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

Form 10-Q

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

For the quarterly period ended July 31, 2022
OR

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

Commission file number: 001-36568

HEALTHEQUITY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2383166**
(State or other jurisdiction of incorporation or organization)	(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	HQY	The NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	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 August 31, 2022, there were 84,530,727 shares of the registrant's common stock outstanding.

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

Table of contents

Part I. Financial information
Item 1. Financial statements

HealthEquity, Inc. and subsidiaries
Condensed consolidated balance sheets

(in thousands, except par value)		**July 31, 2022**		**January 31, 2022**
		(unaudited)		
Assets				
Current assets				
Cash and cash equivalents	$	176,886	$	225,414
Accounts receivable, net of allowance for doubtful accounts of $6,215 and $6,228 as of July 31, 2022 and January 31, 2022, respectively		90,426		87,428
Other current assets		41,274		38,495
Total current assets		308,586		351,337
Property and equipment, net		18,028		23,372
Operating lease right-of-use assets		60,588		63,613
Intangible assets, net		991,945		973,137
Goodwill		1,645,999		1,645,836
Other assets		48,878		49,807
Total assets	$	3,074,024	$	3,107,102
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable	$	15,841	$	27,541
Accrued compensation		41,989		47,136
Accrued liabilities		43,287		57,589
Current portion of long-term debt		13,125		8,750
Operating lease liabilities		11,275		12,171
Total current liabilities		125,517		153,187
Long-term liabilities				
Long-term debt, net		914,966		922,077
Operating lease liabilities, non-current		62,626		65,232
Other long-term liabilities		13,731		14,185
Deferred tax liability		92,288		99,846
Total long-term liabilities		1,083,611		1,101,340
Total liabilities		1,209,128		1,254,527
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, 2022 and January 31, 2022, respectively		—		—
Common stock, $0.0001 par value, 900,000 shares authorized, 84,526 and 83,780 shares issued and outstanding as of July 31, 2022 and January 31, 2022, respectively		8		8
Additional paid-in capital		1,713,122		1,676,508
Accumulated earnings		151,766		176,059
Total stockholders' equity		1,864,896		1,852,575
Total liabilities and stockholders' equity	$	3,074,024	$	3,107,102

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended July 31,		Six months ended July 31,	
(in thousands, except per share data)	2022	2021	2022	2021
Revenue				
Service revenue	$ 103,034	$ 109,182	$ 207,382	$ 211,716
Custodial revenue	65,599	48,776	124,964	95,754
Interchange revenue	37,509	31,145	79,475	65,835
Total revenue	206,142	189,103	411,821	373,305
Cost of revenue				
Service costs	74,914	67,334	155,788	137,966
Custodial costs	7,090	4,824	13,731	9,833
Interchange costs	6,326	4,974	13,317	10,419
Total cost of revenue	88,330	77,132	182,836	158,218
Gross profit	117,812	111,971	228,985	215,087
Operating expenses				
Sales and marketing	15,843	15,476	32,403	29,562
Technology and development	46,580	37,898	91,763	73,367
General and administrative	25,937	22,812	49,664	43,499
Amortization of acquired intangible assets	24,181	20,289	47,879	40,103
Merger integration	7,683	16,371	16,977	25,178
Total operating expenses	120,224	112,846	238,686	211,709
Income (loss) from operations	(2,412)	(875)	(9,701)	3,378
Other expense				
Interest expense	(11,493)	(7,254)	(21,954)	(13,943)
Other income (expense), net	32	344	(269)	(3,286)
Total other expense	(11,461)	(6,910)	(22,223)	(17,229)
Loss before income taxes	(13,873)	(7,785)	(31,924)	(13,851)
Income tax benefit	(3,219)	(3,967)	(7,631)	(7,418)
Net loss and comprehensive loss	$ (10,654)	$ (3,818)	$ (24,293)	$ (6,433)
Net loss per share:				
Basic	$ (0.13)	$ (0.05)	$ (0.29)	$ (0.08)
Diluted	$ (0.13)	$ (0.05)	$ (0.29)	$ (0.08)
Weighted-average number of shares used in computing net loss per share:				
Basic	84,443	83,481	84,236	82,628
Diluted	84,443	83,481	84,236	82,628

See accompanying notes to condensed consolidated financial statements.

HealthEquity, Inc. and subsidiaries
Condensed consolidated statements of stockholders' equity (unaudited)

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Total stockholders' equity, beginning balance	$ 1,855,263	$ 1,848,270	$ 1,852,575	$ 1,378,728
Common stock:				
Beginning balance	8	8	8	8
Issuance of common stock upon exercise of stock options, and for restricted stock	—	—	—	—
Other issuance of common stock	—	—	—	—
Ending balance	8	8	8	8
Additional paid-in capital:				
Beginning balance	1,692,834	1,630,529	1,676,508	1,158,372
Issuance of common stock upon exercise of stock options, and for restricted stock	2,134	2,599	4,474	5,315
Other issuance of common stock	—	(2)	—	456,640
Stock-based compensation	18,154	15,617	32,140	28,416
Ending balance	1,713,122	1,648,743	1,713,122	1,648,743
Accumulated earnings				
Beginning balance	162,420	217,733	176,059	220,348
Net loss	(10,654)	(3,818)	(24,293)	(6,433)
Ending balance	151,766	213,915	151,766	213,915
Total stockholders' equity, ending balance	$ 1,864,896	$ 1,862,666	$ 1,864,896	$ 1,862,666

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended July 31,	
(in thousands)	**2022**	**2021**
Cash flows from operating activities:		
Net loss	$ (24,293)	$ (6,433)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	80,226	64,819
Stock-based compensation	32,140	28,416
Amortization of debt discount and issuance costs	1,639	2,482
Change in fair value of contingent consideration	—	1,011
Other non-cash items	269	(752)
Deferred taxes	(7,558)	(4,051)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,161)	(230)
Other assets	(1,546)	20,636
Operating lease right-of-use assets	4,117	6,060
Accrued compensation	(4,973)	(10,639)
Accounts payable, accrued liabilities, and other current liabilities	(25,586)	(30,213)
Operating lease liabilities, non-current	(3,594)	(4,556)
Other long-term liabilities	(454)	1,616
Net cash provided by operating activities	47,226	68,166
Cash flows from investing activities:		
Purchases of software and capitalized software development costs	(24,215)	(32,097)
Purchases of property and equipment	(2,384)	(6,352)
Acquisition of intangible member assets	(68,725)	(2,653)
Acquisitions, net of cash acquired	—	(49,533)
Proceeds from sale of equity securities	—	2,367
Net cash used in investing activities	(95,324)	(88,268)
Cash flows from financing activities:		
Principal payments on long-term debt	(4,375)	(15,625)
Settlement of client-held funds obligation, net	(991)	(2,636)
Proceeds from exercise of common stock options	4,936	6,672
Proceeds from follow-on equity offering, net of payments for offering costs	—	456,642
Net cash provided by (used in) financing activities	(430)	445,053
Increase (decrease) in cash and cash equivalents	(48,528)	424,951
Beginning cash and cash equivalents	225,414	328,803
Ending cash and cash equivalents	$ 176,886	$ 753,754

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended July 31,	
(in thousands)	**2022**	**2021**
Supplemental cash flow data:		
Interest expense paid in cash	$ 19,450	$ 9,838
Income tax payments (refunds), net	573	(5,545)
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of software and capitalized software development costs included in accounts payable, accrued liabilities, or accrued compensation	5,040	4,077
Purchases of property and equipment included in accounts payable or accrued liabilities	356	357
Purchases of intangible member assets included in accounts payable or accrued liabilities	1,849	—
Contingent consideration recognized at acquisition	—	8,147
Exercise of common stock options receivable	8	119
Increase in goodwill due to measurement period adjustments, net	163	—

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Summary of business and significant accounting policies

Business

HealthEquity, Inc. ("HealthEquity" or the "Company") was incorporated in the state of Delaware on September 18, 2002. HealthEquity is a leader in administering health savings accounts (“HSAs”) and complementary consumer-directed benefits (“CDBs”), which empower consumers to access tax-advantaged healthcare savings while also providing corporate tax advantages for employers.

Principles of consolidation

The Company consolidates entities in which the Company has a controlling financial interest, which includes all of its wholly owned direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The accompanying condensed consolidated financial statements as of July 31, 2022 and for the three and six months ended July 31, 2022 and 2021 are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. In the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2022. The fiscal year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Significant accounting policies

There have been no material changes in the Company’s significant accounting policies as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2022.

Recently adopted accounting pronouncements

None.

Recently issued accounting pronouncements not yet adopted

None.

Note 2. Net loss per share

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

(in thousands, except per share data)	Three months ended July 31, 2022	2021	Six months ended July 31, 2022	2021
Numerator (basic and diluted):				
Net loss	$ (10,654)	$ (3,818)	$ (24,293)	$ (6,433)
Denominator (basic):				
Weighted-average common shares outstanding	84,443	83,481	84,236	82,628
Denominator (diluted):				
Weighted-average common shares outstanding	84,443	83,481	84,236	82,628
Weighted-average dilutive effect of stock options and restricted stock units	—	—	—	—
Diluted weighted-average common shares outstanding	84,443	83,481	84,236	82,628
Net loss per share:				
Basic	$ (0.13)	$ (0.05)	$ (0.29)	$ (0.08)
Diluted	$ (0.13)	$ (0.05)	$ (0.29)	$ (0.08)

For the three months ended July 31, 2022 and 2021, approximately 3.3 million and 1.9 million shares, respectively, attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted net loss per share as their inclusion would have been anti-dilutive.

For the six months ended July 31, 2022 and 2021, approximately 2.6 million and 2.0 million shares, respectively, attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted net loss per share as their inclusion would have been anti-dilutive.

Note 3. Business combinations

Luum acquisition

On March 8, 2021, the Company acquired 100% of the outstanding capital stock of Fort Effect Corp, d/b/a Luum (the "Luum Acquisition"). The aggregate purchase price for the acquisition consisted of $56.2 million in cash, which reflects a $2.1 million reduction in the fair value of contingent consideration during the fiscal year ended January 31, 2022.

The Luum Acquisition was accounted for under the acquisition method of accounting for business combinations. The consideration paid was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values as of the acquisition date. The initial allocation of the consideration paid was based on a preliminary valuation and was subject to adjustment during the measurement period (up to one year from the acquisition date). The purchase price allocation was finalized in the three months ended April 30, 2022.

The following table summarizes the Company's allocation of the consideration paid:

(in thousands)	Estimated fair value	Adjustments	Updated Allocation
Cash and cash equivalents	$ 626	$ —	$ 626
Other current assets	1,469	—	1,469
Intangible assets	23,900	—	23,900
Goodwill	36,374	(19)	36,355
Other assets	100	—	100
Current liabilities	(597)	—	(597)
Deferred tax liability	(3,566)	19	(3,547)
Total consideration paid	$ 58,306	$ —	$ 58,306

The adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired, liabilities assumed, and tax-related matters. The goodwill created in the Luum Acquisition is not expected to be deductible for tax purposes.

