HEALTHEQUITY INC
Form 10-Q
September 08, 2016

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

Form 10-Q

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

For the quarterly period ended July 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 001-36568

HEALTHEQUITY,
INC.

(Exact name of registrant as specified in its charter)

Delaware	7389	52-2383166
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

15 West Scenic Pointe Drive
Suite 100
Draper, Utah 84020
(Address of principal executive offices) (Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (“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 þ No ¨

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

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

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

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

As of August 31, 2016, there were 58,641,564 shares of the registrant's common stock outstanding.

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

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Part I. Financial information
Item 1. Financial statements

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

(in thousands, except par value)	July 31, 2016	January 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$109,169	$83,641
Marketable securities, at fair value	40,292	40,134
Total cash, cash equivalents and marketable securities	149,461	123,775
Accounts receivable, net of allowance for doubtful accounts of $39 as of July 31, 2016 and $40 as of January 31, 2016	16,681	14,308
Inventories	699	620
Current deferred tax asset	—	2,642
Other current assets	6,899	1,703
Total current assets	173,740	143,048
Property and equipment, net	4,251	3,506
Intangible assets, net	65,675	66,840
Goodwill	4,651	4,651
Deferred tax asset	505	—
Other assets	1,763	1,750
Total assets	$250,585	$219,795
Liabilities and stockholders’ equity		
Current liabilities		
Accounts payable	$1,801	$2,431
Accrued compensation	4,353	7,776
Accrued liabilities	2,782	1,899
Total current liabilities	8,936	12,106
Long-term liabilities		
Other long-term liabilities	1,076	236
Deferred tax liability	1,114	3,996
Total long-term liabilities	2,190	4,232
Total liabilities	11,126	16,338
Commitments and contingencies (see note 6)		
Stockholders’ equity		
Preferred stock, $0.0001 par value, 100,000 shares authorized, no shares issued and outstanding as of July 31, 2016 and January 31, 2016, respectively	—	—
Common stock, $0.0001 par value, 900,000 shares authorized, 58,493 and 57,726 shares issued and outstanding as of July 31, 2016 and January 31, 2016, respectively	6	6
Additional paid-in capital	219,648	199,940
Accumulated other comprehensive loss	(110)	(98)
Accumulated earnings	19,915	3,609
Total stockholders’ equity	239,459	203,457
Total liabilities and stockholders’ equity	$250,585	$219,795

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

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

(in thousands, except per share data)	Three months ended July 31,		Six months ended July 31,	
	2016	2015	2016	2015
Revenue:				
Service revenue	$18,835	$14,692	$37,829	$29,306
Custodial revenue	14,779	9,031	28,590	17,450
Interchange revenue	10,571	6,771	21,779	13,588
Total revenue	44,185	30,494	88,198	60,344
Cost of revenue:				
Service costs	10,539	8,348	21,796	16,767
Custodial costs	2,394	1,512	4,750	2,935
Interchange costs	2,698	2,049	5,417	4,151
Total cost of revenue	15,631	11,909	31,963	23,853
Gross profit	28,554	18,585	56,235	36,491
Operating expenses:				
Sales and marketing	4,190	2,737	8,373	5,570
Technology and development	4,993	3,998	9,618	7,522
General and administrative	5,550	3,943	10,124	7,101
Amortization of acquired intangible assets	1,082	409	2,131	818
Total operating expenses	15,815	11,087	30,246	21,011
Income from operations	12,739	7,498	25,989	15,480
Other expense:				
Other expense, net	(37)	(542)	(678)	(647)
Total other expense	(37)	(542)	(678)	(647)
Income before income taxes	12,702	6,956	25,311	14,833
Income tax provision	4,469	2,535	9,005	5,435
Net income	$8,233	$4,421	$16,306	$9,398
Net income per share:				
Basic	$0.14	$0.08	$0.28	$0.17
Diluted	$0.14	$0.08	$0.27	$0.16
Weighted-average number of shares used in computing net income per share:				
Basic	58,246	56,730	58,035	55,909
Diluted	59,651	58,932	59,501	58,318
Comprehensive income:				
Net income	$8,233	$4,421	$16,306	$9,398
Other comprehensive loss:				
Unrealized gain/(loss) on available-for-sale marketable securities, net of tax	27	(11)	(12)	(33)
Comprehensive income	$8,260	$4,410	$16,294	$9,365

