an aggregate of \$100 million in additional commitments.

Loan proceeds may be used for general corporate purposes, including acquisitions permitted under the Second Amended Credit Agreement. We may prepay loans under the Second Amended Credit Agreement in whole or in part at any time without premium or penalty. In connection with this Second Amended Credit Agreement, we incurred fees of approximately \$1.9 million, which are being amortized over the term of the Second Amended Credit Agreement. The fees incurred are presented as a direct deduction from long-term debt in the consolidated balance sheets.

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The loans bear interest, at our option, at either (i) a London Interbank Offered Rate (LIBOR) determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 1.25% to 2.25%, or (ii) a base rate determined in accordance with the Second Amended Credit Agreement, plus a margin ranging from 0.25% to 1.25%, in either case with such margin determined based on our condensed consolidated leverage ratio for the preceding four fiscal quarter period. Interest is due and payable in arrears quarterly for base rate loans and at the end of an interest period for LIBOR loans. Principal, together with all accrued and unpaid interest, is due and payable on April 4, 2022. Our obligations under the Second Amended Credit Agreement are secured by substantially all of our assets. We elected option (i) and, as of September 30, 2017, the interest rate applicable to the revolving credit facility was 2.74%. All of our existing and future material subsidiaries are required to guarantee our obligations under the Second Amended Credit Agreement. The guarantees by future material subsidiaries are and will be secured by substantially all of the assets of such subsidiaries. As of September 30, 2017, we have \$150.2 million available to borrow under the revolving credit facility. We are currently in compliance with all financial and non-financial covenants under the credit facility after considering the reporting extension agreement described below.

Reporting Extension Agreements

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

Share Repurchase Program

On August 6, 2015, the Company's Board of Directors authorized a \$100 million stock repurchase program which commenced immediately and does not have an expiration date. In August 2017, we repurchased 134,900 shares of our common stock at an average price of \$58.82 per share for a total cost of \$7.9 million. As of September 30, 2017, \$77.7 million remained available for future purchases under the stock repurchase program.

Cash Flows

The following table presents information regarding our cash flow activities:

(in thousands)	Nine Months Ended	
	September 30, 2017	2016
	(As Restated)	
Net cash provided by operating activities	\$ 129,117	\$ 205,792
Net cash used in investing activities	(124,643)	(41,306)
Net cash provided by financing activities	122,496	1,788
Net change in cash and cash equivalents	\$ 126,970	\$ 166,274

Cash Flows from Operating Activities

Net cash provided by operating activities was \$129.1 million for the nine months ended September 30, 2017, mainly comprised of net income of \$45.4 million, adjusted upward for non-cash items of \$55.2 million primarily related to amortization, depreciation, and stock-based compensation, and adjusted upward for changes in operating assets and liabilities of \$28.6 million due to growth in our business, an increase in customer obligations primarily from funds received from federal agencies, ADP's CHSA and COBRA businesses, and an increase in accounts payable and accrued expenses due to timing of payments. These increases were partially offset by an increase in accounts receivable related to unpaid benefit services.

Cash Flows from Investing Activities

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Net cash used in investing activities was \$124.6 million for the nine months ended September 30, 2017, primarily due to \$94.0 million net purchases of available-for-sale investments, \$28.5 million of capital expenditures and the asset acquisition of Tango Health's Savings Account (HSA) business.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$122.5 million for the nine months ended September 30, 2017 which consisted of approximately \$130.8 million in proceeds from public stock offering in June 2017, net of paid underwriting discounts and commissions and other offering costs, a \$13.0 million in proceeds from exercises of stock options and ESPP, offset by a payment of \$2.5 million principal payment of debt, \$1.9 million for debt issuance costs related to the credit agreement amendment and a \$8.8 million of taxes related to net share settlement of stock-based compensation arrangements.

Contractual Obligations

The following table summarizes our significant contractual obligations as of September 30, 2017:

(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations ⁽¹⁾	\$247,000	\$—	\$—	\$247,000	\$—
Interest on long-term debt obligations ⁽²⁾	30,887	6,755	13,511	10,621	—
Operating lease obligations ⁽³⁾	44,787	9,092	18,333	15,147	2,215
Other contractual obligations ⁽⁴⁾	19,751	19,231	520	—	—
Total	\$342,425	\$35,078	\$32,364	\$272,768	\$2,215

As of September 30, 2017, maximum borrowings under the revolving credit facility are \$400.0 million with a base rate determined in accordance with the Second Amended Credit Agreement or, at our option, LIBOR plus a spread (1) of 1.25% to 2.25% per annum, and a maturity date of April 4, 2022. As of September 30, 2017, our outstanding principal of \$247.0 million is presented net of debt issuance costs on our condensed 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 September 30, 2017 of 2.74% per annum on a \$247.0 million outstanding principal amount.