Further acquisition

On November 1, 2021, the Company completed its acquisition of the Further business (other than Further's voluntary employee beneficiary association business) for $455 million (the "Further Acquisition").

The Further Acquisition was accounted for under the acquisition method of accounting for business combinations. The consideration paid was allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair values as of the acquisition date. The initial allocation of the consideration paid was based on a preliminary valuation and is subject to adjustment during the measurement period (up to one year from the acquisition date). Balances subject to adjustment primarily include the valuations of acquired assets (tangible and intangible) and liabilities assumed, as well as tax-related matters. The Company expects the allocation of the consideration transferred to be finalized within the measurement period.

The following table summarizes the Company's current allocation of the consideration paid:

(in thousands)	Estimated fair value	Adjustments	Updated Allocation
Current assets	$ 2,667	$ (163)	$ 2,504
Intangible assets	172,183	—	172,183
Goodwill	282,287	163	282,450
Current liabilities	(2,137)	—	(2,137)
Total consideration paid	$ 455,000	$ —	$ 455,000

The adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired, liabilities assumed, and tax-related matters. The goodwill created in the Further Acquisition is expected to be deductible over a period of 15 years for tax purposes.

Note 4. Supplemental financial statement information

Selected condensed consolidated balance sheet and condensed consolidated statement of operations and comprehensive loss components consisted of the following:

Property and equipment

Property and equipment consisted of the following:

(in thousands)	July 31, 2022	January 31, 2022
Leasehold improvements	$ 18,266	$ 18,573
Furniture and fixtures	8,367	8,417
Computer equipment	31,201	31,982
Property and equipment, gross	57,834	58,972
Accumulated depreciation	(39,806)	(35,600)
Property and equipment, net	$ 18,028	$ 23,372

Depreciation expense for the three months ended July 31, 2022 and 2021 was $3.2 million and $3.5 million, respectively, and $6.4 million and $7.4 million for the six months ended July 31, 2022 and 2021, respectively.

Contract balances

The Company does not recognize revenue until its right to consideration is unconditional and therefore has no related contract assets. The Company records a receivable when revenue is recognized prior to payment and the Company has unconditional right to payment. Alternatively, when payment precedes the related services, the Company records a contract liability, or deferred revenue, until its performance obligations are satisfied. As of July 31, 2022 and January 31, 2022, the balance of deferred revenue was $8.8 million and $10.5 million, respectively. The balances are related to cash received in advance for interchange and custodial revenue arrangements, other up-front fees and other commuter deferred revenue. The Company expects to recognize approximately 48% of its balance of deferred revenue as revenue over the next 12 months and the remainder thereafter. During the three and six months ended July 31, 2022, approximately $2.0 million and $2.9 million, respectively, of revenue was recognized that was included in the balance of deferred revenue as of January 31, 2022. The Company expects to satisfy its remaining obligations for these arrangements.

Leases

The components of operating lease costs were as follows:

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2022	2021	2022	2021
Operating lease expense	$ 2,854	$ 3,498	$ 5,713	$ 7,809
Sublease income	(551)	(450)	(1,046)	(900)
Net operating lease expense	$ 2,303	$ 3,048	$ 4,667	$ 6,909

Other income (expense), net

Other income (expense), net, consisted of the following:

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2022	2021	2022	2021
Interest income	$ 89	$ 533	$ 141	$ 941
Acquisition costs, net	(47)	(1,665)	(53)	(7,604)
Other income (expense), net	(10)	1,476	(357)	3,377
Total other income (expense), net	$ 32	$ 344	$ (269)	$ (3,286)

Supplemental cash flow information

Supplemental cash flow information related to the Company's operating leases was as follows:

	Six months ended July 31,	
(in thousands)	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 6,232	$ 7,261
Operating lease right-of-use assets obtained in exchange for new operating lease obligations	$ 1,092	$ 320

Note 5. Intangible assets and goodwill

Intangible assets

The gross carrying amount and associated accumulated amortization of intangible assets were as follows:

	As of July 31, 2022		
(in thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangible assets:			
Software and software development costs	$ 214,921	$ (125,017)	$ 89,904
Acquired HSA portfolios	261,180	(54,807)	206,373
Acquired customer relationships	759,781	(127,588)	632,193
Acquired developed technology	132,825	(70,013)	62,812
Acquired trade names	12,900	(12,237)	663
Total amortizable intangible assets	$ 1,381,607	$ (389,662)	$ 991,945

(in thousands)	As of January 31, 2022 Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizable intangible assets:			
Software and software development costs	$ 192,050	$ (99,952)	$ 92,098
Acquired HSA portfolios	192,298	(46,603)	145,695
Acquired customer relationships	759,781	(101,741)	658,040
Acquired developed technology	132,825	(58,334)	74,491
Acquired trade names	12,900	(10,087)	2,813
Total amortizable intangible assets	$ 1,289,854	$ (316,717)	$ 973,137

Amortization expense for the three months ended July 31, 2022 and 2021 was $37.6 million and $29.5 million, respectively, and $73.8 million and $57.4 million for the six months ended July 31, 2022 and 2021, respectively.

Goodwill

During the six months ended July 31, 2022, goodwill increased by $0.2 million due to measurement period adjustments. For further information, see Note 3—Business combinations. There were no additional changes to the carrying value of goodwill during the six months ended July 31, 2022.

Note 6. Commitments and contingencies

Commitments

The Company's principal commitments consist of long-term debt, operating lease obligations for office space and data storage facilities, processing services agreements, telephony services, and other contractual commitments. On March 2, 2022, the Company completed its acquisition of the Health Savings Administrators, L.L.C. ("HealthSavings") HSA portfolio for $60 million in cash. There were no other material changes during the six months ended July 31, 2022, outside of the ordinary course of business, in the Company's commitments from those disclosed in its Annual Report on Form 10-K for the fiscal year ended January 31, 2022.

Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of covenants, representations, and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Legal matters

In April 2021, the Company's wholly owned subsidiary WageWorks, Inc. ("WageWorks") exercised its right to terminate a lease for office space in Mesa, Arizona that had not yet commenced, with aggregate lease payments of $63.1 million and a term of approximately 11 years, following the landlord's failure to fulfill its obligations under the lease agreement. Because the lease had not yet commenced, the Company had not recognized a right-of-use asset, operating lease liability, or any rent expense associated with the lease. WageWorks' right to terminate the lease agreement was disputed by the landlord, Union Mesa 1, LLC ("Union Mesa"). On November 5, 2021, Union Mesa notified WageWorks that it was in default of the lease for failure to pay rent, which Union Mesa claimed was due beginning in November 2021, and on November 24, 2021 drew $2.8 million, the full amount under the letter of credit that WageWorks had posted to secure its obligations under the lease. On December 1, 2021, WageWorks filed a lawsuit against Union Mesa in the Superior Court of the State of Arizona in and for the County of Maricopa. On January 4, 2022, WageWorks filed an amended complaint in the Superior Court. Pursuant to the lawsuit, WageWorks seeks declaratory judgment that the lease was properly terminated and recourse against Union Mesa for breach of contract, breach of the duty of good faith and fair dealing, and conversion, including return of the funds drawn under the letter of credit. On January 31, 2022, Union Mesa filed a motion to dismiss for the conversion cause of action, which the Superior Court denied on April 13, 2022. On May 18, 2022, Union Mesa filed an answer and counterclaim with the Superior Court, wherein Union Mesa denied WageWorks' claims, and separately seeks recourse against WageWorks for breach of contract and breach of the implied covenant of good faith and fair dealing. On May 19, 2022, Union Mesa filed an amended complaint and counterclaim seeking the same recourse.

On June 29, 2022, Union Mesa filed a second amended answer and counterclaim, which names the Company as a counter-defendant. On July 21, 2022, WageWorks and the Company filed an answer to the counterclaims.

On June 22, 2018 and September 6, 2018, two derivative lawsuits were filed against certain of WageWorks' former officers and directors and WageWorks (as nominal defendant) in the Superior Court of the State of California, County of San Mateo. The actions were consolidated. On July 23, 2018, a similar derivative lawsuit was filed against certain former WageWorks' officers and directors and WageWorks (as nominal defendant) in the U.S. District Court for the Northern District of California (together, the "Derivative Suits"). The Derivative Suits have both been dismissed.

WageWorks previously entered into indemnification agreements with its former directors and officers and, pursuant to these indemnification agreements, is covering the defense fees and costs of its former directors and officers in the legal proceedings described above.

The Company and its subsidiaries are involved in various other litigation, governmental proceedings and claims, not described above, that arise in the normal course of business. It is not possible to determine the ultimate outcome or the duration of such litigation, governmental proceedings or claims, or the impact that such litigation, proceedings and claims will have on the Company's financial position, results of operations, and cash flows.

As required under GAAP, 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 liabilities relating to these matters are probable or that the amount of any resulting loss is estimable. 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 and cash flows for the period in which the unfavorable outcome occurs, and potentially in future periods.

Note 7. Income taxes

The Company follows Accounting Standards Codification ("ASC") 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 pre-tax book loss through the end of the latest fiscal quarter to determine the interim income tax benefit. For the three and six months ended July 31, 2022, the Company recorded an income tax benefit of $3.2 million and $7.6 million, respectively. This resulted in an effective income tax benefit rate of 23.2% and 23.9% for the three and six months ended July 31, 2022, respectively, compared with an effective income tax benefit rate of 50.8% and 53.6% for the three and six months ended July 31, 2021, respectively. For the three and six months ended July 31, 2022, discrete tax items had an effective tax rate benefit of 4.1% and 4.2%, respectively, compared with an effective tax rate benefit of 25.6% and 28.9% for the three and six months ended July 31, 2021, respectively, primarily due to excess tax benefits on stock-based compensation expense recognized in the provision for income taxes.

As of July 31, 2022 and January 31, 2022, the Company's total gross unrecognized tax benefit was $12.0 million and $11.7 million, respectively. If recognized, $8.6 million of the total gross unrecognized tax benefits would affect the Company's effective tax rate as of July 31, 2022.

The Company files income tax returns with U.S. federal and state taxing jurisdictions and is currently under examination by the IRS and the state of Texas. These examinations may lead to ordinary course adjustments or proposed adjustments to the Company's taxes, net operating losses, and/or tax credit carryforwards. As a result of the Company's net operating loss carryforwards and tax credit carryforwards, the Company remains subject to examination by one or more jurisdictions for tax years after 2001.

Note 8. Indebtedness

Long-term debt consisted of the following:

(in thousands)	July 31, 2022	January 31, 2022
4.50% Senior Notes due 2029	$ 600,000	$ 600,000
Term Loan Facility	345,625	350,000
Principal amount	945,625	950,000
Less: unamortized discount and issuance costs (1)	17,534	19,173
Total debt, net	928,091	930,827
Less: current portion of long-term debt	13,125	8,750
Long-term debt, net	$ 914,966	$ 922,077

(1) In addition to the $17.5 million and $19.2 million of unamortized discount and issuance costs related to long-term debt as of July 31, 2022 and January 31, 2022, respectively, $3.9 million and $4.4 million of unamortized issuance costs related to the Company's Revolving Credit Facility (as defined below) are included within other assets on the condensed consolidated balance sheets as of July 31, 2022 and January 31, 2022, respectively.