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

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

(in thousands)	Six months ended July 31, 2016	2015
Cash flows from operating activities:		
Net income	$16,306	$9,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,125	3,665
Amortization of deferred financing costs	36	—
Deferred taxes	(738)	(1,133)
Stock-based compensation	4,331	2,771
Changes in operating assets and liabilities:		
Accounts receivable	(2,373)	(1,801)
Inventories	(79)	35
Other assets	(5,245)	(3,611)
Accounts payable	(1,069)	(277)
Accrued compensation	(3,423)	(1,989)
Accrued liabilities	827	577
Other long-term liabilities	840	(343)
Net cash provided by operating activities	15,538	7,292
Cash flows from investing activities:		
Purchases of marketable securities	(177)	(40,137)
Purchase of property and equipment	(1,250)	(1,257)
Purchase of software and capitalized software development costs	(3,960)	(2,982)
Net cash used in investing activities	(5,387)	(44,376)
Cash flows from financing activities:		
Proceeds from follow-on offering, net of payments for offering costs	—	23,492
Proceeds from exercise of common stock options	1,128	1,153
Tax benefit from exercise of common stock options	14,249	10,285
Net cash provided by financing activities	15,377	34,930
Increase (decrease) in cash and cash equivalents	25,528	(2,154)
Beginning cash and cash equivalents	83,641	111,005
Ending cash and cash equivalents	$109,169	$108,851
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable or accrued liabilities at period end	$379	$—
Purchases of software and capitalized software development costs included in accounts payable or accrued liabilities at period end	116	—

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

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

Note 1. Summary of business and significant accounting policies

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

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

During the year ended January 31, 2015, the Company and an unrelated company formed a limited partnership for investment in and the management of early stage companies in the healthcare industry. The Company has a 22% ownership interest in such partnership accounted for using the equity method of accounting. The investment was approximately $281,000 as of July 31, 2016 and is included in other assets on the accompanying condensed consolidated balance sheet.

During the year ended January 31, 2016, the Company purchased an approximate 2% ownership interest in a limited partnership that engages in the development of technology-based financial healthcare products. The Company determined there was no significant influence and therefore the investment was accounted for using the cost method of accounting. The investment was $500,000 as of July 31, 2016 and is included in other assets on the accompanying condensed consolidated balance sheet.

All significant intercompany balances and transactions have been eliminated.

Basis of presentation—The accompanying condensed consolidated financial statements as of July 31, 2016 and for the three and six months ended July 31, 2016 and 2015 are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2016. The fiscal year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

As of January 31, 2016, the Company has revised the names of certain financial statement line items to more accurately describe the Company's operations. Amounts previously referred to as account fee revenue are now referred to as service revenue. Amounts previously referred to as custodial fee revenue are now referred to as custodial revenue. Amounts previously referred to as card fee revenue are now referred to as interchange revenue. Amounts previously referred to as account costs are now referred to as service costs. Amounts previously referred to as card costs are now referred to as interchange costs. Amounts previously referred to as other revenue are now included in the service revenue financial statement line item. Amounts previously referred to as other costs are now included in the service costs financial statement line item.

The Company has reclassified certain financial statement line items to conform with the newly revised financial statement line items.

Other expense—During the three and six months ended July 31, 2016, the Company incurred $10,000 and $585,000 of acquisition-related expenses, respectively. These expenses are included in other expense, net on the accompanying condensed consolidated statements of operations and comprehensive income.

Recent accounting pronouncements—On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB voted to defer the effective date to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption beginning for fiscal years, and interim periods

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

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

within those fiscal years, beginning after December 31, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. The foregoing amendments are effective for annual reporting periods beginning after December 15, 2017 and for interim reporting periods within such annual periods.The Company has not yet selected a transition method and is evaluating the effect that these recent pronouncements will have on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, which simplifies the presentation of debt issuance costs by requiring that such costs be presented as a deduction from the corresponding debt liability. In August 2015, the FASB issued ASU 2015-15, Interest - Imputed Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies that entities may continue to defer and present debt issuance costs associated with a line-of-credit as an asset and subsequently amortize the deferred costs ratably over the term of the arrangement. This ASU is effective for financial statements issued for reporting periods beginning after December 15, 2015 and interim periods within the reporting periods and requires retrospective presentation; earlier adoption is permitted. The Company adopted this ASU with no impact on the accompanying condensed consolidated financial statements as no amounts had been drawn under the Credit Agreement (See Note 7).

