

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**  
**Release No. 10429 / October 26, 2017**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-18263**

**In the Matter of**

**YourPeople, Inc., dba Zenefits  
FTW Insurance Services and  
Parker Conrad,**

**Respondents.**

**ORDER INSTITUTING CEASE-AND-DESIST  
PROCEEDINGS, PURSUANT TO SECTION  
8A OF THE SECURITIES ACT OF 1933,  
MAKING FINDINGS, AND IMPOSING A  
CEASE-AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against YourPeople, Inc., dba Zenefits FTW Insurance Services (“Zenefits” or the “Company”) and Parker Conrad (collectively, “Respondents”).

**II.**

In anticipation of these proceedings, Respondents have submitted Offers of Settlements (“Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V., Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondents' Offers, the Commission finds<sup>1</sup> that:

#### Summary

1. These proceedings arise out of materially false and misleading statements and omissions to investors by Zenefits, a San Francisco-based private software company that provides a cloud-based platform for businesses to manage human resource functions, including the purchase of employee health insurance policies, and its former founder and Chief Executive Officer, Parker Conrad, in June 2014 and May 2015. Zenefits' misstatements and omissions related to the Company's compliance with state insurance regulations that it was required to follow as an insurance broker, a portion of its business that accounted for almost all of its revenues at the time of its securities offerings. In connection with these misstatements and omissions, Zenefits raised more than \$565 million from accredited investors in two separate private placements, the latter of which valued the Company at \$4.5 billion.

2. Zenefits and Conrad were negligent in failing to disclose to investors that Conrad had created a computer script (referred to within Zenefits as the "macro") to enable Zenefits employees resident in California who acted as insurance brokers, and were therefore required to obtain California insurance broker (or "producer") licenses, to spend fewer hours on pre-licensing education than were required by the California insurance regulator. Zenefits and Conrad were also negligent in failing to disclose to investors that the Company allowed certain Zenefits employees who operated as insurance producers to transact insurance without having required licenses at the time of the transactions in which they engaged.

3. The information that was misrepresented or not disclosed to Zenefits' investors in the private placements mentioned above was material to certain investors.

4. Zenefits has taken steps to remediate deficiencies in its licensing compliance, including implementing comprehensive new licensing controls and bolstering its compliance function. It has also resolved at least 40 inquiries by state regulators, which have collectively included more than \$11,000,000 in monetary sanctions (approximately \$3,600,000 of which is suspended pending the outcomes of future regulatory examinations to audit licensing compliance).

#### Respondents

5. Zenefits, founded in January 2013, is a San Francisco-based privately-held company that provides cloud-based software to manage human resources, payroll and benefits functions. Its investors primarily consist of investment companies, venture capital firms, private equity funds and accredited individual investors. Some of its shares also trade on secondary markets.

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<sup>1</sup> The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

6. Parker Conrad, now age 37, is the co-founder and former Chief Executive Officer of Zenefits. Conrad was identified as the Designated Responsible Licensed Producer for Zenefits in many states in which Zenefits did business, including California. In March 2017, Conrad announced the launch of a new human resources software company, where he also serves as Chief Executive Officer.

## **Facts**

### **A. Background**

7. Zenefits was founded as a cloud-based platform for small- and mid-sized businesses to manage human resources, payroll and benefits functions, from employee onboarding to payroll to the administration of benefits. From its founding in January 2013 to June 2015 (the “Relevant Period”), Zenefits offered its basic software to users for free and earned revenue when companies who used its software chose the Company to be its insurance Broker of Record (“BOR”). As the BOR, Zenefits assisted its customers with the purchase and management of group health insurance policies. In return, Zenefits earned monthly commissions from health insurance companies. Insurance commissions comprised more than 90% of Zenefits revenue over the Relevant Period.

8. Zenefits grew rapidly from the time of its founding to mid-2015. Over that period, its annual recurring revenues (“ARR”) grew to more than \$20 million and the size of its workforce grew to almost 1,500 employees. In November 2014, Zenefits opened an office in Arizona. Zenefits’ controls and processes relating to licensing compliance in the highly regulated insurance industry did not keep pace with its rapid growth and were insufficient for a large workforce selling insurance to clients all over the country.

### **B. Zenefits’ Licensing Policies and Procedures Fell Behind Its Growth**

9. During the Relevant Period, Zenefits employees who sold or serviced insurance products was required under applicable state law to obtain an insurance broker or “producer” license in each state in which he or she transacted insurance. Zenefits employees acting as insurance producers during the Relevant Period included Account Executives, who sold health, dental and vision group insurance products to new customers, and Account Managers (later called Benefits Advisors), who sold renewals or new policies to existing customers. During the Relevant Period, Account Executives were part of the sales organization, which reported to a Vice President of Sales who reported to Conrad. Account Managers were part of the account management organization, which reported to a Vice President of Account Management who did not report directly to Conrad after December 2014.