4.50% Senior Notes due 2029

On October 8, 2021, the Company completed its offering of $600.0 million aggregate principal amount of its 4.50% Senior Notes due 2029 (the “Notes”). The Notes were issued under an indenture (the “Indenture”), dated October 8, 2021, among the Company, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.

The Notes are guaranteed by each of the Company’s existing, wholly owned domestic subsidiaries that guarantees its obligations under the Credit Agreement (as defined below) and are required to be guaranteed by any of the Company’s future subsidiaries that guarantee its obligations under the Credit Agreement or certain of its other indebtedness. The Notes will mature on October 1, 2029. Interest on the Notes is payable on April 1 and October 1 of each year. As of July 31, 2022 and January 31, 2022, $9.0 million and $8.7 million, respectively, of accrued interest on the Notes is included within accrued liabilities on the Company's condensed consolidated balance sheets. The effective interest rate on the Notes is 4.72%.

The Notes are unsecured senior obligations of the Company and rank equally in right of payment to all of its existing and future senior unsecured debt and senior in right of payment to all of its future subordinated debt.

The Notes are redeemable at the Company’s option, in whole or in part, at any time on or after October 1, 2024, at a redemption price if redeemed during the 12 months beginning (i) October 1, 2024 of 102.250%, (ii) October 1, 2025 of 101.125%, and (iii) October 1, 2026 and thereafter of 100.000%, in each case of the principal amount of the Notes being redeemed, and together with accrued and unpaid interest, if any, to, but excluding, the date of redemption. The Company may also redeem some or all of the Notes before October 1, 2024 at a redemption price equal to 100% of the principal amount of the Notes, plus the applicable “make-whole” premium as of, and accrued and unpaid interest, if any, to, but excluding, the date of redemption. In addition, at any time prior to October 1, 2024, the Company may redeem up to 40% of the aggregate principal amount of the Notes issued under the Indenture on one or more occasions in an aggregate amount equal to the net cash proceeds of one or more equity offerings at a redemption price equal to 104.500% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. Furthermore, the Company may be required to make an offer to purchase the Notes upon the sale of certain assets or upon specific kinds of changes of control.

The Indenture contains covenants that impose significant operational and financial restrictions on the Company; however, these covenants generally align with the covenants contained in the Credit Agreement. See "Credit Agreement" below for a description of these covenants.

Credit Agreement

On October 8, 2021, the Company entered into a credit agreement (the “Credit Agreement”) among the Company, as borrower, each lender from time to time party thereto (the “Lenders”), JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the “Agent”) and the Swing Line Lender (as defined in the Credit Agreement), and each L/C Issuer (as defined therein) party thereto, pursuant to which the Company established:

(i) a five-year senior secured term loan A facility (the “Term Loan Facility”), in an aggregate principal amount of $350.0 million; and

(ii) a five-year senior secured revolving credit facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Credit Facilities”), in an aggregate principal amount of up to $1.0 billion (with a $25 million sub-limit for the issuance of letters of credit), the proceeds of which may be used for working capital and general corporate purposes of the Company and its subsidiaries, including the financing of acquisitions and other investments.

Subject to the terms and conditions set forth in the Credit Agreement (including obtaining additional commitments from one or more new or existing lenders), the Company may in the future incur additional loans or commitments under the Credit Agreement in an aggregate principal amount of up to $300 million, plus an additional amount so long as the Company's pro forma First Lien Net Leverage Ratio (as defined in the Credit Agreement) would not exceed 3.85 to 1.00 as of the date such loans or commitments are incurred.

Borrowings under the Credit Facilities bear interest at an annual rate equal to, at the option of the Company, either (i) LIBOR (adjusted for reserves) plus a margin ranging from 1.25% to 2.25% or (ii) an alternate base rate plus a margin ranging from 0.25% to 1.25%, with the applicable margin determined by reference to a leverage-based pricing grid set forth in the Credit Agreement. As of July 31, 2022, the stated interest rate was 4.13% and the effective interest rate was 4.92%. The Company is also required to pay certain fees to the Lenders, including, among others, a quarterly commitment fee on the average unused amount of the Revolving Credit Facility at a rate ranging from 0.20% to 0.40%, with the applicable rate also determined by reference to a leverage-based pricing grid set forth in the Credit Agreement. No amounts have been drawn under the Revolving Credit Facility.

The loans made under the Term Loan Facility amortize in equal quarterly installments in an aggregate annual amount equal to the following percentage of the original principal amount of the Term Loan Facility: (i) 2.5% for the first year after October 8, 2021; (ii) 5.0% for each of the second and third years after October 8, 2021; (iii) 7.5% for the fourth year after October 8, 2021; and (iv) 10.0% for the fifth year after October 8, 2021. In addition, the Term Loan Facility is required to be mandatorily prepaid with 100% of the net cash proceeds of all asset sales, insurance and condemnation recoveries, subject to customary exceptions and thresholds, including to the extent such proceeds are reinvested in assets useful in the business of the Company and its subsidiaries within 450 days following receipt (or committed to be reinvested within such 450-day period and reinvested within 180 days after the end of such 450-day period). The loans under the Credit Facilities may be prepaid, and the commitments thereunder may be reduced, by the Company without penalty or premium, subject to the reimbursement of customary "breakage costs."

The Credit Agreement contains significant customary affirmative and negative covenants, including covenants that limit, among other things, the ability of the Company and its subsidiaries to incur additional indebtedness, create liens, merge or dissolve, make investments, dispose of assets, engage in sale and leaseback transactions, make distributions and dividends and prepayments of junior indebtedness, engage in transactions with affiliates, enter into restrictive agreements, amend documentation governing junior indebtedness, modify its fiscal year and modify its organizational documents, in each case, subject to customary exceptions, thresholds, qualifications and "baskets." In addition, the Credit Agreement contains financial performance covenants, which require the Company to maintain (i) a maximum total net leverage ratio, measured as of the last day of each fiscal quarter, of no greater than 5.00 to 1.00 and (ii) a minimum consolidated interest coverage ratio, measured as of the last day of each fiscal quarter, of no less than 3.00 to 1.00. The Company was in compliance with all covenants under the Credit Agreement as of July 31, 2022, and for the period then ended.

The repayment obligation under the Credit Agreement may be accelerated upon the occurrence of an event of default thereunder, including, among other things, failure to pay principal, interest or fees on a timely basis, material inaccuracy of any representation or warranty, failure to comply with covenants, cross-default to other material debt, material judgments, change of control and certain insolvency or bankruptcy-related events, in each case, subject to any certain grace and/or cure periods.

The obligations of the Company under the Credit Agreement are required to be unconditionally guaranteed by each of the Company's existing or subsequently acquired or organized domestic subsidiaries and are secured by security interests in substantially all assets of the Company and the guarantors, in each case, subject to certain customary exceptions.

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 loss during the periods presented:

(in thousands)	Three months ended July 31, 2022	Three months ended July 31, 2021	Six months ended July 31, 2022	Six months ended July 31, 2021
Cost of revenue	$ 3,998	$ 3,068	$ 7,005	$ 5,471
Sales and marketing	2,553	2,660	4,567	4,848
Technology and development	2,963	3,693	6,343	6,706
General and administrative	8,640	6,196	14,225	11,391
Other expense, net (1)	—	—	—	342
Total stock-based compensation expense	$ 18,154	$ 15,617	$ 32,140	$ 28,758

(1) Equity-based awards exchanged for cash in connection with the Luum Acquisition.

Stock award plans

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

In addition, under the Incentive Plan, the number of shares of common stock reserved for issuance under the Incentive Plan automatically increases on February 1 of each year, beginning as of February 1, 2015 and continuing through and including February 1, 2024, by 3% of the total number of shares of the Company’s capital stock outstanding on January 31 of the preceding fiscal year, or a lesser number of shares determined by the board of directors. As of July 31, 2022, 9.4 million shares were available for grant under the Incentive Plan.

Stock options

A summary of stock option activity is as follows:

	Outstanding stock options				
(in thousands, except for exercise prices and term)	Number of options	Range of exercise prices	Weighted-average exercise price	Weighted-average contractual term (in years)	Aggregate intrinsic value
Outstanding as of January 31, 2022	1,232	$1.25 - 82.39	$ 35.64	4.2	$ 25,719
Exercised	(132)	$1.25 - 51.44	$ 34.03		
Forfeited	(2)	$28.69	$ 28.69		
Outstanding as of July 31, 2022	1,098	$14.00 - 82.39	$ 35.84	3.9	$ 27,183
Vested and expected to vest as of July 31, 2022	1,098		$ 35.84	3.9	$ 27,183
Exercisable as of July 31, 2022	1,059		$ 34.49	3.8	$ 27,183

Restricted stock units

A summary of RSU activity is as follows:

	RSUs and PRSUs	
(in thousands, except weighted-average grant date fair value)	Shares	Weighted-average grant date fair value
Outstanding as of January 31, 2022	2,740	$ 63.15
Granted	1,421	77.46
Vested	(585)	60.49
Forfeited	(301)	63.90
Outstanding as of July 31, 2022	3,275	$ 69.76

Performance restricted stock units. During the three months ended April 30, 2022, the Company awarded 281,784 performance restricted stock units ("PRSUs") subject to a market condition based on the Company’s total shareholder return ("TSR") relative to the Russell 2000 index as measured on January 31, 2025. The Company used a Monte Carlo simulation to determine that the grant date fair value of the awards was $32.1 million. Compensation expense is recorded if the service condition is met regardless of whether the market condition is satisfied. The market condition allows for a range of vesting from 0% to 200% based on the level of performance achieved. The PRSUs cliff vest upon approval by the Compensation Committee of the board of directors.

Note 10. Fair value

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

- Level 1—quoted prices in active markets for identical assets or liabilities;
- Level 2—inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3—unobservable inputs based on the Company's own assumptions.

Cash and cash equivalents are considered Level 1 instruments and are valued based on publicly available daily net asset values. The carrying values of cash and cash equivalents approximate fair values due to the short-term nature of these instruments.

The Notes are valued based upon quoted market prices and are considered Level 2 instruments because the markets in which the Notes trade are not considered active markets. As of July 31, 2022, the fair value of the Notes was $556.8 million.