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

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. The amendments in this ASU revise an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. This ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted for the presentation of certain fair value changes for financial liabilities measured at fair value. The Company is currently evaluating the timing of adoption and the potential effect of this ASU on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure for both parties to a contract (i.e. lessees and lessors). ASC 842 supersedes the previous leases standard, ASC 840 leases. This ASU is effective for financial statements issued for reporting periods beginning after December 15, 2018 and requires a modified retrospective transition, and provides for certain practical expedients; early adoption is permitted. The Company is currently evaluating the timing of adoption and the potential impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including; the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the timing of adoption and the potential effect of this ASU on the consolidated financial statements.

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

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

In June 2016, The FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which requires financial assets measured at amortized cost be presented at the net amount expected to be collected. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the potential effect of this ASU on the consolidated financial statements.
In August 2016, The FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which provides guidance on the classification of certain cash receipts and cash payments. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the timing of adoption and the potential effect of this ASU on the consolidated financial statements.

Note 2. Net income per share
The following table sets forth the computation of basic and diluted net income per share:

(in thousands, except per share data)	Three months ended July 31,		Six months ended July 31,	
	2016	2015	2016	2015
Numerator (basic and diluted):				
Net income	$8,233	$4,421	$16,306	$9,398
Denominator (basic):				
Weighted-average common shares outstanding	58,246	56,730	58,035	55,909
Denominator (diluted):				
Weighted-average common shares outstanding	58,246	56,730	58,035	55,909
Weighted-average dilutive effect of stock options and restricted stock units	1,405	2,202	1,466	2,409
Diluted weighted-average common shares outstanding	59,651	58,932	59,501	58,318
Net income per share:				
Basic	$0.14	$0.08	$0.28	$0.17
Diluted	$0.14	$0.08	$0.27	$0.16

For the three months ended July 31, 2016 and 2015, approximately 2.0 million and 648,000 shares, respectively, attributable to stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.
For the six months ended July 31, 2016 and 2015, approximately 2.2 million and 637,000 shares, respectively, attributable to stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

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

Note 3. Cash, cash equivalents and marketable securities

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

(in thousands)	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
Cash and cash equivalents	$109,169	$ —	$ —	$109,169
Marketable securities:				
Mutual funds	40,469	162	(339)	40,292
Total cash, cash equivalents and marketable securities	$149,638	$ 162	$ (339)	$149,461

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

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

The following table summarizes the cost basis and fair value of the marketable securities by contractual maturity as of July 31, 2016:

(in thousands)	Cost basis	Fair value
One year or less	$25,230	$25,235
Over one year and less than five years	15,239	15,057
Total	$40,469	$40,292

As of July 31, 2016, there were no marketable securities that were other-than-temporarily impaired or in an unrealized loss position for more than twelve consecutive months.

Note 4. Property and equipment

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

(in thousands)	July 31, 2016	January 31, 2016
Leasehold improvements	$736	$700
Furniture and fixtures	2,277	1,592
Computer equipment	6,733	5,825
Property and equipment, gross	9,746	8,117
Accumulated depreciation	(5,495)	(4,611)
Property and equipment, net	$4,251	$3,506

Depreciation expense for the three and six months ended July 31, 2016 was $437,000 and $884,000, respectively, and $354,000 and $677,000 for the three and six months ended July 31, 2015, respectively.

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

Note 5. Intangible assets and goodwill

During the three and six months ended July 31, 2016, the Company capitalized software development costs of $1.8 million and $3.7 million, respectively, and $1.2 million and $2.4 million for the three and six months ended July 31, 2015, respectively, related to significant enhancements and upgrades to its proprietary system.
The gross carrying amount and associated accumulated amortization of intangible assets were as follows as of July 31, 2016 and January 31, 2016:

(in thousands)	July 31, 2016	January 31, 2016
Amortized intangible assets:		
Capitalized software development costs	$19,845	$16,104
Software	6,315	5,994
Acquired intangible member assets	64,962	64,948
Intangible assets, gross	91,122	87,046
Accumulated amortization	(25,447)	(20,206)
Intangible assets, net	$65,675	$66,840

During the three and six months ended July 31, 2016, the Company incurred and expensed a total of $2.3 million and $4.3 million, respectively, and $1.8 million and $3.5 million for the three and six months ended July 31, 2015, respectively, in software development costs primarily related to the post-implementation and operation stages of its proprietary software.
Amortization expense for the three and six months ended July 31, 2016 was $2.7 million and $5.2 million, respectively, and $1.6 million and $3.0 million for the three and six months ended July 31, 2015, respectively.
There were no changes to the goodwill carrying value during the three and six months ended July 31, 2016 and 2015.