10. Zenefits’ Employee Handbook, prepared with the involvement of outside counsel and first disseminated to employees in May 2014, included “Insurance Solicitation Policies & Procedures” that required Zenefits employees who solicit insurance to have a valid insurance license. Current and new Zenefits employees were required to acknowledge that they had received a copy of the Handbook and agreed to observe its rules.

11. As the Company grew rapidly in 2014 and 2015 and expanded beyond California, Zenefits did not fully appreciate or appropriately manage the challenge of ensuring that the many employees it hired to sell insurance in a highly-regulated industry were properly licensed to do business.

**C. Zenefits Enabled Employees to Shortcut Pre-Licensing Training Requirement**

12. To secure a resident life-health insurance license in both California and Arizona, applicants were required to pass a licensing exam. Before taking the exam, applicants in California were required by California law to complete 52 hours of pre-licensing study in an approved class and then certify in their applications, under penalty of perjury, that they had completed their “pre-licensing education.” Zenefits provided new hires with information about how to sign up for the licensing exam and an approved online course offered by a third-party test preparation provider to complete the 52 hours of pre-licensing education. In some cases, Zenefits also made available to new hires additional study materials.

13. In June 2013 Conrad disseminated to certain employees of the Company, including the Vice President of Sales and an employee who was subsequently promoted to Vice President of Account Management, a software “macro” he had written for his personal use to make it possible to complete the pre-licensing education requirement in fewer than the 52 study hours that California law requires. Although Conrad personally spent more than 52 hours studying insurance materials before taking the California licensing exam (by reviewing materials other than the approved third-party test provider’s online course), the macro enabled him and others to view the online course for fewer than 52 hours. After Conrad’s initial dissemination of the macro, the Vice President of Sales and the Vice President of Account Management and their subordinates routinely sent the macro to employees who needed to obtain licenses. From June 2013 to mid-2015, approximately 100 Zenefits employees were emailed instructions for how to use the macro. Managers at Zenefits helped repair the macro when it did not work.

14. From June 2013 until at least late 2014, the macro worked with online pre-licensing education courses offered by the third-party test preparation provider that was recommended to new hires. The third-party course used a timer to track users’ study hours. The macro’s sole purpose was to keep the timer running, whether or not the users were at their computers studying the material. The macro did not advance users through any course content, including course quizzes and tests. Even if an employee used the macro, the employee still had to study for and pass the California resident licensing exam. Use of the macro enabled – but did not cause – a person to spend less than the required 52 hours on the pre-licensing course.

15. In summer 2014, Conrad told Zenefits’ Vice President of Sales that the macro should no longer be used. However, neither Conrad nor the Vice President of Sales instructed any other employee to stop using the macro. Many newly hired Account Managers continued to receive the macro until late 2015. Until November 2015, neither Conrad nor anyone else at Zenefits took any affirmative steps to ensure that Zenefits employees stopped using the macro, such as disabling it on the Company’s network or communicating a decision to stop using it to other managers.

**D. Zenefits Employees Engaged in the Unlicensed Solicitation of Insurance**

**1. Solicitation of insurance without a resident license**

16. Starting in February 2014, most of Zenefits' new hire offer letters made offers of employment to Account Executives or Account Managers "contingent on Employee securing a [California or Arizona, depending on the employee's state residence] Life, Accident and Health Producer insurance license ahead of Employee's first day of work." However, this policy was not always enforced and employees sometimes began work as Account Executives and Account Managers without having taken the licensing exam or applied for a license.

17. Although expected to be licensed prior to commencing employment in the sales organization, many new Account Executives and Account Managers took the licensing exam shortly after beginning work at Zenefits. At times during the Relevant Period it took several weeks or even months for license applicants in California or Arizona to receive their licenses after passing the exam (during which time the issuing authority ran required background checks on applicants and completed other administrative steps). For those employees who had passed the exam but were waiting to receive their licenses, a practice developed at Zenefits in which employees spoke to customers without a valid license. Although this practice enabled employees to begin selling insurance more quickly, it was not consistent with California or Arizona law.

18. Conrad was aware that in certain instances employees were speaking to customers after having passed their qualifying exams but before obtaining their licenses from the issuing authority. Conrad understood, or should have understood, that this was inconsistent with California and Arizona law, but allowed the practice to continue.