The Term Loan Facility is considered a Level 2 instrument and recorded at book value in the Company's condensed consolidated financial statements. The Term Loan Facility reprices frequently due to variable interest rate terms and entails no significant changes in credit risk. As a result, the fair value of the Term Loan Facility approximates carrying value.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” and similar expressions or variations intended to identify forward-looking statements. Such statements include, but are not limited to, statements concerning our ability to integrate acquired businesses, the impact of the COVID-19 pandemic and resulting societal and economic changes on the Company, the anticipated synergies and other benefits of acquired businesses and any future acquisitions, health savings accounts and other tax-advantaged consumer-directed benefits, tax and other regulatory changes, market opportunity, our future financial and operating results, our investment and acquisition strategy, our sales and marketing strategy, management’s plans, beliefs and objectives for future operations, technology and development, economic and industry trends or trend analysis, expectations about seasonality, opportunity for portfolio purchases and other acquisitions, operating expenses, anticipated income tax rates, capital expenditures, cash flows and liquidity. These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk factors” included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022, our Quarterly Report on Form 10-Q for the quarter ended April 30, 2022, and our other reports filed with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Overview

We are a leader and an innovator in providing technology-enabled services that empower consumers to make healthcare saving and spending decisions. We use our innovative technology to manage consumers' tax-advantaged health savings accounts ("HSAs") and other consumer-directed benefits ("CDBs") offered by employers, including flexible spending accounts and health reimbursement arrangements (“FSAs” and “HRAs”), and to administer Consolidated Omnibus Budget Reconciliation Act (“COBRA”), commuter and other benefits. As part of our services, we and our subsidiaries provide consumers with healthcare bill evaluation and payment processing services, personalized benefit information, including information on treatment options and comparative pricing, access to remote and telemedicine benefits, the ability to earn wellness incentives, and investment advice to grow their tax-advantaged healthcare savings.

The core of our offerings is the HSA, a financial account through which consumers spend and save long-term for healthcare expenses on a tax-advantaged basis. As of July 31, 2022, we administered 7.5 million HSAs, with balances totaling $20.5 billion, which we call HSA Assets, as well as 7.0 million complementary CDBs. We refer to the aggregate number of HSAs and other CDBs that we administer as Total Accounts, of which we had 14.5 million as of July 31, 2022.

We reach consumers primarily through relationships with their employers, which we call Clients. We reach Clients primarily through relationships with benefits brokers and advisors, integrated partnerships with a network of health plans, benefits administrators, benefits brokers and consultants, and retirement plan recordkeepers, which we call Network Partners, and a sales force that calls on Clients directly.

We have increased our share of the growing HSA market from 4% in December 2010 to 18% as of December 2021, measured by HSA Assets. According to Devenir, we are the largest HSA provider by accounts and second largest by assets as of December 2021. In addition, we believe we are the largest provider of other CDBs. We seek to differentiate ourselves through our proprietary technology, product breadth, ecosystem connectivity, and service-driven culture. Our proprietary technology allows us to help consumers optimize the value of their HSAs and other CDBs and gain confidence and skills in managing their healthcare costs as part of their financial security.

Our ability to assist consumers is enhanced by our capacity to securely share data in both directions with others in the health, benefits, and retirement ecosystems. Our commuter benefits offering also leverages connectivity to an ecosystem of mass transit, ride hailing, and parking providers. These strengths reflect our "DEEP Purple" culture of remarkable service to customers and teammates, achieved by driving excellence, ethics, and process into everything we do.

We earn revenue primarily from three sources: service, custodial, and interchange. We earn service revenue mainly from fees paid by Clients on a recurring per-account per-month basis. We earn custodial revenue mainly from HSA Assets held at our members' direction in federally insured cash deposits, insurance contracts or mutual funds, and from investment of Client-held funds. We earn interchange revenue mainly from fees paid by merchants on payments that our members make using our physical payment cards and on our virtual payment system. See "Key components of our results of operations" for additional information on our sources of revenue, including the adverse impacts caused by the COVID-19 pandemic and resulting societal and economic changes.

Recent acquisitions

Luum acquisition. In March 2021, we bolstered our commuter offering by acquiring 100% of the outstanding capital stock of Fort Effect Corp, d/b/a Luum (the "Luum Acquisition"). The aggregate purchase price for the acquisition consisted of $56.2 million in cash. Luum provides employers with various commuter services, including access to real-time commute data, to help them design and implement flexible return-to-office and hybrid-workplace strategies and benefits.

Fifth Third Bank HSA portfolio acquisition. In September 2021, we acquired the Fifth Third Bank, National Association ("Fifth Third") HSA portfolio, which consisted of $490.0 million of HSA Assets held in approximately 160,000 HSAs in exchange for a purchase price of $60.8 million in cash.

Further acquisition. In November 2021, we acquired the Further business (other than Further's voluntary employee beneficiary association business), a leading provider of HSA and other CDB administration services, with approximately 580,000 HSAs and $1.9 billion of HSA Assets, for $455 million in cash (the "Further Acquisition"). We expect merger integration expenses attributable to the Further Acquisition totaling approximately $55 million to be incurred over a period of approximately three years from the acquisition date.

HealthSavings HSA portfolio acquisition. In March 2022, we acquired the Health Savings Administrators, L.L.C. ("HealthSavings") HSA portfolio, which consisted of $1.3 billion of HSA Assets held in approximately 87,000 HSAs in exchange for a purchase price of $60 million in cash.

Key factors affecting our performance

We believe that our future performance will be driven by a number of factors, including those identified below. Each of these factors presents both significant opportunities and significant risks to our future performance. See also "Results of operations - Revenue" for information relating to the COVID-19 pandemic and resulting societal and economic changes, and also the section entitled "Risk factors" included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022, our Quarterly Report on Form 10-Q for the quarter ended April 30, 2022, and our other reports filed with the SEC.

Our acquisition and integration strategy

We have historically acquired HSA portfolios and businesses that strengthen our service offerings. We plan to continue this growth strategy and are regularly engaged in evaluating different opportunities. We have developed an internal capability to source, evaluate, and integrate acquired HSA portfolios. Our success depends in part on our ability to successfully integrate acquired businesses and HSA portfolios with our business in an efficient and effective manner and to realize anticipated synergies.

Structural change in U.S. health insurance

We derive revenue primarily from healthcare-related saving and spending by consumers in the U.S., which are driven by changes in the broader healthcare industry, including the structure of health insurance. The average premium for employer-sponsored health insurance has risen by 22% since 2016 and 47% since 2011, resulting in increased participation in HSA-qualified health plans and HSAs and increased consumer cost-sharing in health insurance more generally. We believe that continued growth in healthcare costs and related factors will spur continued growth in HSA-qualified health plans and HSAs and may encourage policy changes making HSAs or similar vehicles available to new populations such as individuals in Medicare. However, the timing and impact of these and other developments in U.S. healthcare are uncertain. Moreover, changes in healthcare policy, such as "Medicare for all" plans, could materially and adversely affect our business in ways that are difficult to predict.

Trends in U.S. tax law

Tax law has a profound impact on our business. Our offerings to members, Clients, and Network Partners consist primarily of services enabled, mandated, or advantaged by provisions of U.S. tax law and regulations. Changes in tax policy are speculative and may affect our business in ways that are difficult to predict.

Our client base

Our business model is based on a B2B2C distribution strategy, whereby we work with Network Partners and Clients to reach consumers to increase the number of our members with HSA accounts and complementary CDBs. We believe that there are significant opportunities to expand the scope of services that we provide to our current Clients.

Broad distribution footprint

We believe we have a diverse distribution footprint to attract new Clients and Network Partners. Our sales force calls on enterprise and regional employers in industries across the U.S., as well as potential Network Partners from among health plans, benefits administrators, and retirement plan record keepers.

Product breadth

We are the largest custodian and administrator of HSAs (by number of accounts), as well as a market-share leader in each of the major categories of complementary CDBs, including FSAs and HRAs, COBRA and commuter benefits administration. Our Clients and their benefits advisors increasingly seek HSA providers that can deliver an integrated offering of HSAs and complementary CDBs. With our CDB capabilities, we can provide employers with a single partner for both HSAs and complementary CDBs, which is preferred by the vast majority of employers, according to research conducted for us by Aite Group. We believe that the combination of HSA and complementary CDB offerings significantly strengthens our value proposition to employers, health benefits brokers and consultants, and Network Partners as a leading single-source provider.

Interest rates

As a non-bank custodian, our members’ custodial HSA cash assets are held by either our federally insured bank and credit union partners, which we collectively call our Depository Partners (our “Basic Rates” offering), pursuant to contractual arrangements we have with these Depository Partners, or by our insurance company partners through group annuity contracts or other similar arrangements (our “Enhanced Rates” offering). We earn a material portion of our total revenue from interest paid to us by these partners.

The lengths of our agreements with Depository Partners typically range from three to five years and may have fixed or variable interest rate terms. The terms of new and renewing agreements with our Depository Partners may be impacted by the then-prevailing interest rate environment, which in turn is driven by macroeconomic factors and government policies over which we have no control. Such factors, and the response of our competitors to them, also determine the amount of interest retained by our members.

HSA members who place their HSA cash into our Enhanced Rates offering receive a higher yield compared to our Basic Rates offering. An increase in the percentage of HSA cash held in our Enhanced Rates offering also positively impacts our custodial revenue, as we generally receive a higher yield on HSA cash held by our insurance company partners compared to cash held by our Depository Partners. As with our Depository Partners, yields paid by our insurance company partners may be impacted by the prevailing interest rate environment, which in turn is driven by macroeconomic factors and government policies over which we have no control. Such factors, and the response of our competitors to them, also determine the amount of interest retained by our members.

We believe that diversification of Depository Partners and insurance company partners, varied contract terms, and other factors reduce our exposure to short-term fluctuations in prevailing interest rates and mitigate the short-term impact of sustained increases or declines in prevailing interest rates on our custodial revenue. Over longer periods, sustained shifts in prevailing interest rates affect the amount of custodial revenue we can realize on custodial assets and the interest retained by our members.

Although interest rates have increased, we expect our custodial revenue to continue to be adversely affected by the interest rate cuts by the Federal Reserve at the beginning of the COVID-19 pandemic due to the impact of contracts signed with our Depository Partners in that environment and other market conditions that have caused our average annualized yield on HSA cash to decline significantly.

Interest on our term loan facility changes frequently due to variable interest rate terms, and as a result, our interest expense is expected to fluctuate based on changes in prevailing interest rates. Recent interest rate increases have caused interest expense related to our term loan facility to increase.

Our proprietary technology

We believe that innovations incorporated in our technology, which enable us to better assist consumers to make healthcare saving and spending decisions and maximize the value of their tax-advantaged benefits, differentiate us from our competitors and drive our growth. Our full suite of CDB offerings complements our HSA solution and enhances our leadership position within the HSA sector. We intend to continue to invest in our technology development to enhance our capabilities and infrastructure, while maintaining a focus on data security and the privacy of our customers' data. For example, we are making significant investments in the architecture and infrastructure of the technology that we use to provide our services to improve our transaction processing capabilities and support continued account and transaction growth, as well as in data-driven personalized engagement to help our members spend less, save more, and build wealth for retirement.

Our “DEEP Purple” service culture

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

Our competition and industry

Our direct competitors are HSA custodians and other CDB providers. Many of these are state or federally chartered banks and other financial institutions for which we believe benefits administration services are not a core business. Some of our direct competitors (including healthcare service companies such as United Health Group's Optum, Webster Bank, and well-known retail investment companies, such as Fidelity Investments) are in a position to devote more resources to the development, sale, and support of their products and services than we have at our disposal. Our other CDB administration competitors include health insurance carriers, human resources consultants and outsourcers, payroll providers, national CDB specialists, regional third-party administrators, and commercial banks. In addition, numerous indirect competitors, including benefits administration service providers, partner with banks and other HSA custodians to compete with us. Our Network Partners may also choose to offer competitive services directly, as some health plans have done. Our success depends on our ability to predict and react quickly to these and other industry and competitive dynamics.