Note 6. Commitments and contingencies
The Company’s principal commitments and contingencies consist of a processing services agreement with a vendor, and obligations for office space, data storage facilities, equipment and certain maintenance agreements under long-term, non-cancelable operating leases. These commitments as of January 31, 2016 are disclosed in the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the year ended January 31, 2016, and did not change materially during the three and six months ended July 31, 2016.
Lease expense for office space for the three and six months ended July 31, 2016 was $424,000 and $1.0 million, respectively, and $510,000 and $983,000 for the three and six months ended July 31, 2015, respectively. Expense for other lease agreements for the three and six months ended July 31, 2016 was $84,000 and $144,000, respectively, and $57,000 and $116,000 for the three and six months ended July 31, 2015, respectively.

Note 7. Indebtedness

On September 30, 2015, the Company entered into a new credit facility (the "Credit Agreement"). The Credit Agreement provides for a secured revolving credit facility in the aggregate principal amount of $100.0 million for a term of five years. The proceeds of borrowings under the Credit Agreement may be used for general corporate purposes. No amounts have been drawn under the Credit Agreement as of July 31, 2016.
Borrowings under the Credit Agreement bear interest equal to, at the Company's option, a) an adjusted LIBOR rate or b) a customary base rate, in each case with an applicable spread to be determined based on the Company's leverage ratio as of the most recent fiscal quarter. The applicable spread for borrowing under the Credit Agreement ranges from 1.50% to 2.00% with respect to adjusted LIBOR rate borrowings and 0.50% to 1.00% with respect to customary base

rate borrowings. Additionally, the Company pays a commitment fee ranging from 0.20% to 0.30%

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

Note 7. Indebtedness (continued)

on the daily amount of the unused commitments under the Credit Agreement payable in arrears at the end of each fiscal quarter.

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

The Credit Agreement requires the Company to maintain a total leverage ratio of not more than 3.00 to 1.00 as of the end of each fiscal quarter and a minimum interest coverage ratio of at least 3.00 to 1.00 as of the end of each fiscal quarter. In addition, the Credit Agreement includes customary representations and warranties, affirmative and negative covenants, and events of default. The restrictive covenants include customary restrictions on the Company's ability to incur additional indebtedness; make investments, loans or advances; grant or incur liens on assets; engage in mergers, consolidations, liquidations or dissolutions; engage in transactions with affiliates; and make dividend payments. The Company was in compliance with these covenants as of July 31, 2016.

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

Note 8. Income taxes

The Company follows FASB Accounting Standards Codification 740-270, Income Taxes - Interim Reporting, for the computation and presentation of its interim period tax provision. Accordingly, management estimated the effective annual tax rate and applied this rate to the year-to-date pre-tax book income to determine the interim provision for income taxes. For the three and six months ended July 31, 2016, the Company recorded a provision for income taxes of $4.5 million and $9.0 million, respectively. The resulting effective tax rate was 35.2% and 35.6%, compared with an effective tax rate of 36.4% and 36.6% for the three and six months ended July 31, 2015. For the three and six months ended July 31, 2016 and 2015, discrete tax items were not material. The decrease in the effective tax rate from the same period last year is primarily due to recognition of a benefit for the federal research and development credit. In the same period last year, the federal research and development credit had expired and was renewed in the three and six months ended January 31, 2016.

The Company’s current income taxes payable has been reduced by tax benefits from employee and director stock option plan awards. The Company receives an income tax benefit calculated as the tax effect of the difference between the fair market value of the stock issued at the time of exercise and the exercise price. The Company recorded a benefit of $14.3 million during the six months ended July 31, 2016 for tax benefits related to stock option exercises that are expected to reduce cash taxes payable during the current fiscal year. Of this amount, $7.4 million was related to excess stock option benefits previously limited under FASB ASC 718-740-25-10, Compensation-Stock Compensation, during the year ended January 31, 2016.

As of July 31, 2016 and January 31, 2016, the Company’s total gross unrecognized tax benefit was $471,000 and $393,000, respectively. As a result of Accounting Standards Update No. 2013-11, certain unrecognized tax benefits have been netted against their related deferred tax assets; therefore, no unrecognized tax benefit has been recorded as of July 31, 2016 and January 31, 2016. If recognized, $391,000 of the total gross unrecognized tax benefits would affect the Company's effective tax rate as of July 31, 2016.

The Company files income tax returns with U.S. federal and state taxing jurisdictions and is not currently under examination with any jurisdiction. The Company remains subject to examination by federal and various state taxing jurisdictions for tax years after 2004.

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

Note 9. Stock-based compensation

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