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

(4) Other contractual obligations include those related to our data centers.

Future minimum lease payments under capital lease obligations are not included in the table above. As of September 30, 2017 there were \$0.7 million of future capital lease obligation payments. The Company has no future minimum lease payments under capital lease obligations extending beyond 2021.

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 condensed consolidated balance sheets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk during the nine months ended September 30, 2017. For additional information, see Part II, Item 7A., “Quantitative and Qualitative Disclosures About Market Risk”, of our Annual Report on Form 10-K/A for the year ended December 31, 2016 .

Item 4. 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 our 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 the end of the period covered by this Quarterly Report on Form 10-Q/A. 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 September 30, 2017 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 condensed consolidated financial statements and related financial information included in this Quarterly Report on Form 10-Q/A fairly

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present, in all material respects, our financial position, results of operations and cash flows as of and for the periods presented in conformity with GAAP.

Evaluation of the Effectiveness of Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Our 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.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement in our annual or interim financial statements will not be prevented or detected on a timely basis.

Based on the assessment, management determined that the Company did not maintain effective internal control over financial reporting as of September 30, 2017, as a result of material weaknesses in the following areas:

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 environment which led to an error in the consolidated financial statements as of the end of the period covered by this report.

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 deficiencies in our internal control over financial reporting contributed to each of the following identified material weaknesses:

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A. Accounting Close and Financial Reporting

We had inadequate or ineffective 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 also did not have effective business processes and controls to conduct an effective review of manual data feeds into journal entries for divisions which were not integrated with the main ERP system.

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.

We also did not have a robust process around managing change and corresponding assessment and implementation of Accounting Policies. This resulted in a reevaluation of the Accounts Receivable and Customer Obligation Offset Policy of the organization for the financial year 2017. Furthermore, it also resulted in the delayed assessment and design of controls for the timely implementation of controls around Accounting Standard 606 (ASC 606) for Revenue Recognition which is effective January 2018. These gaps resulted in several adjustments in the consolidated financial statements as of the end of the period covered by this report.

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 consolidated financial statements 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. Amongst other areas, the assessment of the control environment and the design of manual controls around financial system implementations, such as NetSuite, was not performed adequately in 2017.

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

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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 in the consolidated financial statements as of the end of the period covered by this report.

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

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 sub-section, 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.

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 B., 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.

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• 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 under review, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this Item may be found under the heading “Legal Matters” in Note 13 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q/A, which is incorporated into this Item 1 by reference.

Item 1A. Risk Factors

There have been no material changes in our risk factors disclosed in Part I, Item 1A, “Risk Factors”, of our Annual Report on Form 10-K/A for the year ended December 31, 2016.

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

Stock Repurchases

The following table provides the repurchases of common stock by the Company during the three months ended September 30, 2017:

	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan or Program (in thousands)
July 1, 2017 to July 31, 2017	—	\$—	—	\$ 85,626
August 1, 2017 to August 31, 2017	134,900	58.82	134,900	77,691
September 1, 2017 to September 30, 2017	—	—	—	77,691
Total	134,900	\$ 58.82	134,900	\$ 77,691

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report.

The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q/A are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of (1) 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-Q/A, irrespective of any general incorporation language contained in such filing.

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SIGNATURES

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

WAGEWORKS, INC.

Date: April 26, 2019 By: /s/ ISMAIL DAWOOD

Ismail Dawood

Chief Financial Officer

(Principal Financial and Accounting Officer)

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Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference		Filed Herewith
		FormFile No.	Exhibit Filing Date	
31.1	<u>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</u>			X
31.2	<u>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</u>			X
32.1 ⁽¹⁾	<u>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</u>			X
10.1	<u>Third Amended and Restated Employment Agreement between Registrant and Joseph Jackson dated April 18, 2017</u>	8-K 001-35232	10.1 4/21/2017	
10.2	<u>Form of Amended and Restated Executive Severance Benefit Agreement</u>	8-K 001-35232	10.2 4/21/2017	
10.10H	<u>Second Amended and Restated Credit Agreement, by and among Registrant, MUFG Union Bank, N.A. (formerly Union Bank, N.A.), Wells Fargo Bank National Association, Suntrust Bank, UMB Bank, N.A., KeyBank National Association, and Comerica Bank dated June 5, 2015</u>	10-Q 001-35232	10.10H8/1/2017	
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Schema Linkbase Document			
101.CAL	XBRL Taxonomy Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Definition Linkbase Document			
101.LAB	XBRL Taxonomy Labels Linkbase Document			
101.PRE	XBRL Taxonomy Presentation Linkbase Document			

The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q/A are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of (1) 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-Q/A, irrespective of any general incorporation language contained in such filing.