As a result of the COVID-19 pandemic, we have seen a significant decline in the use of commuter benefits due to many of our members working from home, which has negatively impacted both our interchange revenue and service revenue, and this "work from home" trend, or hybrid work environments, may continue indefinitely.

Regulatory environment

Federal law and regulations, including the Affordable Care Act, the Internal Revenue Code, the Employee Retirement Income Security Act and Department of Labor regulations, and public health regulations that govern the provision of health insurance and provide the tax advantages associated with our services, play a pivotal role in determining our market opportunity. Privacy and data security-related laws such as the Health Insurance Portability and Accountability Act, or HIPAA, and the Gramm-Leach-Bliley Act, laws governing the provision of investment advice to consumers, such as the Investment Advisers Act of 1940, or the Advisers Act, the USA PATRIOT Act, anti-money laundering laws, and the Federal Deposit Insurance Act, all play a similar role in determining our competitive landscape. In addition, state-level regulations also have significant implications for our business in some cases. For example, our subsidiary HealthEquity Trust Company is regulated by the Wyoming Division of Banking, and several states are considering, or have already passed, new privacy regulations that can affect our business. Various states also have laws and regulations that impose additional restrictions on our collection, storage, and use of personally identifiable information. Privacy regulation in particular has become a priority issue in many states, including California, which in 2018 enacted the California Consumer Privacy Act broadly regulating California residents’ personal information and providing California residents with various rights to access and control their data, and the new California Privacy Rights Act. We have also seen an increase in regulatory changes related to our services due to government responses to the COVID-19 pandemic and may continue to see additional regulatory changes. Our ability to predict and react quickly to relevant legal and regulatory trends and to correctly interpret their market and competitive implications is important to our success.

On February 18, 2022, President Biden formally continued the National Emergency Concerning COVID-19, which tolls certain deadlines related to COBRA and other CDBs and increases the complexity of properly administering these programs. Each national emergency declaration generally lasts for one year unless the President announces an earlier termination.

Key financial and operating metrics

Our management regularly reviews a number of key operating and financial metrics to evaluate our business, determine the allocation of our resources, make decisions regarding corporate strategies and evaluate forward-looking projections and trends affecting our business. We discuss certain of these key financial metrics, including revenue, below in the section entitled "Key components of our results of operations." In addition, we utilize other key metrics as described below.

Total Accounts

The following table sets forth our HSAs, CDBs, and Total Accounts as of and for the periods indicated:

(in thousands, except percentages)	July 31, 2022	July 31, 2021	% Change	January 31, 2022
HSAs	7,523	5,972	26 %	7,207
New HSAs from sales - Quarter-to-date	196	180	9 %	472
New HSAs from sales - Year-to-date	355	295	20 %	918
New HSAs from acquisitions - Year-to-date	90	—	n/a	740
HSAs with investments	516	402	28 %	455
CDBs	7,023	7,171	(2)%	7,192
Total Accounts	14,546	13,143	11 %	14,399
Average Total Accounts - Quarter-to-date	14,497	13,358	9 %	14,326
Average Total Accounts - Year-to-date	14,462	13,114	10 %	13,450

The number of our HSAs and CDBs are key metrics because our revenue is driven by the amount we earn from them. The number of our HSAs increased by 1.6 million, or 26%, from July 31, 2021 to July 31, 2022, primarily driven by new HSAs from sales, HSAs acquired through the Further Acquisition, the Fifth Third acquisition, the HealthSavings acquisition, and other HSA portfolio acquisitions. The number of our CDBs decreased by 0.1 million, or 2%, from July 31, 2021 to July 31, 2022, primarily driven by a decrease in COBRA accounts, largely offset by CDBs acquired through the Further Acquisition.

HSA Assets

The following table sets forth HSA Assets as of and for the periods indicated:

(in millions, except percentages)	July 31, 2022	July 31, 2021	% Change	January 31, 2022
HSA cash	$ 13,097	$ 10,028	31 %	$ 12,943
HSA investments	7,441	5,443	37 %	6,675
Total HSA Assets	20,538	15,471	33 %	19,618
Average daily HSA cash - Year-to-date	12,924	10,007	29 %	10,579
Average daily HSA cash - Quarter-to-date	12,941	9,963	30 %	12,118

HSA Assets includes our HSA members' custodial assets, which consists of the following components: (i) HSA cash, which includes cash deposits held by our Depository Partners and our insurance company partners, and (ii) HSA investments in mutual funds through our custodial investment fund partners. Measuring HSA Assets is important because our custodial revenue is directly affected by average daily custodial balances for HSA Assets that are revenue generating.

HSA cash increased by $3.1 billion, or 31%, from July 31, 2021 to July 31, 2022, due primarily to net HSA contributions from new and existing HSA members, HSA cash transferred to us as part of the Further Acquisition, and acquisitions of HSA portfolios, partially offset by transfers to HSA investments.

HSA investments increased by $2.0 billion, or 37%, from July 31, 2021 to July 31, 2022, due primarily to transfers from HSA cash, the HealthSavings acquisition, and other HSA portfolio acquisitions, partially offset by the reduced value of invested balances due to market volatility.

Total HSA Assets increased by $5.1 billion, or 33%, from July 31, 2021 to July 31, 2022, due primarily to HSA Assets transferred to us as part of the Further Acquisition, net HSA contributions from new and existing HSA members, and acquisitions of HSA portfolios, partially offset by the reduced value of invested balances due to market volatility.

Client-held funds

(in millions, except percentages)	July 31, 2022	July 31, 2021	% Change	January 31, 2022
Client-held funds	$ 801	$ 810	(1)%	$ 897
Average daily Client-held funds - Year-to-date	852	876	(3)%	842
Average daily Client-held funds - Quarter-to-date	839	853	(2)%	822

Client-held funds are interest-earning deposits from which we generate custodial revenue. These deposits are amounts remitted by Clients and held by us on their behalf to pre-fund and facilitate administration of CDBs. We deposit the Client-held funds with our Depository Partners in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration. Client-held funds fluctuate depending on the timing of funding and spending of CDB balances and the number of CDBs we administer.

Adjusted EBITDA

We define Adjusted EBITDA, which is a non-GAAP financial metric, as adjusted earnings before interest, taxes, depreciation and amortization, amortization of acquired intangible assets, stock-based compensation expense, merger integration expenses, acquisition costs, gains and losses on equity securities, amortization of incremental costs to obtain a contract, costs associated with unused office space, and certain other non-operating items. We believe that Adjusted EBITDA provides useful information to investors and analysts in understanding and evaluating our operating results in the same manner as our management and our board of directors because it reflects operating profitability before consideration of non-operating expenses and non-cash expenses and serves as a basis for comparison against other companies in our industry.

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

	Three months ended July 31,		Six months ended July 31,	
(in thousands)	2022	2021	2022	2021
Net loss	$ (10,654)	$ (3,818)	$ (24,293)	$ (6,433)
Interest income	(89)	(533)	(141)	(941)
Interest expense	11,493	7,254	21,954	13,943
Income tax benefit	(3,219)	(3,967)	(7,631)	(7,418)
Depreciation and amortization	16,559	12,762	32,347	24,716
Amortization of acquired intangible assets	24,181	20,289	47,879	40,103
Stock-based compensation expense	18,154	15,617	32,140	28,416
Merger integration expenses	7,683	16,371	16,977	25,178
Acquisition costs (1)	47	1,665	53	7,604
Gain on equity securities	—	(1,677)	—	(1,677)
Amortization of incremental costs to obtain a contract	1,074	1,352	2,142	2,624
Costs associated with unused office space	1,313	—	2,607	—
Other	501	200	1,345	(1,625)
Adjusted EBITDA	$ 67,043	$ 65,515	$ 125,379	$ 124,490

(1) For the six months ended July 31, 2021, acquisition costs included $0.3 million of stock-based compensation expense.

The following table sets forth our net loss as a percentage of revenue:

(in thousands, except percentages)	Three months ended July 31, 2022	2021	$ Change	% Change	Six months ended July 31, 2022	2021	$ Change	% Change
Net loss	$ (10,654)	$ (3,818)	$ (6,836)	179 %	$ (24,293)	$ (6,433)	$ (17,860)	278 %
As a percentage of revenue	(5)%	(2)%			(6)%	(2)%		

Our net loss increased by $6.8 million, or 179%, from $3.8 million for the three months ended July 31, 2021 to $10.7 million for the three months ended July 31, 2022, primarily due to increases in technology and development expense, amortization of acquired intangibles, general and administrative expense, sales and marketing expense, and other expense, partially offset by an increase in gross profit and a decrease in merger integration expense.

Our net loss increased by $17.9 million, or 278%, from $6.4 million for the six months ended July 31, 2021 to $24.3 million for the six months ended July 31, 2022, primarily due to increases in technology and development expense, amortization of acquired intangibles, general and administrative expense, sales and marketing expense, and other expense, partially offset by an increase in gross profit and a decrease in merger integration expense.

The following table sets forth our Adjusted EBITDA as a percentage of revenue:

(in thousands, except percentages)	Three months ended July 31, 2022	2021	$ Change	% Change	Six months ended July 31, 2022	2021	$ Change	% Change
Adjusted EBITDA	$ 67,043	$ 65,515	$ 1,528	2 %	$ 125,379	$ 124,490	$ 889	1 %
As a percentage of revenue	33 %	35 %			30 %	33 %		

Our Adjusted EBITDA increased by $1.5 million, or 2%, from $65.5 million for the three months ended July 31, 2021 to $67.0 million for the three months ended July 31, 2022, primarily due to an increase in total revenue, partially offset by increases in personnel and related costs.

Our Adjusted EBITDA increased by $0.9 million, or 1%, from $124.5 million for the six months ended July 31, 2021 to $125.4 million for the six months ended July 31, 2022, primarily due to an increase in total revenue, partially offset by increases in personnel and related costs.

Our use of Adjusted EBITDA, including as a percentage of revenue, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP.

Key components of our results of operations

Revenue

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

Service revenue. We earn service revenue from the fees we charge our Network Partners, Clients, and members for the administration services we provide in connection with the HSAs and other CDBs we offer. With respect to our Network Partners and Clients, our fees are generally based on a fixed tiered structure for the duration of the relevant service agreement and are paid to us on a monthly basis. We recognize revenue on a monthly basis as services are rendered to our members and Clients.

Custodial revenue. We earn custodial revenue primarily from HSA Assets held by our Depository Partners or our insurance company partners, recordkeeping fees we earn in respect of mutual funds in which our members invest, and Client-held funds deposited with our Depository Partners. HSA cash held by our Depository Partners is held pursuant to contracts that (i) typically have terms ranging from three to five years, (ii) provide for a fixed or variable interest rate payable on the average daily cash balances held by the relevant Depository Partner, and (iii) have minimum and maximum required balances. HSA cash held by our insurance company partners is held in group annuity contracts or similar arrangements. Client-held funds held by our Depository Partners are held in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration. We earn custodial revenue on HSA Assets and Client-held funds that is based on the interest rates offered to us by these Depository Partners and insurance company partners. In addition, once a member's HSA cash balance reaches a certain threshold, the member is able to invest his or her HSA Assets in mutual funds through our custodial investment partner from which we earn a recordkeeping fee, calculated as a percentage of custodial investments.

Interchange revenue. We earn interchange revenue each time one of our members uses one of our physical payment cards or virtual platforms to make a purchase. This revenue is collected each time a member “swipes” our payment card to pay expenses. We recognize interchange revenue monthly based on reports received from third parties, namely, the card-issuing banks and card processors.

Cost of revenue

Cost of revenue includes costs related to servicing accounts, managing Client and Network Partner relationships and processing reimbursement claims. Expenditures include personnel-related costs, depreciation, amortization, stock-based compensation, common expense allocations (such as office rent, supplies, and other overhead expenses), new member and participant supplies, and other operating costs related to servicing our members. Other components of cost of revenue include interest retained by members on HSA cash and interchange costs incurred in connection with processing card transactions for our members.

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

Custodial costs. Custodial costs are comprised of interest retained by our HSA members, in respect of HSA cash with yield, and fees we pay to banking consultants whom we use to help secure agreements with our Depository Partners. Interest retained by HSA members is calculated on a tiered basis. The interest rates retained by HSA members can change based on a formula or upon required notice.

Interchange costs. Interchange costs are comprised of costs we incur in connection with processing payment transactions initiated by our members. Due to the substantiation requirement on FSA/HRA-linked payment card transactions, payment card costs are higher for FSA/HRA card transactions. In addition to fixed per card fees, we are assessed additional transaction costs determined by the amount of the transaction.

Gross profit and gross margin

Our gross profit is our total revenue minus our total cost of revenue, and our gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin has been and will continue to be affected by a number of factors, including interest rates, the amount we charge our Network Partners, Clients, and members, the mix of our sources of revenue, how many services we deliver per account, and payment processing costs per account.

Operating expenses

Sales and marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including sales commissions for our direct sales force, external agent/broker commission expenses, marketing expenses, depreciation, amortization, stock-based compensation, and common expense allocations.

Technology and development. Technology and development expenses include personnel and related expenses for software development and delivery, licensed software, information technology, data management, product, and security. Technology and development expenses also include software engineering services, the costs of operating our technology infrastructure, depreciation, amortization of capitalized software development costs, stock-based compensation, and common expense allocations.

General and administrative. General and administrative expenses include personnel and related expenses of, and professional fees incurred by our executive, finance, legal, internal audit, corporate development, compliance, and people departments. They also include depreciation, amortization, stock-based compensation, and common expense allocations.

Amortization of acquired intangible assets. Amortization of acquired intangible assets results primarily from intangible assets acquired in connection with business combinations. The assets include acquired customer relationships, acquired developed technology, and acquired trade names and trademarks, which we amortize over the assets' estimated useful lives, estimated to be 7-15 years, 2-5 years, and 3 years, respectively. We also acquired intangible HSA portfolios from third-party custodians. We amortize these assets over the assets’ estimated useful life of 15 years. We evaluate our acquired intangible assets for impairment annually, or at a triggering event.

Merger integration. Merger integration expenses include personnel and related expenses, including severance, professional fees, legal expenses, and facilities and technology expenses directly related to integration activities to merge operations as a result of acquisitions.

Interest expense

Interest expense primarily consists of accrued interest expense and amortization of deferred financing costs associated with our long-term debt. Interest on our term loan facility changes frequently due to variable interest rate terms, and as a result, our interest expense is expected to fluctuate based on changes in prevailing interest rates.

Other income (expense), net

Other income (expense), net, consists of acquisition costs, interest income earned on corporate cash and other miscellaneous income and expense.

Income tax benefit

We are subject to federal and state income taxes in the United States based on a January 31 fiscal year end. We use the asset and liability method to account for income taxes, under which current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. As of July 31, 2022, we have recorded a valuation allowance on certain state deferred tax assets and maintained an overall net federal and state deferred tax liability on our condensed consolidated balance sheet.

The Inflation Reduction Act, which was enacted on August 16, 2022, includes a number of tax provisions, including an adjusted book minimum tax and excise tax on stock buybacks; however, these provisions are not expected to have a material impact on the Company.

Comparison of the three and six months ended July 31, 2022 and 2021

Revenue

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

	Three months ended July 31,				Six months ended July 31,			
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**	**2022**	**2021**	**$ Change**	**% Change**
Service revenue	$ 103,034	$ 109,182	$ (6,148)	(6)%	$ 207,382	$ 211,716	$ (4,334)	(2)%
Custodial revenue	65,599	48,776	16,823	34 %	124,964	95,754	29,210	31 %
Interchange revenue	37,509	31,145	6,364	20 %	79,475	65,835	13,640	21 %
Total revenue	$ 206,142	$ 189,103	$ 17,039	9 %	$ 411,821	$ 373,305	$ 38,516	10 %

Service revenue. The $6.1 million, or 6%, decrease in service revenue from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to non-recurring revenue related to COBRA benefits administration during the three months ended July 31, 2021 and FSA and COBRA fee attrition resulting from platform migrations, partially offset by new revenue from the Further Acquisition and the HSA portfolio acquisitions, and sales of new HSAs.

The $4.3 million, or 2%, decrease in service revenue from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to non-recurring revenue related to COBRA benefits administration during the six months ended July 31, 2021 and FSA and COBRA fee attrition resulting from platform migrations, partially offset by new revenue from the Further Acquisition and the HSA portfolio acquisitions, and sales of new HSAs.

Custodial revenue. The $16.8 million, or 34%, increase in custodial revenue from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the $3.0 billion, or 30%, increase in the year-over-year average daily balance of HSA cash, as described above, and an increase in average annualized yield from 1.77% for the three months ended July 31, 2021 to 1.80% for the three months ended July 31, 2022.

The $29.2 million, or 31%, increase in custodial revenue from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the $2.9 billion, or 29%, increase in the year-over-year average daily balance of HSA cash. The increase was partially offset by a decrease in average annualized yield from 1.78% for the six months ended July 31, 2021 to 1.75% for the six months ended July 31, 2022, which was due in part to HSA cash that was placed with our Depository Partners following the interest rate cuts made by the Federal Reserve at the beginning of the COVID-19 pandemic, and by transfers from HSA cash to HSA investments.

Interchange revenue. The $6.4 million, or 20%, increase in interchange revenue from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to an increase in accounts and increased spend per account.

The $13.6 million, or 21%, increase in interchange revenue from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to an increase in accounts and increased spend per account.

Total revenue. Total revenue increased $17.0 million, or 9%, from the three months ended July 31, 2021 to the three months ended July 31, 2022 due to the increases in custodial and interchange revenues, partially offset by the decrease in service revenue, described above.

Total revenue increased $38.5 million, or 10%, from the six months ended July 31, 2021 to the six months ended July 31, 2022 due to the increases in custodial and interchange revenues, partially offset by the decrease in service revenue, described above.

Impact of COVID-19. Our business has been adversely affected by the COVID-19 pandemic, and we expect that it will continue to be adversely affected by related societal and economic changes. Although interest rates have increased from their pandemic lows, a majority of our members' HSA cash is deposited with our Depository Partners pursuant to contracts that have fixed interest rate terms, typically ranging from three to five years, which reduces the short-term impact of an increase or decline in prevailing interest rates on our custodial revenue. As a result, the yield we currently receive from our Depository Partners and insurance company partners remains significantly below the levels seen before the pandemic. Our financial results related to certain of our products have also been adversely affected, such as commuter benefits, due to many of our members working from home during the outbreak, and the "work from home" trend, or hybrid work environments, may continue indefinitely. In particular, decisions by employers to delay return-to-office plans for their employees has continued to delay the recovery of use of these commuter benefits. During the initial stages of the COVID-19 pandemic, and during subsequent increases in COVID-19 cases, we saw a negative impact on our members' spend on healthcare, which negatively impacted both our interchange revenue and service revenue. We may be unable to meet our service level commitments to our Clients as a result of disruptions to our work force and disruptions to third-party contracts that we rely on to provide our services. The extent to which the COVID-19 pandemic and any longer lasting impacts on the usage of our services will continue to negatively impact our business remains highly uncertain and as a result may have a material adverse impact on our business and financial results.

Cost of revenue

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

	Three months ended July 31,				Six months ended July 31,			
(in thousands, except percentages)	**2022**	**2021**	**$ Change**	**% Change**	**2022**	**2021**	**$ Change**	**% Change**
Service costs	$ 74,914	$ 67,334	$ 7,580	11 %	$ 155,788	$ 137,966	$ 17,822	13 %
Custodial costs	7,090	4,824	2,266	47 %	13,731	9,833	3,898	40 %
Interchange costs	6,326	4,974	1,352	27 %	13,317	10,419	2,898	28 %
Total cost of revenue	$ 88,330	$ 77,132	$ 11,198	15 %	$ 182,836	$ 158,218	$ 24,618	16 %

Service costs. The $7.6 million, or 11%, increase in service costs from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and an increase in personnel costs to support the increase in average Total Accounts.

The $17.8 million, or 13%, increase in service costs from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and an increase in personnel costs to support the increase in average Total Accounts.

Custodial costs. The $2.3 million, or 47%, increase in custodial costs from the three months ended July 31, 2021 to the three months ended July 31, 2022 was due to an increase in the average daily balance of HSA cash, which increased from $10.0 billion for the three months ended July 31, 2021 to $12.9 billion for the three months ended July 31, 2022, and an increase in the average annualized rate of interest retained by HSA members on HSA cash, which increased from 0.16% for the three months ended July 31, 2021 to 0.18% for the three months ended July 31, 2022.

The $3.9 million, or 40%, increase in custodial costs from the six months ended July 31, 2021 to the six months ended July 31, 2022 was due to an increase in the average daily balance of HSA cash, which increased from $10.0

billion for the six months ended July 31, 2021 to $12.9 billion for the six months ended July 31, 2022 and an associated increase in interest retained by HSA members.

Interchange costs. The $1.4 million, or 27%, increase in interchange costs from the three months ended July 31, 2021 to the three months ended July 31, 2022 was due to an increase in accounts and increased spend per account.

The $2.9 million, or 28%, increase in interchange costs from the six months ended July 31, 2021 to the six months ended July 31, 2022 was due to an increase in accounts and increased spend per account.

Total cost of revenue. As we continue to add Total Accounts, we expect that our cost of revenue will increase in dollar amount to support our Network Partners, Clients, and members. On an annual basis, we expect our cost of revenue to continue to increase as a percentage of our total revenue, primarily due to the inclusion of a full year of Further's results of operations and expected increases in stock-based compensation. Cost of revenue will continue to be affected by a number of different factors, including our ability to scale our service delivery, Network Partner implementation, account management functions, realized synergies, and the impact of societal and economic changes arising out of the COVID-19 pandemic.