**2. Solicitation of insurance without a non-resident license**

19. Under all applicable state insurance licensing laws, an employee with a resident insurance license in one state can transact insurance with customers located in another state if the employee obtains a "non-resident license." The process for a licensed insurance producer to obtain a non-resident license generally involves filling out an application (as well as submitting to an additional background check in a small number of states, including California), but does not require the applicant to take another exam.

20. By the beginning of 2014, Zenefits was soliciting insurance in all 50 states. However, before January 2015, Zenefits did not require Account Executives or Account Managers who transacted insurance in states other than California or Arizona to obtain non-resident licenses, a practice that violated state insurance laws in each of the states in which Zenefits operated. Conrad was aware that Zenefits did not require employees transacting insurance outside of California to obtain non-resident licenses before January 2015.

21. In January 2015, Conrad directed that the Account Executives be organized into geographic territories and obtain non-resident licenses for each state in their respective territories. However, there was no adequate mechanism to ensure compliance with the non-resident

requirement for Account Executives until June 2015, when Zenefits implemented a feature on its CRM (Customer Relationship Management) system to prevent Account Executives from closing sales when they did not have the appropriate license. Zenefits did not require Account Managers to obtain non-resident licenses until December 2015.

22. In April 2015, Zenefits and Conrad became aware that multiple Account Executives had been transacting insurance in Washington State without a required non-resident license. The Company and Conrad discovered these licensing compliance gaps when the Company audited the list of employees who had engaged in insurance transactions in Washington to determine Washington licensing compliance in connection with preparing a response to questions from the Washington Office of the Insurance Commissioner, which opened an investigation of Zenefits in March 2015. Conrad was aware of the Washington investigation, understood that it covered licensing compliance and knew that, in the process of responding to the regulator's requests, Zenefits identified multiple Account Executives who did not have required non-resident licenses at the time they transacted insurance with Washington customers.

#### **E. Zenefits Raised Almost \$600 Million by 2015**

23. Zenefits was not compliant with state insurance licensing laws and its controls were insufficient to ensure compliance. Zenefits and Conrad failed to fully disclose these facts to investors.

24. By January 2014, when it completed its Series A round of financing, Zenefits had raised approximately \$17 million from individual investors.

25. In June 2014, the Company raised approximately \$66.5 million in additional funding in a Series B round of financing from venture capital and private equity firms along with individual investors.

26. In May 2015, in a Series C financing, Zenefits raised approximately \$500 million at an implied (post-money) valuation of \$4.5 billion. Investors included a large mutual fund, venture capital and private equity funds, and accredited individual investors. Certain of the Series C investors also participated in the Series B financing round.

27. The Series B and Series C financing rounds were documented with substantially similar stock purchase agreements (collectively, the "Agreements"). Conrad reviewed and signed both of the Agreements as CEO for the Company.

28. The Agreements contained a series of representations and warranties about the Company's legal and regulatory compliance. Schedules of Exceptions to each of the Agreements contained exceptions to the representations and warranties made by Zenefits in the Agreements. Together, the statements contained in these documents suggested that, although Zenefits had previously experienced minor issues regarding compliance with applicable state licensing laws and regulations, Zenefits was largely compliant as of the date of the Agreements.

29. For example, Section 2.10 of both of the Agreements read: “The Company is not in violation or default . . . , **to its knowledge**,<sup>2</sup> of any provision of federal or state statute, rule or regulation applicable to the Company, the violation of which would have a Material Adverse Effect.”<sup>3</sup> (emphasis added).

30. Section 2.23 of both of the Agreements states: “The Company and each of its subsidiaries has all franchises, permits, licenses and any similar authority necessary for the conduct of its business, the lack of which would have a Material Adverse Effect.” Although there were no disclosures on the Schedule of Exceptions for the Series A or B Agreements that indicated that Zenefits was permitting employees to transact insurance without appropriate licensure, Section 2.23 of the Schedule of Exceptions to the Series C Preferred Stock Purchase Agreement disclosed the following:

Individual sales representatives and account representatives employed by the Company are in the process of obtaining producer licenses in each of the states in which they are engaged in sales activities, as required by state laws. The Company is dividing its sales representatives into regional teams, the members of which are in the process of obtaining state producer licenses in the states encompassed by their assigned region. At various times during this organizational process, individual sales representatives or account representatives may have conducted sales activities with customers located in states in which the individual had not yet been issued a license in such states.

31. Section 2.8 of the Schedule of Exceptions to the Series C Preferred Stock Purchase Agreement disclosed complaints filed by competing insurance brokers, formal investigations (two of which were characterized as open and pending, one in New York and one in Washington state) and requests for information (all of which were characterized as closed). The Company also disclosed that the Washington state investigation concerned, among other subjects, the Company’s “sales practices” and its “compliance with insurance licensing and affiliated (‘linkage’) requirements for Company employees engaged in the sale of insurance in Washington.”