Operating expenses

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

(in thousands, except percentages)	Three months ended July 31, 2022	2021	$ Change	% Change	Six months ended July 31, 2022	2021	$ Change	% Change
Sales and marketing	$ 15,843	$ 15,476	$ 367	2 %	$ 32,403	$ 29,562	$ 2,841	10 %
Technology and development	46,580	37,898	8,682	23 %	91,763	73,367	18,396	25 %
General and administrative	25,937	22,812	3,125	14 %	49,664	43,499	6,165	14 %
Amortization of acquired intangible assets	24,181	20,289	3,892	19 %	47,879	40,103	7,776	19 %
Merger integration	7,683	16,371	(8,688)	(53)%	16,977	25,178	(8,201)	(33)%
Total operating expenses	$ 120,224	$ 112,846	$ 7,378	7 %	$ 238,686	$ 211,709	$ 26,977	13 %

Sales and marketing. The $0.4 million, or 2%, increase in sales and marketing expense from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations, an increase in marketing expenses from increased staffing and travel costs, largely offset by a decrease in advertising expenses.

The $2.8 million, or 10%, increase in sales and marketing expense from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations, an increase in marketing expenses from increased staffing and marketing costs, and increases in team member and partner commissions.

We expect our sales and marketing expenses to increase for the foreseeable future as we focus on our cross-selling program and marketing campaigns. On an annual basis, we expect our sales and marketing expenses to increase as a percentage of our total revenue, primarily due to the inclusion of a full year of Further's results of operations and expected increases in stock-based compensation. However, our sales and marketing expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our sales and marketing expenses.

Technology and development. The $8.7 million, or 23%, increase in technology and development expense from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and increases in amortization and personnel-related expenses.

The $18.4 million, or 25%, increase in technology and development expense from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and increases in amortization and personnel-related expenses.

We expect our technology and development expenses to increase for the foreseeable future as we continue to invest in the development and security of our proprietary technology. On an annual basis, we expect our technology and development expenses to increase as a percentage of our total revenue, primarily due to the inclusion of a full year of Further's results of operations, expected increases in stock-based compensation, and our growth initiatives. Our technology and development expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our technology and development expenses.

General and administrative. The $3.1 million, or 14%, increase in general and administrative expense from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and increases in personnel-related expenses and stock-based compensation.

The $6.2 million, or 14%, increase in general and administrative expense from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the inclusion of Further's results of operations and increases in personnel-related expenses and stock-based compensation.

We expect our general and administrative expenses to increase for the foreseeable future due to the additional demands on our legal, compliance, and accounting functions that we incur as we continue to grow our business. On an annual basis, we expect our general and administrative expenses to increase as a percentage of our total revenue, primarily due to the inclusion of a full year of Further's results of operations, expected increases in stock-based compensation, and our growth initiatives. Our general and administrative expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our general and administrative expenses.

Amortization of acquired intangible assets. The $3.9 million, or 19%, increase in amortization of acquired intangible assets from the three months ended July 31, 2021 to the three months ended July 31, 2022 was primarily due to the inclusion of amortization related to identified intangible assets acquired through the Further Acquisition commencing November 1, 2021. The remainder of the increase was due to amortization of acquired HSA portfolios, including the Fifth Third and HealthSavings HSA portfolios.

The $7.8 million, or 19%, increase in amortization of acquired intangible assets from the six months ended July 31, 2021 to the six months ended July 31, 2022 was primarily due to the inclusion of amortization related to identified intangible assets acquired through the Further Acquisition commencing November 1, 2021 and the Luum Acquisition commencing March 8, 2021. The remainder of the increase was due to amortization of acquired HSA portfolios, including the Fifth Third and HealthSavings HSA portfolios.

Merger integration. The $7.7 million and $17.0 million in merger integration expense for the three and six months ended July 31, 2022, respectively, was primarily due to personnel and related expenses, including expenses incurred in conjunction with the migration of accounts, professional fees, and technology-related expenses directly related to the Further Acquisition and certain ongoing merger integration expenses related to the acquisition of our wholly owned subsidiary WageWorks, Inc. ("WageWorks"), including ongoing lease expense related to WageWorks offices that have been permanently closed, less any related sublease income, professional fees associated with the remediation of remaining material weaknesses in internal control over financial reporting, and costs associated with remaining platform migrations. We expect merger integration expenses attributable to the Further Acquisition totaling approximately $55 million to be incurred over a period of approximately three years from the acquisition date.

Interest expense

The $11.5 million and $22.0 million in interest expense for the three and six months ended July 31, 2022, respectively, consisted primarily of interest accrued on our long-term debt and amortization of debt discount and issuance costs, up from $7.3 million and $13.9 million for the three and six months ended July 31, 2021, respectively. On an annual basis, we expect interest expense to increase, primarily from the inclusion of a full year of interest expense on the $600.0 million aggregate principal amount of the Notes, which were issued in October 2021, and due to the impact of increased interest rates on our term loan facility, which had an outstanding principal balance of $345.6 million as of July 31, 2022. The interest rate on our term loan facility and Revolving Credit Facility is variable and, accordingly, we may incur additional expense if interest rates continue to increase in future periods.

Other income (expense), net

The $0.3 million decrease in other income, net, from $0.3 million during the three months ended July 31, 2021 to $32 thousand during the three months ended July 31, 2022 was primarily due to a $1.9 million decrease in interest and other income, net, partially offset by a $1.6 million decrease in acquisition costs.

The $3.0 million decrease in other expense, net, from $3.3 million during the six months ended July 31, 2021 to $0.3 million during the six months ended July 31, 2022 was primarily due to a $7.6 million decrease in acquisition costs, partially offset by a $4.5 million decrease in interest and other income, net.

Income tax benefit

For the three months ended July 31, 2022 and 2021, we recorded an income tax benefit of $3.2 million and $4.0 million, respectively. For the six months ended July 31, 2022 and 2021, we recorded an income tax benefit of $7.6 million and $7.4 million, respectively. The change in income tax benefit was primarily the result of an increase in pre-tax book loss, an increase in nondeductible executive compensation, and a decrease in excess tax benefits on stock-based compensation.

Seasonality

Seasonal concentration of our growth combined with our recurring revenue model create seasonal variation in our results of operations. Revenue results are seasonally impacted due to ancillary service fees, timing of HSA contributions, and timing of card spend. Cost of revenue is seasonally impacted as a significant number of new and existing Network Partners bring us new HSAs and CDBs beginning in January of each year concurrent with the start of many employers' benefit plan years. Before we realize any revenue from these new accounts, we incur costs related to implementing and supporting our new Network Partners and new accounts. These costs of services relate to activating accounts and hiring additional staff, including seasonal help to support our member support center. These expenses begin to ramp up during our third fiscal quarter, with the majority of expenses incurred in our fourth fiscal quarter.

Liquidity and capital resources

Cash and cash equivalents overview

Our principal sources of liquidity are our current cash and cash equivalents balances, collections from our service, custodial, and interchange revenue activities, and availability under our Revolving Credit Facility (as defined below). We rely on cash provided by operating activities to meet our short-term liquidity requirements, which primarily relate to the payment of corporate payroll and other operating costs, principal and interest payments on our long-term debt, and capital expenditures.

As of July 31, 2022 and January 31, 2022, cash and cash equivalents were $176.9 million and $225.4 million, respectively.

Capital resources

We maintain a "shelf" registration statement on Form S-3 on file with the SEC. A shelf registration statement, which includes a base prospectus, allows us at any time to offer any combination of securities described in the prospectus in one or more offerings. Unless otherwise specified in a prospectus supplement accompanying the base prospectus, we would use the net proceeds from the sale of any securities offered pursuant to the shelf registration statement for general corporate purposes, including, but not limited to, working capital, sales and marketing activities, general and administrative matters, capital expenditures, and repayment of indebtedness, and if opportunities arise, for the acquisition of, or investment in, assets, technologies, solutions or businesses that complement our business. Pending such uses, we may invest the net proceeds in interest-bearing securities. In addition, we may conduct concurrent or other financings at any time.

Our credit agreement includes a five-year senior secured revolving credit facility (the "Revolving Credit Facility"), in an aggregate principal amount of up to $1.0 billion, which may be used for working capital and general corporate purposes, including the financing of acquisitions and other investments. For a description of the terms of the credit agreement, refer to Note 8—Indebtedness. As of July 31, 2022, there were no amounts outstanding under the Revolving Credit Facility. We were in compliance with all covenants under the credit agreement as of July 31, 2022, and for the period then ended.

Use of cash

On March 2, 2022, we completed our acquisition of the HealthSavings HSA portfolio in exchange for a purchase price of $60 million in cash.

Capital expenditures for the six months ended July 31, 2022 and 2021 were $26.6 million and $38.4 million, respectively. We expect to continue our current level of capital expenditures for the remainder of the fiscal year ending January 31, 2023 as we continue to devote a significant amount of our capital expenditures to improving the architecture and functionality of our proprietary systems. Costs to improve the architecture of our proprietary systems include computer hardware, personnel and related costs for software engineering and outsourced software engineering services.

We believe our existing cash, cash equivalents, and Revolving Credit Facility will be sufficient to meet our operating and capital expenditure requirements for at least the next 12 months. To the extent these current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may need to raise additional funds through public or private equity or debt financing. In the event that additional financing is required, we may not be able to raise it on favorable terms, if at all.

The following table shows our cash flows from operating activities, investing activities, and financing activities for the stated periods:

	Six months ended July 31,	
(in thousands)	**2022**	**2021**
Net cash provided by operating activities	$ 47,226	$ 68,166
Net cash used in investing activities	(95,324)	(88,268)
Net cash provided by (used in) financing activities	(430)	445,053
Increase (decrease) in cash and cash equivalents	(48,528)	424,951
Beginning cash and cash equivalents	225,414	328,803
Ending cash and cash equivalents	$ 176,886	$ 753,754

Cash flows from operating activities. Net cash provided by operating activities decreased by $20.9 million from the the six months ended July 31, 2021 to the six months ended July 31, 2022 primarily due to an increase in cash payments made to our accounts payable, accrued liabilities, and other current liabilities during the six months ended July 31, 2022.

Cash flows from investing activities. Net cash used in investing activities increased by $7.1 million from the the six months ended July 31, 2021 to the six months ended July 31, 2022 primarily due to a $16.5 million increase in cash used in HSA portfolio acquisitions and businesses combinations, including the HealthSavings acquisition. The increase was partially offset by a $7.9 million decrease in cash used for purchases of software and capitalized software development costs, a $4.0 million decrease in cash used for purchases of property and equipment, and a $2.4 million decrease in proceeds from the sale of equity securities associated with a long-term capital investment.

Cash flows from financing activities. Net cash used in financing activities was $0.4 million during the six months ended July 31, 2022, compared to net cash provided by financing activities of $445.1 million during the six months ended July 31, 2021. The change resulted primarily from $456.6 million of net proceeds from our follow-on public offering of 5,750,000 shares of common stock during the six months ended July 31, 2021, and a $1.7 million decrease in proceeds from the exercise of common stock options. These changes were partially offset by an $11.3 million decrease in principal payments required under our Term Loan Facility, and a $1.6 million decrease in cash used in the settlement of client-held funds obligation, net, as compared to the six months ended July 31, 2021.

Contractual obligations

See Note 6—Commitments and contingencies for information about our contractual obligations.

Off-balance sheet arrangements

As of July 31, 2022, other than outstanding letters of credit issued under our Revolving Credit Facility, we did not have any off-balance sheet arrangements. The majority of the standby letters of credit expire within 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.

Critical accounting policies and significant management estimates

Our management's discussion and analysis of financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Our significant accounting policies are more fully described in Note 1 of the accompanying unaudited condensed consolidated financial statements and in Note 1 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022. There have been no significant or material changes in our critical accounting policies during the six months ended July 31, 2022, as compared to those disclosed in “Management’s discussion and analysis of financial condition and results of operations – Critical accounting policies and significant management estimates” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022.

Recent accounting pronouncements

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

Item 3. Quantitative and qualitative disclosures about market risk

Market risk

Concentration of market risk. We derive a substantial portion of our revenue from providing services to tax-advantaged healthcare account holders. A significant downturn in this market or changes in state and/or federal laws impacting the preferential tax treatment of healthcare accounts such as HSAs could have a material adverse effect on our results of operations. During the six months ended July 31, 2022 and 2021, no one customer accounted for greater than 10% of our total revenue. We monitor market and regulatory changes regularly and make adjustments to our business if necessary.

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

Concentration of credit risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents. We maintain our cash and cash equivalents in bank and other depository accounts, which frequently may exceed federally insured limits. Our cash and cash equivalents as of July 31, 2022 were $176.9 million, the vast majority of which was not covered by federal depository insurance. We have not experienced any material losses in such accounts and believe we are not exposed to any significant credit risk with respect to our cash and cash equivalents. Our accounts receivable balance as of July 31, 2022 was $90.4 million. We have not experienced any significant write-offs to our accounts receivable and believe that we are not exposed to significant credit risk with respect to our accounts receivable. We continue to monitor our credit risk and place our cash and cash equivalents with reputable financial institutions.

Interest rate risk

HSA Assets and Client-held funds. HSA Assets consist of custodial HSA funds we hold in custody on behalf of our members. As of July 31, 2022, we held in custody HSA Assets of $20.5 billion. As a non-bank custodian, we contract with our Depository Partners and insurance company partners to hold custodial cash assets on behalf of our members, and we earn a significant portion of our total revenue from interest paid to us by these partners. Custodial cash assets held by our insurance company partners are held in group annuity contracts or similar arrangements. The lengths of our agreements with Depository Partners typically range from three to five years and have either fixed or variable interest rates. As HSA Assets increase and existing contracts with Depository Partners expire, we seek to enter into new contracts with Depository Partners, the terms of which are impacted by the then-prevailing interest rate environment. The diversification of HSA Assets held by our Depository Partners and insurance company partners, and varied contract terms, substantially reduces our exposure to short-term fluctuations in prevailing interest rates and mitigates the short-term impact of a sustained increase or decline in prevailing interest rates on our custodial revenue. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the interest rate yield, or yield, available to us and thus the amount of the custodial revenue we can realize. Conversely, a sustained increase in prevailing interest rates can increase our yield. An increase in our yield would increase our custodial revenue as a percentage of total revenue. In addition, if our yield increases, we expect the spread to also increase between the interest offered to us by our Depository Partners and insurance company partners and the interest retained by our members, thus increasing our profitability. However, we may be required to increase the interest retained by our members in a rising prevailing interest rate environment. Changes in prevailing interest rates are driven by macroeconomic trends and government policies over which we have no control.

Client-held funds are interest earning deposits from which we generate custodial revenue. As of July 31, 2022, we held Client-held funds of $0.8 billion. These deposits are amounts remitted by Clients and held by us on their behalf to pre-fund and facilitate administration of our other CDBs. These deposits are held with Depository Partners. We deposit the Client-held funds with our Depository Partners in interest-bearing, demand deposit accounts that have a floating interest rate and no set term or duration. A sustained decline in prevailing interest rates may negatively affect our business by reducing the size of the yield available to us and thus the amount of the custodial revenue we can realize from Client-held funds. Conversely, a sustained increase in prevailing interest rates can increase our yield. Changes in prevailing interest rates are driven by macroeconomic trends and government policies over which we have no control.

Cash and cash equivalents. We consider all highly liquid investments purchased with an original maturity of three months or less to be unrestricted cash equivalents. Our unrestricted cash and cash equivalents are held in institutions in the U.S. and include deposits in a money market account that is unrestricted as to withdrawal or use. As of July 31, 2022, we had unrestricted cash and cash equivalents of $176.9 million. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates.

Long-term debt. As of July 31, 2022, we had $345.6 million outstanding under our term loan facility and no amounts drawn under our Revolving Credit Facility. Our overall interest rate sensitivity under these credit facilities is primarily influenced by any amounts borrowed and the prevailing interest rates on these instruments. The interest rate on our term loan credit facility and Revolving Credit Facility is variable and was 4.13% at July 31, 2022. Accordingly, we may incur additional expense if interest rates further increase in future periods. For example, a one percent increase in the interest rate on the amount outstanding under our credit facilities at July 31, 2022 would result in approximately $3.5 million of additional interest expense over the next 12 months. The interest rate on our $600 million of unsecured Senior Notes due 2029 is fixed at 4.50%.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has evaluated the effectiveness of the Company’s disclosure controls and procedures as of July 31, 2022, the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on such evaluation, the CEO and CFO have concluded that as of July 31, 2022, the Company’s disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting described below.

Notwithstanding the ineffective disclosure controls and procedures as a result of the identified material weaknesses described below, management has concluded that the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company’s financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States of America.

In accordance with interpretive guidance issued by SEC staff, companies are allowed to exclude acquired businesses from the assessment of internal control over financial reporting during the first year after completion of an acquisition and from the assessment of disclosure controls and procedures to the extent subsumed in such internal control over financial reporting. In accordance with this guidance, as the Company acquired Further on

November 1, 2021, management's evaluation and conclusion as to the effectiveness of the Company's disclosure controls and procedures as of July 31, 2022 excluded the portion of disclosure controls and procedures that are subsumed by internal control over financial reporting of Further. Further represented approximately 1% of assets and approximately 8% of revenues, excluding the effects of purchase accounting, of the Company's consolidated total assets and consolidated total revenues as of and for the fiscal quarter ended July 31, 2022.

Material Weaknesses in Internal Control over Financial Reporting

As previously disclosed, management identified certain deficiencies in the Company’s internal control over financial reporting that aggregated to material weaknesses in the following areas:

A. Contract to Cash Process

The Company did not have effective controls around the contract-to-cash life cycle of service fees, including 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 that 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, availability of customer contracts, and reviews of non-standard contracts.

B. Information Technology General Controls

The Company did not have effective controls related to information technology general controls (ITGCs) in the areas of logical access and change management over certain information technology systems that supported its financial reporting processes. The Company's business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

These material weaknesses resulted in material misstatements of WageWorks' historical financial statements, which preceded the acquisition, and could result in a misstatement of our account balances or disclosures that would result in a material misstatement to the annual or interim condensed consolidated financial statements that would not be prevented or detected.

Ongoing Integration and Remediation Efforts

In response to the material weakness “A. Contract to Cash Process,” management has taken the following actions:

- continued to execute its plan to consolidate service platforms related to the contract-to-cash cycle, which is reducing a significant number of manual business process controls;
- continued to enhance the design of existing controls and implemented additional controls to further strengthen the control environment;
- continued to formalize the assessment of the relevancy of information and data used in key controls, including the incorporation of the review of the accuracy and completeness of such items; and
- continued to assess the design and monitor the operating effectiveness of the redesigned controls.

In response to the material weakness “B. Information Technology General Controls,” management has taken the following actions:

- continued to execute its plan to consolidate service platforms, which is reducing the number of ITGCs in the areas of logical access and change management;
- enhanced the design of existing controls, where applicable, and implemented additional controls to further strengthen the control environment;
- continued to assess and enhance the design and monitor the operating effectiveness of controls related to logical access and change management for relevant applications and systems; and
- continued training of control owners on the appropriate evidence and documentation for IT dependencies and logical access controls.

As we continue to evaluate operating effectiveness and monitor improvements to our internal control over financial reporting, we may take additional measures to address control deficiencies or modify the remediation plans described above.

Changes in Internal Control Over Financial Reporting

Other than continuing to make progress on the ongoing integration and remediation efforts described above, there were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fiscal quarter ended July 31, 2022 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

From time-to-time, we may be subject to various legal proceedings and claims that arise in the normal course of our business activities. Except as described in Note 6—Commitments and contingencies, as of the date of this Quarterly Report on Form 10-Q, we were not a party to any litigation whereby the outcome of such litigation, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations, cash flows or financial position. For a description of these legal proceedings, see Note 6—Commitments and contingencies of the notes to condensed consolidated financial statements.

Item 1A. Risk factors

The risks described in “Risk factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022, our Quarterly Report on Form 10-Q for the quarter ended April 30, 2022, and subsequent periodic reports could materially and adversely affect our business, financial condition and results of operations. Except as described below, there have been no material changes in such risks. These risk factors do not identify all risks that we face, and our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Item 6. Exhibits

		Incorporate by reference			
Exhibit no.	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**
31.1+	Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2+	Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1*#	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2*#	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy schema linkbase document				
101.CAL	Inline XBRL Taxonomy calculation linkbase document				
101.DEF	Inline XBRL Taxonomy definition linkbase document				
101.LAB	Inline XBRL Taxonomy labels linkbase document				
101.PRE	Inline XBRL Taxonomy presentation linkbase document				
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2022, formatted in Inline XBRL.				

\+ Filed herewith.

* Furnished herewith.

\# These certifications are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing the registrant makes under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.

Signatures

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

	HEALTHEQUITY, INC.	
Date: September 8, 2022	By:	/s/ Tyson Murdock
	Name:	Tyson Murdock
	Title:	Executive Vice President and Chief Financial Officer

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as Adopted Pursuant to
Section 302 of Sarbanes-Oxley Act of 2002

I, Jon Kessler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HealthEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2022

By:	/s/ Jon Kessler
Name:	Jon Kessler
Title:	*Chief Executive Officer* *(Principal Executive Officer)*

Exhibit 31.2

Certification of Principal Financial Officer
pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to
Section 302 of Sarbanes-Oxley Act of 2002

I, Tyson Murdock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HealthEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 8, 2022

By:	/s/ Tyson Murdock
Name:	Tyson Murdock
Title:	*Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jon Kessler, the Chief Executive Officer (Principal Executive Officer) of HealthEquity, Inc. (the "Company"), hereby certify that, to my knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended July 31, 2022 (the "Report"), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 8, 2022

By:	/s/ Jon Kessler
Name:	Jon Kessler
Title:	*Chief Executive Officer* *(Principal Executive Officer)*

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Tyson Murdock, Executive Vice President and Chief Financial Officer (Principal Financial Officer) of HealthEquity, Inc. (the “Company”), hereby certify that, to my knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended July 31, 2022 (the “Report”), of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 8, 2022

By:	/s/ Tyson Murdock
Name:	Tyson Murdock
Title:	*Executive Vice President and Chief Financial Officer* *(Principal Financial Officer)*