32. Several Zenefits investors conducted due diligence on regulatory issues in connection with the Series C financing round. During the due diligence process, one investor asked Zenefits for further background regarding licensing of the Company’s employees, including how many employees had potentially been without required licenses and for how long, and what penalties for non-compliance were. In response, in a conversation in which Conrad did not participate, Zenefits acknowledged its past failure to comply with the requirement to obtain non-resident licenses, but claimed that it was “above 90% compliance” at that time and that its past violations could result in small penalties of \$5,000 to \$10,000.

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<sup>2</sup> Section 6.10 of each the Agreements defines the phrase “to the Company’s knowledge” as “the actual knowledge after reasonable investigation of,” among other individuals, Parker Conrad.

<sup>3</sup> “Material Adverse Effect” is defined in Section 1.3 of the Series A and C Agreements and Section 1.5 of the Series B Agreement as “a material adverse effect on the business, assets (including intangible assets), liabilities, condition (financial or otherwise), property or results of operation of the Company.”

33. The Section 2.8 and 2.23 disclosures and the answers provided to the investor were misleading because they failed to adequately disclose that certain Zenefits employees were transacting insurance without resident licenses and that it was certain – not just possible (as suggested by the word “may”) – that Zenefits employees had conducted sales activities with customers located in states in which the employees had not yet been issued a license. Specifically, it was not Company policy to require Account Executives or Account Managers to obtain non-resident licenses at the time of the Series B round or Account Managers to be licensed out of state at the time of the Series C round. Moreover, at the time of the Series C round, Zenefits had determined – only one month earlier – that certain Account Executives had closed business in Washington State without having Washington licenses.

34. Although Conrad was not involved in and had no knowledge of the conversation with the investor, at the time of both the Series B and Series C transactions, he was aware that certain Zenefits employees had transacted insurance without required licenses. He was also aware that, at least until summer 2014, the macro enabled employees to spend fewer than 52 hours on pre-licensing education requirements.

35. In June 2015, in a transaction that was approved by all Series C investors and resulted in the sale of additional Series C shares, a private equity and venture capital firm that had participated in the Series C financing (“Investor X”) purchased Founders Preferred Stock directly from Conrad as well as his co-founder. Investor X solicited this purchase upon learning that the round was oversubscribed and that additional shares were not available directly from the Company. Zenefits’ lawyers prepared the Founders Preferred Stock Transfer Agreement that Conrad signed, in which Conrad represented that he had valid title to the securities, was a sophisticated seller and had access to information regarding the business and finances of the Company. Conrad made no additional disclosures regarding Zenefits’ licensing compliance or the macro beyond what was already disclosed in the Series A, B or C Stock Purchase Agreements he signed.

#### **F. Zenefits Disclosed its Failure to Comply with Insurance Licensing Requirements**

36. In November 2015, when Zenefits became aware that a media report would soon be published questioning Zenefits’ licensing compliance, Zenefits notified state insurance regulators nationwide that the Company had identified and would be self-reporting a number of producer licensing compliance issues and that the Company was initiating an internal licensing compliance review.

37. In November 2015, Conrad approved the retention of a national accounting firm to conduct a review of historical licensing compliance to determine Zenefits’ employees’ licensing status at the time of each customer event or transaction requiring an insurance producer license. The review looked at transactions that occurred in the period of January 1, 2014 through November 30, 2015. In work concluded after Conrad left the Company, the review determined that the Company had both resident and non-resident producer licensing violations that arose from compliance failures in both the sales organization (Account Executives) and the account management organization (Account Managers). The review also determined that, although the sales organization had become largely compliant by the end of 2015, significant compliance issues

remained in the account management organization. In California, the state with the largest number of Zenefits employees transacting insurance and the largest number of insurance transactions, Zenefits estimated that, out of just over 8,000 insurance policies sold to California consumers from January 2014 through November 2015, nearly 2,000 policies had been sold by employees who may have lacked the proper license at the time of the transaction required to transact insurance under California law.

38. Insurance regulators in many states opened investigations into Zenefits after Zenefits self-reported the unlicensed activity. To date, following Zenefits' self-reporting and admissions, at least 40 insurance regulators have brought enforcement actions charging Zenefits with allowing unlicensed employees to solicit, negotiate and sell insurance policies. Conrad was not involved in the settlement negotiations. Zenefits has settled all of those actions, which have collectively imposed penalties of more than \$11 million (about \$3.6 million of which have been suspended pending future examinations to confirm Zenefits' continued compliance with licensing regulations).

39. In November 2015, during Zenefits' review of its insurance producer licensing controls, a senior account management executive informed Zenefits' in-house counsel that some employees had used the macro to complete their pre-licensing education requirement in fewer than the 52 hours that California law requires. Zenefits immediately initiated an investigation into the matter and, upon conclusion of the investigation, undertook remedial measures.

40. On February 8, 2016, Zenefits announced that Conrad had resigned and that the current Chief Operating Officer would assume the role of Chief Executive Officer.

#### **G. Investors Reacted to Zenefits' Disclosures**

41. Investors were surprised by the November 2015 disclosure of the licensing compliance violations and the February 2016 disclosure regarding the macro, neither of which they had understood were occurring at Zenefits based on the Company's disclosures at the time of the financings.

42. The Series B investors were not provided any information about potential licensing violations. Although the Series C investors understood, based on the Company's disclosures, that there were some historical licensing violations, they understood them to be isolated incidents that could be cured by small penalties. Had they known the extent of the Company's violations, they may have asked more questions to understand the repercussions of the misconduct.

43. None of the investors in either the Series B or Series C rounds understood that the Company was disseminating a macro created by the Chief Executive Officer that enabled employees to complete pre-licensing education requirements in fewer hours than state law required. The existence of the macro itself may have been a concern, not only because it could be seen as a program to bypass rules and regulations but also because it may have raised questions about management integrity, given Conrad's role in creating and disseminating it.

44. Some investors lowered internal valuations of their investments in Zenefits after media reports in November 2015 and February 2016 brought to light the withheld facts.

45. In June 2016, Zenefits negotiated a private settlement with certain major investors to resolve all investor claims related to the macro and its dissemination.

46. Under the terms of the agreement, which contained no admission of liability, all Series A, B and C investors had the right to receive an increased equity stake in Zenefits in exchange for the investors releasing all claims against the Company. The increased ownership was effectuated by allowing such investors to exchange shares of Series A, B and/or C stock for a new series of Series A-1, B-1 and C-1 stock with a higher conversion rate of preferred shares to common, which had the effect of diluting the ownership of the other classes of existing shareholders (Founders Preferred Stock and Common Stock), including Conrad. Following the settlement, Zenefits had an implied post-money valuation of approximately \$2.0 billion, down about 56% from the original valuation. After accounting for the new assumed post-money valuation, as a result of the dilutive effect of the new conversion rates, the value of Conrad's holdings dropped by approximately \$67 million.

### **Violations**

47. As a result of the conduct described above, Zenefits and Conrad violated Section 17(a)(2) of the Securities Act, which makes it unlawful, in the offer or sale of securities, to obtain money or property by means of misstatements or omissions about material facts.

### **Zenefits' Financial Condition, Remedial Acts and Cooperation**

48. Zenefits has taken steps to remediate its licensing violations by implementing new controls to prevent the recurrence of violations, including (1) requiring all current employees that performed the transactions in question to obtain non-resident producer licenses; (2) implementing new administrative and technical licensing controls to ensure that employees who transact insurance business with customers have appropriate resident and non-resident licenses; (3) requiring that all of its producers complete 52 hours of continuing education; (4) replacing its top leadership (including Conrad and the head of sales), creating the position of Chief Compliance Officer, and establishing a compliance team; and (5) retaining a national accounting firm to test the operations of the new licensing controls and reporting those results to various state insurance regulators.

49. In determining to accept Zenefits' Offer, the Commission considered Zenefits' financial condition, remedial acts promptly undertaken by Zenefits and the cooperation afforded the Commission staff.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act, it is hereby ORDERED that:

A. Respondent Zenefits cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

B. Respondent Conrad cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

C. Respondent Zenefits shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$450,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

D. Respondent Conrad shall, within 30 days of the entry of this Order, pay a civil monetary penalty in the amount of \$160,000, disgorgement of \$350,000 and prejudgment interest of \$23,692.39 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of a civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

E. Payment of the amounts described in paragraphs C and D must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Erin Schneider, Division of Enforcement, Securities and Exchange Commission, 44 Montgomery Street, Suite 2800, San Francisco, CA 94104-4802.

F. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of civil penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agrees that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

G. Respondent Zenefits acknowledges that the Commission is not imposing a civil penalty in excess of \$450,000 based upon its cooperation in a Commission investigation and/or related enforcement action. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Zenefits knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Zenefits, petition the Commission to reopen this matter and seek an order directing that Zenefits pay an additional civil penalty. Zenefits may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

## V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other

amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary