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BENEFITFOCUS,INC.

FORM 10-K
(Annual Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to .
Commission File Number: 001-36061

Benefitfocus, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**46-2346314** (I.R.S. Employer Identification No.)

100 Benefitfocus Way
Charleston, South Carolina 29492
(Address of principal executive offices and zip code)

(843) 849-7476
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange of which registered
Common Stock, $0.001 Par Value	**NASDAQ Global Market**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 30, 2014 (based on the closing sale price of $46.22 on that date), was approximately $318,751,978. Common stock held by each officer and director and by each person known to the registrant who owned 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 24, 2015 was 28,459,860.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2015 Annual Meeting of Stockholders currently scheduled to be held on June 12, 2015 are incorporated by reference into Part III hereof.

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Form 10-K
For Year Ended December 31, 2014
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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements about our ability to establish and maintain intellectual property rights; statements about our ability to retain and hire necessary associates and appropriately staff our operations; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends; and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. 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," "might," "will," "plan," "project," "seek," "should," "target," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. 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 discussed in the section titled "Risk Factors" included in Item 1A of Part I of this Annual Report on Form 10-K, and the risks discussed in our other SEC filings. 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 statements.

As used in this report, the terms "Benefitfocus, Inc.," "Benefitfocus," "Company," "company," "we," "us," and "our" mean Benefitfocus, Inc. and its subsidiaries unless the context indicates otherwise.

Item 1. Business

Overview

Benefitfocus is a leading provider of cloud-based benefits software solutions for consumers, employers, insurance carriers, and brokers. The Benefitfocus platform provides an integrated suite of solutions that enables our employer and insurance carrier customers to more efficiently shop, enroll, manage, and exchange benefits information. Our web-based platform has a user-friendly interface designed to enable the insured consumers to access all of their benefits in one place. Our comprehensive solutions support core benefits plans, including healthcare, dental, life, and disability insurance, and voluntary benefits plans, such as critical illness, supplemental income, and wellness programs. As the number of employer benefits plans has increased, with each plan subject to many different business rules and requirements, demand for the Benefitfocus platform has grown.

The Benefitfocus platform enables our customers to simplify the management of complex benefits processes, from sales through enrollment and implementation to ongoing administration. It provides consumers with an engaging, highly intuitive, and personalized user interface for selecting and managing all of their benefits via the web or mobile devices. Employers use our solutions to streamline benefits processes, keep up with complex regulatory requirements, control costs, and offer a greater

variety of plans to attract, retain, and motivate their employees. Insurance carriers use our solutions to more effectively market offerings, manage billing, and improve the enrollment process. We also provide a network of over 900 benefit provider data exchange connections, which facilitates the otherwise highly fragmented interaction among employees, employers, and carriers.

We serve two separate but related market segments. Our fastest growing market segment, the employer market, consists of employers offering benefits to their employees. Within this segment, we mainly target large employers with more than 1,000 employees, of which we believe there are approximately 18,000 in the United States. In our other market segment, we sell our solutions to insurance carriers, enabling us to expand our overall footprint in the benefits marketplace by aggregating many key constituents, including consumers, employers, and brokers. We believe our presence in both the employer and insurance carrier markets gives us a strong position at the center of the benefits ecosystem. As of December 31, 2014, we served over 23 million consumers on the Benefitfocus platform. As of December 31, 2014, we served 553 large employer customers, an increase from 121 in 2009, and 43 carrier customers, an increase from 28 in 2009.

We sell the Benefitfocus platform on a subscription basis, typically through annual contracts with our employer customers and multi-year contracts with our insurance carrier customers, with subscription fees paid monthly. The multi-year contracts with our carrier customers are generally only cancellable by the carrier in an instance of our uncured breach, although some of our carrier customers are able to terminate their respective contracts without cause or for convenience. Our software-as-a-service, or SaaS, model provides us visibility into our future operating results through increased revenue predictability, which enhances our ability to manage our business. Our company was founded in 2000, and we currently employ approximately 1,312 associates.

Industry Background

The administration and distribution of benefits to employees is a mainstay of the U.S. economy. Providing these benefits is costly and complex and requires the exchange of information, application of rules, and transfer of funds among a wide variety of constituents, including consumers, employers, insurance carriers, brokers, benefits outsourcers, payroll processors, and financial institutions. According to IBISWorld calculations, in 2014, the market for HR benefits administration in the United States is expected to grow to over $61 billion. In addition, Gartner estimates that in 2013, the U.S. insurance industry spent over $58 billion on software and related services [1].

The variety and complexity of core benefits plans, including healthcare, dental, life, and disability insurance continues to grow. In addition, employers are increasingly offering a range of voluntary benefits plans, such as critical illness, supplemental income, and wellness programs. The current system for providing benefits is changing rapidly and suffers from significant inefficiency as a result of complexity, regulation, and the involvement of multiple parties, leaving room for substantial improvement along the entire benefits value chain.

Employer Market

As of 2010, according to the United States Census Bureau, there were approximately 5.7 million employers in the United States. Currently, we believe there are over 18,000 entities that employ more than 1,000 individuals. A significant and growing portion of employers' costs is non-salary benefits, such as the health insurance that they provide to their employees. With healthcare and other premiums increasing, senior executives are prioritizing benefits administration in their organizations, searching for

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[1] Gartner, *Forecast: Enterprise IT Spending by Vertical Industry Market, Worldwide, 2012-2018 1Q14 Update,* United States Insurance Market Spending on Software, IT Services, and Internal Services.

ways to contain costs without sacrificing benefits. In addition, the expense burden continues to shift to employees. Employees' contributions to premiums for health insurance have grown from approximately $318 in 1999 to approximately $999 per employee in 2013. Employers recognize the importance of offering a greater variety of core and voluntary benefits as a means to attract, motivate, and retain employees. They must maintain relationships with multiple insurance carriers and many other benefits providers, placing a substantial administrative burden on their organizations.

Employers' distribution, management, and administration of employee benefits has historically consisted of error-prone, paper-based processes, and a patchwork of customized software tools, which are costly to maintain, often lack necessary functionality, and fail to address the increasing complexity of the benefits marketplace. As benefits offerings become more complex and employees bear more of the cost of those benefits, HR software solutions that streamline information, simplify choices, and engage employees are increasingly in demand. Employees desire tailored, dynamic, and interactive communication of critical benefits information as they become accustomed to receiving personalized content through various consumer applications on a range of devices.

Legacy HR systems were generally designed as extensions of enterprise resource planning, or ERP, systems, built for back-office responsibilities like finance and accounting. As a result, these systems lack functionality and ease-of-use for employees. Many legacy HR systems were not designed to integrate with the broader benefits ecosystem, including brokers, carriers, and wellness providers. This results in expensive, error-prone, and frustrating experiences for employers and employees. Benefits outsourcers have attempted to compensate for the shortcomings of legacy HR systems, but they have generally lacked adequate technology solutions necessary to keep up with the rapidly evolving benefits landscape. As a result, employees are often not provided with the appropriate functionality and information required to select and manage their benefits effectively.

Modern technology, changing communication patterns, and a constantly evolving benefits ecosystem have changed the employee-employer relationship. HR executives continue to search for effective strategies to increase efficiency and contain costs, while increasing employee engagement and satisfaction. Employers are increasingly interested in SaaS solutions that can help capture and analyze benefits data and ultimately lead to healthier, happier, and more productive employees. In order to manage the distribution and administration of benefits effectively, employers need an integrated platform, capable of handling all benefits in one place and providing a highly personalized experience for employees.

Insurance Carrier Market

The employee benefits market consists of a myriad of insurance carriers and products. According to the U.S. Bureau of Labor Statistics, the single largest benefit provided to employees in the United States is healthcare insurance, often encompassing more than 90% of all insurance benefits spending by employers. According to SNL Financial data, the U.S. private healthcare insurance market consists of approximately 357 carriers covering approximately 246 million individual consumers. Carriers provide benefits primarily through over 5.7 million U.S. employers.

Large, national insurance carriers also offer numerous individual health plans of different types, including health maintenance organizations, preferred provider organizations, point-of-service plans, and health savings accounts across the 50 states. Each carrier offers a complex variety of health insurance plans, with each plan requiring multiple decisions to address the specific needs of employers and their individual employees. Despite widespread carrier consolidation, numerous disparate systems remain in place, with many large carriers operating on multiple IT systems. Carriers often rely on manual processes and siloed software applications to bridge gaps in legacy administration systems. Even as carriers attempt to modernize and keep up with evolving industry practices and a changing regulatory landscape, they have difficulty connecting with the broader healthcare system.

The effective delivery and management of healthcare benefits depends on the timely, continuous exchange of data among carriers, their employer customers, and individual members. Legacy benefits management systems often lack important functionality such as web and mobile self-service capabilities and real-time data exchange. Critical carrier processes, including member enrollment, billing, communications, and retail marketing have often been under-optimized or neglected by legacy systems, and carriers have devoted significant internal resources to cover technology gaps. In addition, healthcare reform mandates and the rise of exchanges have increased focus on carriers' retail distribution capabilities, which require additional investment.

Governmental oversight, punctuated with the passage of the Patient Protection and Affordable Care Act, or PPACA, has led to an increasingly intricate regulatory framework under which health benefits are delivered, accessed, and maintained. PPACA significantly expands insurance coverage through the individual mandate, with the goal of providing healthcare insurance to all U.S. citizens. To encourage enrollment, PPACA introduces a new distribution model in the form of healthcare exchanges—online marketplaces that allow insurance carriers to compete directly for new members. PPACA authorized the creation of publicly funded state exchanges in which individuals and small businesses can purchase health insurance directly from carriers. In addition to these federally mandated public exchanges, a number of private entities, including benefit outsourcers, carriers, and brokers are establishing their own private exchanges. We expect private exchanges will be less rigid, promoting both health and non-health benefits, with substantially fewer rules around the types of benefits offered. As insurance carriers continue to bolster their retail distribution capabilities, we believe they will require new technology solutions to attract additional members through private exchanges.

Reportable Segments

Our reportable segments, Employer and Carrier, are based on type of customer. Financial information for Benefitfocus' reportable segments is included in Note 14 to our consolidated financial statements included in this Annual Report on Form 10-K.

The Benefitfocus Solutions

We provide a multi-tenant cloud-based benefit platform to the employer and carrier markets. The Benefitfocus platform offers an integrated suite of software solutions that enables our customers to more efficiently shop, enroll, manage, and exchange benefits information.

We believe our solutions help employers in the following important ways:

Simplify Benefits Enrollment . Our solutions reduce the complexity of benefits enrollment by integrating all plan information in one place and presenting it to employees in an organized and easy-to-understand manner. Employees shop and enroll using a highly intuitive and engaging consumer-oriented interface. Side-by-side comparison tools and real-time quotes enable employees to understand and compare plans and determine how much each option will cost them every month. Notifications are sent in real-time when revised plan designs or new legislation affect coverage. We create videos and use avatars to give employees straightforward explanations of plan details, limitations, changes, and cost-sharing levels.

Transition to Defined Contribution Benefits Funding Model . Our solutions help enable employers' ongoing shift to defined contribution plans. Defined contribution plans differ from traditional defined benefit plans as they grant employees a stipend with which to purchase benefits of their choosing. Defined contribution plans also offer more discretion and options compared to defined benefit plans. Our products support traditional defined benefit plans, allowing employees to select from a list of benefits offered by their employer, calculating required member contributions, and recording

and transmitting elections and other important information to payroll. Separately, with respect to defined contribution plans, our exchange solutions help facilitate an online shopping environment with many benefits options that allows employees to select personalized benefit offerings to suit their individual needs.

Reduce Cost and Increase ROI . Our solutions automate the benefits management process and reduce the cost associated with clerical errors and covering ineligible employees and dependents. They significantly reduce errors resulting from manual file creation, data entry, and sending enrollment materials via mail or fax. The Benefitfocus platform ensures plan information is more accurately captured and submitted in real-time. Automated audits and dependent verification functionality accurately ensure employers only pay benefits for eligible employees. Our solutions also include advanced analytics that enable employers and employees to quickly gather, report, and forecast benefit costs.

Attract, Retain, and Motivate Employees . Our solutions help employers attract, retain, and motivate top talent by delivering benefits information through a highly intuitive and engaging user interface. The Benefitfocus platform supports more than 100 types of plans and numerous third-party apps. Our solutions enable employees to have better visibility into the value of the plans available through their employers. Employees have a better understanding of their benefits and are empowered to make informed decisions. We believe that when employees understand the value of their benefits, they are more likely to be satisfied with and engaged in their jobs.

Streamline HR Processes . Our solutions eliminate the time-consuming and labor-intensive, often paper-based, processes associated with managing employee benefits plans, making HR professionals more efficient. Our solutions reduce the need to store paper forms and new hire enrollment packets, and provide one place to easily manage all benefits and related information. Employers and HR professionals can efficiently enroll users or update information, and communicate or make changes to plans in real-time. An intuitive user interface and a library of contextual online content explaining complex concepts and terms promote manager and employee self-service.

Integrate Seamlessly with other Related Systems . Our solutions can be easily and securely integrated with a variety of related systems, including carrier membership and billing systems, payroll and HR systems, banks, and other third-party administrators. We provide a network of over 900 benefit provider data exchange connections. Our solutions ensure accurate paycheck deductions and real-time enrollment in a variety of benefits plans. The Benefitfocus platform supports multiple data integration methods, including event-driven transactions, real-time web services, and XML or fixed-width file-based data exchange. In addition to convenient and flexible data exchange, the Benefitfocus platform also ensures that data is secure and accurate. Our open architecture further extends our functionality by allowing third parties to develop and offer apps and services on our platform.

We believe our solutions help insurance carriers in the following important ways:

Attract and Maintain Membership . Our solutions allow carriers to maximize sales capacity and efficiency by communicating directly with their employer customers and individual members. Carriers can track leads, generate quotes, create proposals with multiple products, and quickly follow-up with potential customers and members. The Benefitfocus platform also allows carriers to automate and integrate direct marketing, sales, underwriting, and enrollment to provide a high quality, efficient, and engaging online consumer shopping experience. Our solutions provide a library of customizable video content to deliver customized messages, reflect carrier branding, introduce new products, upsell ancillary consumer benefits, and enable consumers to navigate through complex healthcare processes to make informed decisions.

Reduce Administrative Costs . Our solutions improve the efficiency and effectiveness of the relationship between carriers and members. The Benefitfocus platform allows carriers to automate and

simplify various aspects of the benefits administration process, such as enrollment, plan changes, eligibility updates, and billing, from one centralized location. Carriers can more easily apply complex business rules that enforce data accuracy and eliminate unnecessary costs such as coverage of ineligible employees. Members are able to view consolidated online invoices and pay electronically, eliminating the cost and inefficiencies inherent in paper-based billing and reducing time associated with bill payment and collection.

Bolster Retail Distribution Capabilities Through Private Exchanges . Our solutions help carriers respond to an evolving marketplace in which retail distribution capabilities are increasingly important to attracting and retaining new members. Our private exchange platform offers carriers a lower cost direct sales channel to employer groups and individuals. We offer the ability to sell both healthcare and non-healthcare benefit products in an online shopping environment that serves as an alternative to government-sponsored public exchanges.

Facilitate Real-Time Data Exchange . Our solutions simplify interactions and data exchange, and foster collaboration among carriers and their partners, brokers, employer customers, and individual members. This allows carriers to rapidly tailor and offer new benefits packages.

Our Growth Strategy

We intend to strengthen our position as a leading provider of cloud-based benefits software solutions. Key elements of our growth strategy include the following:

Expand our Customer Base . We believe that our current customer base represents a small fraction of our targeted employers and carriers that could benefit from our solutions. While we served approximately 553 large employer customers as of December 31, 2014, we believe that there are over 18,000 large employers in the United States. We also served approximately 43 carrier customers as of December 31, 2014, but, according to SNL Financial data, the U.S. private healthcare insurance market alone consists of approximately 357 carriers. In order to reach new customers in our existing employer and carrier markets, we are aggressively investing in our sales and marketing resources and our channel marketing strategy.

Deepen our Relationships with our Existing Customer Base . We are deepening our employer relationships by continuing to provide a unified platform to manage increasingly complex benefits processes and simplify the distribution and administration of employee benefits. We are expanding our carrier relationships through both the upsell of additional software products and increased adoption across our carriers' member populations. We also believe our customers will use our benefits software solutions more if they are satisfied with our services. As we extend and strengthen the functionality of products, we plan to continue to invest in initiatives to increase the depth of adoption of our solutions and maintain our high levels of customer satisfaction.

Extend our Suite of Applications and Continue our Technology Leadership . We are extending the number, range, and functionality of our benefits applications. For example, we recently launched the new Benefitfocus Plan Shopping app, which allows employees to use actual claims data when comparing available benefits plans, helping them better understand the relationship among healthcare usage, available coverages options, and out-of-pocket costs. We have also extended the functionality of our products with various mobile applications. We intend to continue our collaboration with customers and partners, so we can respond quickly to evolving market needs with innovative applications and support our leadership position.

Further Develop our Partner Ecosystem . We have established strong relationships with organizations such as SuccessFactors, Allstate Insurance Company, Equifax, WageWorks, and others in a variety of industries to deliver best-in-class applications to our customers. Each of these partners

brings additional functionality to the Benefitfocus platform, making it more attractive to customers. This in turn creates a broader audience and makes the Benefitfocus platform more attractive to potential partners. We believe that providing third-party applications to our network of employers, carriers, and consumers will help accelerate our growth, create revenue opportunities and deepen our relationships with existing customers. In support of these and other collaborations, we plan to continue to invest in our integration infrastructure to allow third parties and customers to build custom applications on the Benefitfocus platform and create deep integrations between their systems and ours.

We recently founded the Benefitfocus Implementation Program to train third-party system integrators such as Deloitte Consulting, LLP, ROC Americas, HRchitect, Providence Technology Solutions (affiliate of The HCiGroup) and Motion HR. This program should expand our ability to rapidly scale our service offerings while maintaining a high-quality customer experience. At the same time, it applies the system integrators' broad experience across industries to support customers as they implement the Benefitfocus Platform.

Leverage our Corporate Culture . We believe our culture benefits our associates and customers and supports our growth. In 2014, we published "Benefitfocus—Winning With Culture 2", which includes associates' descriptions about our culture of collaboration, commitment, opportunity, and service, and describes the environment we created to encourage technology innovation. We plan to continue to invest in our culture to help attract and retain top design and engineering professionals that are passionate about Benefitfocus and motivated to create superior software technology. With loyal and engaged associates, we believe we can provide high levels of customer satisfaction, leading to greater sales of our benefits software solutions.

Target New Markets . We believe substantial demand for our solutions exists in markets and geographies beyond our current focus. We intend to leverage opportunities we believe will arise from the complexities of changing government regulation and increased enrollment impacting both Medicare and Medicaid. We also plan to grow our sales capability internationally by expanding our direct sales force and collaborating with strategic partners in new, international locations.

The Benefitfocus Portfolio of Products

Our portfolio of products, as summarized below, provides a seamless, integrated experience for the entire life cycle of benefits enrollment and management for insurance carriers and employers. We also provide extensive applications to help carriers and employers manage their programs more effectively.

Products and Services for Insurance Carriers	Products and Services for Employers
eEnrollment	HR InTouch Marketplace (now known as Benefitfocus Marketplace)
eBilling	Benefit Informatics (now known as the Data Cloud and Benefit Analytics)
eExchange	Implementation Services
eSales	HR Support Center (now known as Benefits Service Center)
Marketplaces	Media and Animation Services
Benefit Informatics (now known as Data Cloud and Benefit Analytics)	App Development Platform
Implementation Services	Software-Enabled Services
Media and Animation Services	Benefitstore
App Development Platform	
Software-Enabled Services	
BenefitStore	

Products for Insurance Carriers

- *eEnrollment* is our flagship product for carriers, providing them with online enrollment for all types of benefits. We designed eEnrollment to enhance our users' experience by presenting information in a user-friendly format and integrating educational videos, and plan comparison and decision support tools to help navigate the enrollment process. In addition to helping customers find suitable plans, eEnrollment supports complex business rules, such as eligibility and rating criteria. eEnrollment facilitates the following activities:
  - *Initial Enrollment* . Employees and brokers can complete applications and health statements prior to making elections. Once the selection occurs, eEnrollment automatically calculates group numbers, finalizes benefit elections, and sends the data to the insurance carriers' membership systems.
  - *Open Enrollment* . eEnrollment simplifies open enrollment by providing tools to map employees from one plan to another, such as workflow, to-do lists, e-mail reminders, and a wide range of reports.
  - *New Hire Enrollment* . New hires can enroll in benefits anytime during their initial enrollment period. eEnrollment calculates wait periods and effective dates automatically to ensure compliance with the employers' business rules.
  - *Life Events* . Employees can make changes to their elections for specific reasons, including a birth, marriage, and military leave. eEnrollment calculates effective dates and helps employees understand what types of coverage changes are permitted with each type of life event.
- *eBilling* is an electronic invoice presentment and payment solution, or EIPP. It consolidates invoices from multiple insurance products so employers and individuals receive one invoice that can be viewed and paid electronically. eBilling automates the synchronization of billing and membership data to improve the accuracy of billing processes and provides options to simplify bill payment, such as scheduled one-time and/or recurring payments.
- *eExchange* is a solution that bridges the communication gap between carrier and employer systems, allowing a seamless exchange of data between the two. Our customers use eExchange to integrate data from multiple systems, convert data from one format to another, and manage the flow of employee data between carriers and employers.
- *eSales* gives carriers and brokers tools to organize and proactively manage accounts, track leads, generate quotes, and create proposals for multiple products. eSales allows carriers to define their own market segments and configure them with unique workflows and business rules. It also enables greater data accuracy by automatically incorporating updated products, options and pricing for the most current rates and quotes. Carriers purchase eSales to increase productivity in their sales force.
- *Marketplaces* are online shopping environments, sometimes referred to as exchanges, that allow customers to select from a variety of benefits plan choices to suit their individual needs. Marketplaces support the shift toward defined contribution benefits plans, which are increasing in popularity. Marketplaces provide consumer-centric experiences focused on personalization, and integrate social tools to help drive informed choices while selecting benefits. They also include features to track plans and compare pricing and features across multiple benefit plans.
- *Benefit Informatics (now known as Data Cloud and Benefits Analytics)* is our data analytics solution for use by carriers and their self-insured employer customers. Benefit Informatics is a privately-labeled analytics solution that helps carriers and their self-insured employers identify cost drivers, recognize trends, and predict future risks and costs. Additional analytical capabilities help create "what-if" scenarios to model different variables, such as co-pay, deductibles, benefits, inflation, and member populations.

Products for Employers

- *HR InTouch Marketplace (now known as Benefitfocus Marketplace)* is a cloud-based HR management portal that streamlines online enrollment, employee communication, and benefits administration, and creates a private exchange environment for large employers who offer defined contribution plans. In one cohesive, engaging workflow, HR InTouch Marketplace presents employees with all of the plans their employers offer. Employees who need extra assistance can access avatars, animated videos, and live chat sessions as they explore their benefit options. As employees shop for the plans that best fit their individual needs, a virtual shopping cart keeps a running tally of the employers' defined contribution in addition to the employees' out-of-pocket costs. If employees choose to purchase more coverage on their own, they can easily view and pay their bills in the HR InTouch Marketplace.
- *Benefit Informatics (now known as Data Cloud and Benefits Analytics)* is our data analytics solution that helps employers make more informed, data-driven decisions about their benefits offerings. This product aggregates benefit cost and claims data from relevant sources and allows customers to analyze, forecast, and monitor costs. Benefit Informatics enables employers and their advisors to identify cost drivers, recognize trends, and predict future risks and costs. Additional analytical capabilities create "what-if" scenarios to model different variables, such as co-pays, deductibles, benefits, inflation, and member populations.

Professional Services and Customer Support

- *Implementation Services* . We provide implementation services to our customers in order to help ensure seamless deployment and effective utilization of our solutions. Our carrier and employer implementation teams and third-party system integrators in our Benefitfocus Implementation Program follow a five-step approach for each implementation:
  - *Discovery* , including project planning and coordination to establish key milestones, documenting business and technical requirements, establishing a deployment strategy, and planning operational and market adoption activities.
  - *Configuration and deployment* , including configuring products to meet requirements identified during discovery, and defining needs for data exchange, payroll integration, and file transfer protocol.
  - *Integration* , including connecting the Benefitfocus platform functionality to a customer's currently existing systems, such as carrier membership and billing, payroll and HR systems, employee communications, intranets, and others.
  - *Testing* , including testing of various scenarios and uses cases, inbound and outbound payroll integration, and regression testing.
  - *Training and technical support* , including sessions to learn how to implement and access our products.
- *HR Support Center (now known as Benefitfocus Service Center)* . We provide employers with expanded support services where our benefits specialists help customers' employees understand benefit offerings, navigate the enrollment process, and find answers to frequently asked HR questions. Our HR Support Center provides employees with personalized, guided support. Additional services, such as fulfillment, dependent verification, and HR administration, are available to meet unique organizational needs.
- *Media and Animation Services* . We create video and animated content that can be licensed within our applications or independently for distribution via client portals or websites. Benefitfocus provides a comprehensive video library and also can produce custom videos to meet specific communication requirements of its carrier and employer customers. Our staff of

executive producers, project managers, writers, graphic designers, editors, and on-camera talent guide customers through the process from concept development to delivery. Benefitfocus hosts videos, eliminating the need for additional investments or internal IT resources by our customers. In addition, we incorporate our customers' unique branding to provide a seamless extension of corporate websites and messaging.

Partner Offerings

- *App Development Platform.* We allow our partners and customers to develop custom apps that integrate directly with HR InTouch. HR professionals can easily work with external data and services through the same platform they are using to manage their benefits. Apps are organized into the following categories: voluntary benefits, health and wellness, benefits administration, finance, and communication. Representative apps include the RedBrick Health App, which provides access *to* customizable health assessments, digital coaching, tracking and challenges and the LifeLock App, which allows employees to purchase identity theft protection when they are enrolling in other benefit programs.
- *Software-Enabled Services.* In addition to our app development platform, the open and flexible nature of our software architecture allows us to build deeper integrations with partner organizations and offer custom services in response to customer demand. Some examples include:
  - *SuccessFactors* provides employee performance management solutions. We partnered with them to create a full HR and benefits management suite that combines employee talent, profile, and core HR information to help drive employee onboarding, promotion, and development. The SuccessFactors suite of products provides an enterprise-class system of record, as well as powerful analytics and intuitive tools.
  - *WageWorks* supports benefits such as health savings accounts, flexible spending accounts, and health reimbursement programs, as well as commuter benefits, direct billing, and COBRA, through a single sign-on from our platform.
  - *Spectra Integration* provides print fulfillment services which enable customers to send employee information via mail to educate their workforce about benefit offerings, total compensation statements, and communication campaigns.
  - *BenefitStore* is a turn-key solution that makes available directly to employees a broad array of ancillary benefits like transit, supplemental life and disability, among others, to provide a more comprehensive and customizable benefits package.

Customers

Our customers include employers of all sizes across a variety of industries and some of the nation's largest insurance carriers and aggregators. Following is a list of some of our significant employer and carrier customers.

Employer Customers	Carrier Customers
Amerigas Propane, Inc.	Aetna Life Insurance Company
Brooks Brothers Group, Inc.	Allstate Insurance Company
Cancer Treatment Centers of America	Anthem, Inc. (formerly Wellpoint, Inc.)
Columbia Sportswear Company	Blue Cross and Blue Shield of Florida
Fender Musical Instruments Corporation	BlueCross and BlueShield of South Carolina
Rush University Medical Center	Tufts Associated Health Plans, Inc.
Under Armour, Inc.	

During the year ended December 31, 2014, no customer accounted for more than 10% of our total revenue.

Sales and Marketing

We sell substantially all of our software solutions through our direct sales organization. Our direct sales team comprises employer-focused and carrier-focused field sales professionals who are organized primarily by geography and account size.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs and strategic relationships. Our marketing programs target HR, benefits, and finance executives, technology professionals, and senior business leaders. Our principal marketing programs include:

- use of our website to provide application and company information, as well as learning opportunities for potential customers;
- territory development representatives who respond to incoming leads and convert them into new sales opportunities;
- participation in, and sponsorship of, user conferences, executive events, trade shows and industry events, including our annual user and partner conference, One Place;
- integrated marketing campaigns, including direct email, online web advertising, blogs and webinars; and
- public relations, analyst relations and social media initiatives.

Technology Infrastructure and Operations

As an enterprise cloud software vendor, we have always deployed our solutions using a SaaS model. Our customers access our software via the web or mobile devices, rather than by installing software on their premises. Through our multi-tenant platform, our customers access a single instance of our software with multiple possible configurations enabled by our metadata-driven framework. The multi-tenant approach provides significant operating leverage and improved efficiency as it helps us to reduce our fixed cost base and minimize unused capacity on our hardware. In addition, our software architecture gives us an advantage over vendors of legacy systems, who may be using a less flexible architecture that would require significant time and expense to update.

We host our applications and serve all of our customers from two redundant data centers in separate locations. We rely on third-party vendors to operate these data centers, which are designed to host mission-critical computer systems and have industry-standard measures in place to minimize service interruptions. Our technical operations staff manages the technology stacks supporting the Benefitfocus platform and uses automated monitoring tools throughout our system to detect unusual events or malfunctions that could interfere with our customers' or partners' use of the Benefitfocus platform. We monitor application health by verifying that all applications, interfaces and supporting middleware are operational. If our monitoring tools detect a problem, they notify our technical operations staff, who responds immediately to diagnose and resolve the problem. We take the security of our data and our systems very seriously, and we focus on minimizing the risk of vulnerabilities in our system at every level of software design and system and network administration.

Compliance and Certifications

We obtain third-party examinations of our controls relating to security and data privacy. Certain examinations are conducted under Statement on Standards for Attestation Engagements, or SSAE, No. 16 (Reporting on Controls at a Service Organization). In particular, we obtain Service Organization

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Controls, or SOC, reports known as SOC 1 Type II and SOC 2 Type II audits that test the design and operating effectiveness of controls over a period of time. An independent auditor conducts these examinations annually and addresses, among other areas, our physical and environmental safeguards for production data centers, data availability and procedures covering integrity, change management, and logical security.

On an annual basis, we complete an internal audit of compliance against the Payment Card Industry Data Security Standards, or PCI-DSS, applicable to Level 1 service providers. These standards focus on application and network security controls for companies that transmit and store credit card data on behalf of clients. Benefitfocus meets PCI compliance requirements as a Level 1 service provider and submits its Report on Compliance and Attestation of Compliance documenting this assessment to the four major credit card brands annually.

In addition to PCI-DDS, Benefitfocus meets all applicable security requirements required by the National Automated Clearinghouse Association, or NACHA, for third-party service providers, as well as all requirements for Covered Entities as required by HIPAA. We validate both NACHA and HIPAA compliance annually through internal audits.

Competition

While we do not believe any single competitor offers similarly expansive software solutions, we face competition from various sources, many of which have greater resources than us. Competition in our employer segment includes:

- ERP software companies, including Oracle (PeopleSoft), Infor (Lawson) and Workday each offering a cloud-based benefits administration software solution;
- HR outsourcing companies, including Aon/Hewitt and Towers Watson, both of which have recently launched benefits exchange solutions;
- payroll service providers, including ADP and Paychex, both of which have expanded their core payroll services to include some form of cloud-based benefits administration services; and
- various niche software vendors.

Competitors in our carrier segment include:

- insurance carriers that have invested in internally developed benefit management solutions;
- member services companies, including those providing web-based subscriber enrollment and claims adjudication services, such as Trizetto (acquired by Cognizant) and DST Health Solutions; and
- various niche software vendors.

We believe that competition for benefits software and services is based primarily on the following factors:

- capability for customization through configuration, integration, security, scalability, and reliability of applications;
- competitive and understandable pricing;
- breadth and depth of application functionality;
- size of customer base and level of user adoption;
- extensive data exchange network;

- cloud-based delivery model;
- dynamic communication capabilities with contextual media, animation, and acknowledgement tools;
- ability to integrate with legacy enterprise infrastructures and third-party applications;
- domain expertise in benefits and healthcare consumerism;
- extensive base of rules and event-driven benefit eligibility and enrollment;
- accessible on any browser or mobile device;
- modern and adaptive technology platform;
- access to third-party apps;
- clearly defined implementation timeline;
- customer-branding and styling; and
- ability to innovate and respond to customer and legislative needs rapidly.

We believe that we compete effectively based upon all of these criteria, and that we are likely to continue to retain a high percentage of our customers. Nonetheless, we believe that the increasing acceptance of automated solutions in the healthcare marketplace and the adoption of more sophisticated technology and legislative reform will result in increased competition, including potentially from large software companies with greater resources than ours. Other companies might develop superior or more economical service offerings that our customers could find more attractive than our offerings. Moreover, the regulatory landscape might shift in a direction that is more strategically advantageous to competitors.

Research and Development

Our ability to compete depends, in large part, on our continuous commitment to rapidly introduce new applications, technologies, features, and functionality. We deliver multiple software releases per year, updating the Benefitfocus platform to leverage advances in cloud computing, mobile applications, and data management. Our research and development team is responsible for the design and development of our applications. We follow state-of-the-art practices in software development using modern programming languages, data storage systems, and other tools. We use both commercial and open source products, following a “best tool for the job” philosophy in product selection. Our software has a multi-tiered architecture that ensures flexibility to add or modify features quickly in response to changing market dynamics, customer needs, or regulatory requirements.

Our research and development expenses were $41.7 million, $23.5 million and $14.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Intellectual Property

We rely on a combination of patent, trade secret, copyright, and trademark laws, license agreements, confidentiality procedures, confidentiality and nondisclosure agreements, and technical measures to protect the intellectual property used in our business. We generally enter into confidentiality and nondisclosure agreements with our associates, consultants, vendors, and customers. We also seek to control access to and distribution of our software, documentation, and other proprietary information.

We use numerous trademarks for our products and services, and “Benefitfocus”, “HR InTouch”, “HR InTouch Marketplace”, “All Your Benefits. One Place.”, and “Shop. Enroll. Manage. Exchange.” are registered marks of Benefitfocus in the United States. Through claimed common law trademark

protection, we also protect other Benefitfocus marks which identify our services, such as “All Your Benefits. In Your Pocket.”, Benefitfocus eEnrollment, Benefitfocus eBilling, Benefitfocus eExchange, and Benefitfocus eSales, and we have reserved numerous domain names, including “benefitfocus.com”. We also have registered trademarks and pending trademark applications in foreign jurisdictions such as Australia, Canada, India, Ireland, New Zealand, South Africa, and the United Kingdom.

We have been granted three U.S. patents (utility patents) and have eight U.S. patent applications (all for utility patents) pending. Our first patent, which protects specified systems and methods for the automatic creation of agent-based systems, was issued in April 2013 and will not expire until May 2030. Our second patent, which protects specified systems and methods for secure agent information, was issued in October 2013 and will not expire until November 19, 2030. Our third patent, which protects registration and execution of highly concurrent processing tasks, was issued in January 2015 and will not expire until February 2032. We also have one Chinese patent and 42 pending patent applications under foreign jurisdictions and treaties, such as Australia, Canada, China, Hong Kong, India, Japan, Taiwan, the European Patent Convention, and the Patent Cooperation Treaty.

We also rely on certain intellectual property rights that we license from third parties. Although we believe that alternative technologies are generally available to replace such licenses, these third-party technologies may not continue to be available to us on commercially reasonable terms.

Although we rely on intellectual property rights, including trade secrets, patents, copyrights, and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our applications are more essential to establishing and maintaining our technology leadership position.

The steps we have taken to protect our copyrights, trademarks, and other intellectual property may not be adequate, and the potential exists that third parties could infringe, misappropriate, or misuse our intellectual property. If this were to occur, it could harm our reputation and adversely affect our competitive position or operations. In addition, laws of other jurisdictions may not protect our intellectual property and proprietary rights from unauthorized use or disclosure in the same manner as the United States. The risk of unauthorized use of our proprietary and intellectual property rights may increase as our company expands outside of the United States.

Government Regulation

Introduction

The employee benefits industry is required to comply with extensive and complex U.S. laws and regulations at the federal and state levels. Although many regulatory and governmental requirements do not directly apply to our business, our customers are required to comply with a variety of U.S. laws, and we may be impacted by these laws as a result of our contractual obligations. For many of these laws, there is little history of regulatory or judicial interpretation upon which to rely.

Requirements of PPACA

Our business could be affected by changes in healthcare spending. In March 2010, the President signed into law PPACA. As enacted, PPACA will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced Medicare program spending and insurance market reforms. By January 2014, PPACA required states to expand Medicaid coverage significantly and establish health insurance exchanges to facilitate the purchase of health insurance by individuals and small employers and provided subsidies to states to create non-Medicaid plans for certain low-income residents.

Although numerous lawsuits challenged the constitutionality of PPACA, the U.S. Supreme Court on June 28, 2012, upheld the constitutionality of PPACA except for provisions that would have allowed the U.S. Department of Health and Human Services, or HHS, to penalize states that did not implement the Medicaid expansion with the loss of existing federal Medicaid funding. Consequently, a number of states opted out of the Medicaid expansion. Since that time, several states that initially opted out of the Medicaid expansion changed their minds and expanded Medicaid after all. While many of the provisions of PPACA will not be directly applicable to us, PPACA, as enacted, might affect the business of many of our customers. Carriers and large employers might experience changes in the numbers of individuals they insure as a result of Medicaid expansion and the creation of state and national exchanges, though it is unclear how many states will decline to implement the Medicaid expansion or adopt state-specific exchanges.

The long-term viability of PPACA is also currently in doubt. The House of Representatives has voted to repeal PPACA numerous times. Moreover, a lawsuit challenging the legality of the health insurance exchanges will likely be decided by the U.S. Supreme Court this summer. Should Congress repeal PPACA or the Supreme Court determine that government exchanges are unlawful, the business of our customers could be substantially affected.

Requirements Regarding the Confidentiality, Privacy and Security of Personal Information

HIPAA and Other Privacy and Security Requirements. There are numerous U.S. federal and state laws and regulations related to the privacy and security of personal health information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, establish privacy and security standards that limit the use and disclosure of individually identifiable health information and require the implementation of administrative, physical and technological safeguards to ensure the confidentiality, integrity and availability of individually identifiable health information in electronic form. Health plans, healthcare clearinghouses and most providers are considered by the HIPAA regulations to be "Covered Entities." With respect to our operations as a healthcare clearinghouse, we are directly subject to the Privacy Standards and the Security Standards. In addition, our carrier customers, or payors, are considered to be Covered Entities and are required to enter into written agreements with us, known as Business Associate Agreements, under which we are considered to be a Business Associate and that require us to safeguard individually identifiable health information and restrict how we may use and disclose such information. Effective February 2010, the American Recovery and Reinvestment Act of 2009, or ARRA, extended the direct application of some provisions of the Privacy Standards and Security Standards to us when we are functioning as a Business Associate of our Covered Entity customers. The Privacy Standards extensively regulate the use and disclosure of individually identifiable health information by Covered Entities and their Business Associates. For example, the Privacy Standards permit Covered Entities and their Business Associates to use and disclose individually identifiable health information for treatment and to process claims for payment, but other uses and disclosures, such as marketing communications, require written authorization from the individual or must meet an exception specified under the Privacy Standards. The Privacy Standards also provide patients with rights related to understanding and controlling how their health information is used and disclosed. Effective February 2010 or later (in the case of restrictions tied to the issuance of implementing regulations), ARRA imposed stricter limitations on certain types of uses and disclosures, such as additional restrictions on marketing communications and the sale of individually identifiable health information. To the extent permitted by the Privacy Standards, ARRA and our contracts with our customers, we may use and disclose individually identifiable health information to perform our services and for other limited purposes, such as creating de-identified information. Determining whether data has been sufficiently de-identified to comply with the Privacy Standards and our contractual obligations may require complex factual and statistical analyses and may be subject to interpretation. The Security Standards require Covered Entities and their Business Associates to implement and maintain administrative, physical and technical safeguards to protect the security of individually identifiable health information that is electronically transmitted or electronically stored.

If we are unable to properly protect the privacy and security of health information entrusted to us, we could be found to have breached our contracts with our customers. Further, if we fail to comply with the Privacy Standards and Security Standards while acting as a Covered Entity or Business Associate, we could face civil and criminal penalties. ARRA significantly increased the amount of the civil penalties to up to $50,000 per violation for a maximum civil penalty of $1.5 million in a calendar year for violations of the same requirement. Recently, the U.S. Department of Health and Human Services Office for Civil Rights, which enforces the Security Standards and Privacy Standards, appears to have increased its enforcement activities. ARRA also strengthened the enforcement provisions of HIPAA, which may result in further increases in enforcement activity. ARRA also authorizes state attorneys general to bring civil actions seeking either injunctions or damages in response to violations of HIPAA privacy and security regulations that threaten the privacy of state residents. We have implemented and maintain policies and processes to assist us in complying with the Privacy Standards, the Security Standards and our contractual obligations.

Data Protection and Breaches. In recent years, there have been a number of well-publicized data breaches involving the improper dissemination of personal information of individuals. Many states have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals. In many cases, these laws are limited to electronic data, but states are increasingly enacting or considering stricter and broader requirements. Covered Entities must report breaches of unsecured protected health information to affected individuals without unreasonable delay, but not to exceed 60 days of discovery of the breach by a Covered Entity or its agents. Notification must also be made to HHS and, in certain circumstances involving large breaches, to the media. Business Associates must report breaches of unsecured protected health information to Covered Entities within 60 days of discovery of the breach by the Business Associate or its agents. The Federal Trade Commission, or FTC, has prosecuted some data breach cases as unfair and deceptive acts or practices under the Federal Trade Commission Act. Further, by regulation, the FTC requires creditors, which may include some of our customers, to implement identity theft prevention programs to detect, prevent and mitigate identity theft in connection with customer accounts. Although Congress passed legislation that restricts the definition of “creditor” and exempts many health providers from complying with this rule, we may be required to apply additional resources to our existing processes to assist our affected customers in complying with this rule. We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with all applicable laws and regulations regarding the protection of this data and properly responding to any security breaches or incidents.

Other Requirements. In addition to HIPAA, numerous other U.S. state and federal laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health information and healthcare provider information. Some states also are considering new laws and regulations that further protect the confidentiality, privacy and security of medical records or other types of medical information. In many cases, these state laws are not preempted by the Privacy Standards and may be subject to interpretation by various courts and other governmental authorities. Further, Congress and a number of states have considered or are considering prohibitions or limitations on the disclosure of medical or other information to individuals or entities located outside of the United States.

HIPAA Administrative Simplification

HIPAA also mandated a package of interlocking administrative simplification rules to establish standards and requirements for the electronic transmission of certain healthcare claims and payment transactions. These regulations are intended to encourage electronic commerce in the healthcare industry and apply directly to Covered Entities. Some of our businesses, including our healthcare clearinghouse operations, are considered Covered Entities under HIPAA and its implementing regulations.

Transaction Standards. The standard transaction regulations established under HIPAA, or Transaction Standards, mandate certain format and data content standards for the most common electronic healthcare transactions, using technical standards promulgated by recognized standards publishing organizations. These transactions include healthcare claims, enrollment, payment and eligibility. The Transaction Standards are applicable to that portion of our business involving the processing of healthcare transactions among payors, providers, patients and other healthcare industry constituents. Failure to comply with the Transaction Standards may subject us to civil and potentially criminal penalties and breach of contract claims. The Centers for Medicare and Medicaid Services, or CMS, is responsible for enforcing the Transaction Standards.

Payors who are unable to exchange data in the required standard formats can achieve Transaction Standards compliance by contracting with a clearinghouse to translate between standard and non-standard formats. As a result, use of a clearinghouse has allowed numerous payors to establish compliance with the Transaction Standards independently and at different times, reducing transition costs and risks. In addition, the standardization of formats and data standards envisioned by the Transaction Standards has only partially occurred. However, PPACA requires HHS to establish operating rules to promote uniformity in the implementation of each standardized electronic transaction. PPACA sets forth a schedule with staggered deadlines for the development of and compliance with operating rules for the other standardized electronic transactions, with all operating rules finalized and requiring compliance by December 31, 2015. On June 30, 2011, HHS released an interim final rule that would require health plans, healthcare clearinghouses, and certain healthcare providers to implement operating rules for two electronic transactions, relating to whether a patient is eligible for healthcare coverage and the status of claims submitted to an insurer, by January 1, 2013. Under PPACA, payors and service contractors of payors, including, in some cases, us, will be required to certify compliance with these standards to HHS. The compliance date for the certification requirement depends on the type of transaction, with the earliest certification required by December 31, 2013. We cannot provide assurance regarding how the CMS will enforce the Transaction Standards. We continue to work with payors, healthcare information system vendors and other healthcare constituents to implement fully the Transaction Standards.

In January 2009, CMS published a final rule adopting updated standard code sets for diagnoses and procedures known as the ICD-10 code sets. A separate final rule also published by CMS in January 2009 resulted in changes to the formats to be used for electronic transactions, known as Version 5010. The use of Version 5010 became mandatory on January 1, 2012, but CMS delayed enforcement until July 1, 2012. The use of the ICD-10 code sets was originally required by October 1, 2013, but HHS extended this deadline twice, with the implementation date now set for October 1, 2015. It is not known wither HHS will further the delay implementation of the ICD-10 code sets. We have been modifying and will continue to modify our systems and processes to prepare for and implement these changes.

Health Plan and Other Entity Identifiers. HHS has promulgated regulations implementing the establishment of a unique health plan identifier, or HPID. Similar to a provider's national provider identifier, the HPID provides an identification system for health plans to use for electronic transactions. HHS has also promulgated regulations implementing another entity identifier, or OEID, that serves as an identifier for entities that are not health plans, health care providers or individuals. These other entities, which include third-party administrators, transaction vendors, and clearinghouses, are not required to obtain an OEID, but they could obtain and use one if they needed to be identified in standardized transactions. The impact of the HPID and OEID process on our business is unclear at this time.

Financial Services Related Laws and Rules

Financial services and electronic payment processing services are subject to numerous laws, regulations and industry standards, some of which might impact our operations and subject us, our vendors and our customers to liability as a result of the payment distribution and processing solutions we offer. Although we do not act as a bank, we offer solutions that involve banks, or vendors who contract with banks and other regulated providers of financial services. As a result, we might be impacted by banking and financial services industry laws, regulations and industry standards, such as licensing requirements, solvency standards, requirements to maintain the privacy and security of nonpublic personal financial information and Federal Deposit Insurance Corporation deposit insurance limits. In addition, our patient billing and payment distribution and processing solutions might be impacted by payment card association operating rules, certification requirements and rules governing electronic funds transfers. If we fail to comply with applicable payment processing rules or requirements, we might be subject to fines and changes in transaction fees and may lose our ability to process credit and debit card transactions or facilitate other types of billing and payment solutions. Moreover, payment transactions processed using the Automated Clearing House Network, or ACH, are subject to network operating rules promulgated by the National Automated Clearing House Association and to various federal laws regarding such operations, including laws pertaining to electronic funds transfers, and these rules and laws might impact our billing and payment solutions. Further, our solutions might impact the ability of our payor customers to comply with state prompt payment laws. These laws require payors to pay healthcare claims meeting the statutory or regulatory definition of a “clean claim” to be paid within a specified time frame.

Banking Regulation

The Goldman Sachs Group, affiliates of which owned approximately 33.3% of the voting and economic interest in our business as of December 31, 2014, is regulated as a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended, or the BHC Act. Due to the size of its voting and economic interest, we are deemed to be controlled by The Goldman Sachs Group and are therefore considered to be a “subsidiary” of The Goldman Sachs Group under the BHC Act. As a result, although we do not engage in banking operations, we are subject to regulation, supervision, examination and potential enforcement action by the Federal Reserve and to most banking laws, regulations and orders that apply to The Goldman Sachs Group. In addition, certain restrictions applicable to Goldman Sachs under the BHC Act are expected to apply to the Company as well, and we may be subject to regulatory oversight and examination because we are a technology service provider to regulated financial institutions. The bank regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance system, and depositors rather than our stockholders. Because of The Goldman Sachs Group’s status as a bank holding company, we have agreed to certain covenants for the benefit of The Goldman Sachs Group that are intended to facilitate its compliance with the BHC Act.

In addition, the Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was signed into law by President Obama on July 21, 2010, including Title VI known as the “Volcker Rule”. US financial regulators approved final rules to implement the Volcker Rule in December 2013. The Volcker Rule, in relevant part, restricts banking entities from proprietary trading (subject to certain exemptions) and from acquiring or retaining any equity, partnership or other interests in, or sponsoring, a private equity fund, subject to satisfying certain conditions, and from engaging in certain transactions with funds.

We will continue to be deemed to be controlled by The Goldman Sachs Group for purposes of the BHC Act and, therefore, we will continue to be subject to regulation by the Federal Reserve and to the BHC Act, as well as certain other banking laws, regulations and orders that apply to The Goldman Sachs Group. We will remain subject to this regulatory regime until The Goldman Sachs Group is no

longer deemed to control us for bank regulatory purposes, which we do not generally have the ability to control and which will not occur until The Goldman Sachs Group has significantly reduced its voting and economic interest in us. We cannot predict the ownership level at which the Federal Reserve would consider us no longer controlled by The Goldman Sachs Group, but it could be less than 10%.

The Goldman Sachs Group and its subsidiaries, including Benefitfocus, generally may conduct only activities that are authorized for a bank holding company or a "financial holding company" under the BHC Act. The scope of services we may provide to our customers is limited under the BHC Act to those which are (i) financial in nature or incidental to financial activities (including data processing services such as those that we provide with our software solutions) or (ii) complementary to a financial activity and which do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. We believe that our current and anticipated business activities are permitted under the BHC Act.

Any failure of The Goldman Sachs Group to maintain its status as a financial holding company could result in substantial limitations on our activities and our growth. In particular, our permissible activities could be further restricted to only those that constitute banking or activities closely related to banking. The Goldman Sachs Group's loss of its financial holding company status could be caused by several factors, including any failure by The Goldman Sachs Group's bank subsidiaries to remain sufficiently capitalized, by any examination downgrade of one of The Goldman Sachs Group's bank subsidiaries, or by any failure of one of The Goldman Sachs Group's bank subsidiaries to maintain a satisfactory rating under the Community Reinvestment Act. In addition, the Dodd-Frank Act broadened the requirements for maintaining financial holding company status by also requiring the holding company to remain "well capitalized" and "well managed". We have no ability to prevent such occurrences from happening.

The Federal Reserve has broad enforcement authority over us, including the power to prohibit us from conducting any activity that, in the Federal Reserve's opinion, is unauthorized or constitutes an unsafe or unsound practice in conducting our business. The Federal Reserve may approve, deny or refuse to act upon applications or notices for The Goldman Sachs Group and its subsidiaries to conduct new activities, acquire or divest businesses or assets, or reconfigure existing operations. The Federal Reserve may also impose substantial fines and other penalties for violations of applicable banking laws, regulations and orders. The Dodd-Frank Act strengthened the Federal Reserve's supervisory and enforcement authority over a bank holding company's non-bank affiliates. We do not believe that any of our current or anticipated business activities will require Federal Reserve approval.

There are limits on the ability of The Goldman Sachs Group's bank subsidiaries to extend credit to or conduct other transactions with us. In general, any loans to us from a The Goldman Sachs Group bank subsidiary must be on market terms and secured by designated amounts of specified collateral and are limited to 10% of the lending bank's capital stock and surplus. Statutory changes made by the Dodd-Frank Act will place certain additional restrictions on transactions between us and The Goldman Sachs Group in the future, which we do not expect to be material to us.

Geographic Areas

We operate solely in the United States. As such, we held substantially all our assets and generated all our revenue in the United States during the years ended December 31, 2014, 2013 and 2012.

Corporate Information

We were incorporated in June 2000 as Benefitfocus.com, Inc., a South Carolina corporation. In September 2013, we reincorporated in Delaware as Benefitfocus, Inc. Our principal executive offices

are located at 100 Benefitfocus Way, Charleston, South Carolina 29492, and our phone number is (843) 849-7476. Our website address is www.benefitfocus.com. The information on, or that can be accessed through, our website is not part of this report. We currently employ approximately 1,312 associates.

Executive Officers

The following table sets forth information concerning our executive officers as of December 31, 2014:

Name	Age	Position
Shawn A. Jenkins	47	President and Chief Executive Officer, Director
Mason R. Holland, Jr.	50	Executive Chairman, Director
Milton A. Alpern	63	Chief Financial Officer and Secretary
Raymond A. August	53	Chief Operating Officer
Andrew L. Howell	48	Chief Commercial Officer
Donald R. Taylor, Jr.	54	Chief Technology Officer

Shawn A. Jenkins—President, Chief Executive Officer, and Director

Shawn Jenkins, one of our founders, has been our President and Chief Executive Officer and a member of our board of directors since our founding in June 2000. Prior to founding Benefitfocus, from 1995 to 2000, he served as Vice President with American Pensions, Inc., leading sales, operations, and technology. From 1994 to 1995, Mr. Jenkins was a program analyst with Rockwell Automation, Inc. Mr. Jenkins serves on the Advisory Board for the School of Computing at Clemson University, Medical University of South Carolina Foundation Board of Directors, College of Charleston Board of Governors, and Charleston Southern University Board of Visitors. He previously served as Chairman of the Growing Forward Campaign for the Lowcountry Food Bank. Mr. Jenkins received an M.B.A. from Charleston Southern University and a B.A. from Geneva College in Beaver Falls, Pennsylvania.

Mason R. Holland, Jr.—Executive Chairman of the Board

Mason Holland, one of our founders, has been our Executive Chairman and a member of our board of directors since our founding in June 2000. Mr. Holland is responsible for the coordination of strategic partnerships with industry leaders and client relations and serves on the nominating and corporate governance committee of our board. Mr. Holland founded American Pensions, Inc. in 1988, serving as its Chairman and President from 1988 to 2003. Mr. Holland's other ventures have included establishing Holland Properties, LLC, a real estate development firm, in 1989, and acquiring Eclipse Aerospace, Inc., a jet aircraft manufacturer, in May 2009, for which he serves as Chairman and Chief Executive Officer. Mr. Holland attended Old Dominion University in Norfolk, Virginia.

Milton A. Alpern—Chief Financial Officer

Milt Alpern has served as our Chief Financial Officer since January 2012. Prior to joining Benefitfocus, from April 2008 to December 2011, he was the Chief Financial Officer for ITA Software, Inc., a SaaS provider of technology solutions to the travel industry, which was acquired by Google in 2011, where he was responsible for leading all financial and administrative functions for the company. Prior to ITA Software, from 2003 to 2008, Mr. Alpern served as the Chief Financial Officer for Applix, Inc., a publicly held international provider of business performance management and business intelligence software where he directed all finance, human resources, legal activities, and financial community relationships. From 1998 to 2002, Mr. Alpern served as the Chief Financial Officer at Eprise Corporation, a publicly held provider of business website content management software and solutions, where he was a member of the management team leading the company's successful initial public offering. Mr. Alpern holds a B.S. in accounting from Montclair State University.

Raymond A. August—Chief Operating Officer

Raymond August was appointed as our Chief Operating Officer in August of 2014. Prior to joining Benefitfocus, Mr. August served as the General Manager of the Computer Sciences Corp., or CSC, Financial Services Group since October 2012. Prior to that, from March 2008 to September 2012, he served as CSC's President of the Financial Services Group. Since July 2013 he has served as a member of the Executive Advisory council for Arthur Ventures Private Equity Fund. Mr. August earned a B.S. in Accounting and Management Science from the University of South Carolina and is a Certified Public Accountant.

Andrew L. Howell—Chief Commercial Officer

Andy Howell has served as our Chief Commercial Officer since August of 2014. During his tenure at Benefitfocus, he previously served as our Chief Operating Officer from June 2010 to August 2014, Senior Vice President and General Manager of the insurance carrier business unit from June 2009 to June 2010, as well as Senior Vice President and General Counsel from April 2007 to June 2009. Prior to joining Benefitfocus, Mr. Howell served from July 2002 to March 2007 as Vice President and General Counsel at Blackbaud, Inc., a publicly held software company. Prior to joining Blackbaud, he was a practicing attorney with Sutherland Asbill & Brennan LLP, where he focused on corporate and technology law. Mr. Howell received a B.A. in economics from Washington & Lee University and a J.D. from Mercer University.

Donald R. Taylor, Jr.—Chief Technology Officer

Don Taylor has served as our Chief Technology Officer since February 2008. As a software industry veteran of more than 25 years, Mr. Taylor brings expertise from his experience developing and providing advanced software solutions to the healthcare, banking, and logistics industries. Prior to joining Benefitfocus, from 2001 to 2006, Mr. Taylor was the founder and Chief Technology Officer of Boxcar Central, Inc., which developed a multi-tenant suite of SaaS applications for the third-party logistics market. Mr. Taylor received an A.S. from Charleston Southern University.

As of December 31, 2014, we had approximately 1,314 full-time associates, or employees, including approximately 576 engaged in technology development and deployment. None of our associates is represented by a labor union and we consider our current relations with our associates to be good.

Item 1A. RISK FACTORS.

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the consolidated financial statements and the related notes, before deciding to invest in shares of our common stock. If any of the following risks were to materialize, our business, financial condition, results of operations, and future growth prospects could be materially and adversely affected. In that event, the market price of our common stock could decline and you could lose part or all of your investment in our common stock.

Risks Related to Our Business

We have had a history of losses, and we might not be able to achieve or sustain profitability.

We experienced net losses of $63.2 million, $30.4 million, and $14.9 million for the years ended December 31, 2014, 2013, and 2012, respectively. We cannot predict if we will achieve sustained profitability in the near future or at all. We expect to make significant future expenditures to develop and expand our business. In addition, as a public company, we incur significant legal, accounting, and other expenses that we did not incur as a private company. These increased expenditures will make it harder for us to achieve and maintain future profitability. Our recent growth in revenue and number of customers might not be sustainable, and we might not achieve sufficient revenue to achieve or maintain profitability. We could incur significant losses in the future for a number of reasons, including the other risks described in this Annual Report on Form 10-K, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events. Accordingly, we might not be able to achieve or maintain profitability and we may incur significant losses for the foreseeable future.

Our quarterly operating results have fluctuated in the past and might continue to fluctuate, causing the value of our common stock to decline substantially.

Our quarterly operating results might fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis might not be meaningful. You should not rely on our past results as indicative of our future performance. Moreover, our stock price might be based on expectations of future performance that are unrealistic or that we might not meet and, if our revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. For example, on March 7, 2014, the first trading day after we publically announced December 31, 2013 results and 2014 guidance, our stock price dropped almost $5.00 per share, or 7.3%, to $63.45.

Our operating results have varied in the past. In addition to other risk factors listed in this section, some of the important factors that may cause fluctuations in our quarterly operating results include:

- the extent to which our products and services achieve or maintain market acceptance;
- our ability to introduce new products and services and enhancements to our existing products and services on a timely basis;
- new competitors and the introduction of enhanced products and services from competitors;
- the financial condition of our current and potential customers;
- changes in customer budgets and procurement policies;
- the amount and timing of our investment in research and development activities;
- technical difficulties with our products or interruptions in our services;

- our ability to hire and retain qualified personnel, including the rate of expansion of our sales force;
- changes in the regulatory environment related to benefits and healthcare;
- regulatory compliance costs;
- the timing, size, and integration success of potential future acquisitions; and
- unforeseen legal expenses, including litigation and settlement costs.

In addition, a significant portion of our operating expense is relatively fixed in nature, and planned expenditures are based in part on expectations regarding future revenue. Accordingly, unexpected revenue shortfalls might decrease our gross margins and could cause significant changes in our operating results from quarter to quarter. If this occurs, the trading price of our common stock could fall substantially, either suddenly or over time.

As a result of our variable sales and implementation cycles, we might not be able to recognize revenue to offset expenditures, which could result in fluctuations in our quarterly results of operations or otherwise harm our future operating results.

The sales cycle for our products and services can be variable, averaging four months in our employer market segment and 15 months in our carrier market segment, each from initial contact to contract execution. During the sales cycle, we expend time and resources, and we do not recognize any revenue to offset such expenditures.

After a customer contract is signed, we provide an implementation process for the customer during which we establish and test appropriate integrations, connections and registrations, load data into our system, and train customer personnel. Our implementation cycle is also variable, typically ranging from four to five months for employer implementations and from eight to 10 months for complex carrier implementations, each from contract execution to completion of implementation. Some of our new customer projects are complex and require a lengthy set-up period and significant implementation work. During the implementation cycle, we expend substantial time, effort, and financial resources implementing our products and services, but accounting principles do not allow us to recognize the resulting revenue until implementation is complete and the services are available for use, at which time we begin recognition of implementation revenue over the longer of the life of the contract or the expected life of the customer relationship. Each customer's situation is different, and unanticipated difficulties and delays might arise as a result of failure by us or by the customer to complete our respective responsibilities. If implementation periods are extended, revenue recognition could be delayed and our financial condition might be adversely affected. In addition, cancellation of any implementation after it has begun might result in lost time, effort, and expenses invested in the cancelled implementation process and lost opportunity for implementing paying clients in that same period of time.

These factors might contribute to continuing losses and substantial fluctuations in our quarterly operating results. As a result, in future quarters, our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decline.

Because we recognize revenue and expense relating to monthly subscriptions and professional services over varying periods, downturns or upturns in sales are not immediately reflected in full in our operating results.

As a SaaS company, we recognize our subscription revenue monthly for the term of our contracts and recognize the majority of our professional services revenue ratably over the longer of the contract term or the estimated expected life of the customer relationship. As a result, a portion of the revenue

we report each quarter is the recognition of deferred revenue from contracts we entered into during previous quarters. Consequently, a shortfall in demand for our software solutions and professional services or a decline in new or renewed contracts in any one quarter might not significantly reduce our revenue for that quarter, but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new or renewed sales of our products and services is not reflected in full in our results of operations until future periods. Our revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable term of the contracts or the estimated expected life of the customer relationship period. In addition, we recognize professional services expenses as incurred, which could cause professional services gross margin to be negative.

We operate in a highly competitive industry, and if we are not able to compete effectively, our business and operating results will be harmed.

The benefits management software market is highly competitive and is likely to attract increased competition, which could make it hard for us to succeed. Small, specialized providers continue to become more sophisticated and effective. In addition, large, well-financed, and technologically sophisticated software companies might focus more on our market. The size and financial strength of these entities is increasing as a result of continued consolidation in both the IT and healthcare industries. We expect large integrated software companies to become more active in our market, both through acquisitions and internal investment. As costs fall and technology improves, increased market saturation might change the competitive landscape in favor of our competitors.

Some of our current large competitors have greater name recognition, longer operating histories, and significantly greater resources than we do. As a result, our competitors might be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, current and potential competitors have established, and might in the future establish, cooperative relationships with vendors of complementary products, technologies, or services to increase the availability of their products in the marketplace. Accordingly, new competitors or alliances might emerge that have greater market share, a larger customer base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources, and larger sales forces than we have, which could put us at a competitive disadvantage. Further, in light of these advantages, even if our products and services are more effective than those of our competitors, current or potential customers might accept competitive offerings in lieu of purchasing our offerings. Increased competition is likely to result in pricing pressures, which could negatively impact our sales, profitability, or market share. In addition to new niche vendors, who offer stand-alone products and services, we face competition from existing enterprise vendors, including those currently focused on software solutions that have information systems in place with potential customers in our target market. These existing enterprise vendors might promise products or services that offer ease of integration with existing systems and which leverage existing vendor relationships. In addition, large insurance carriers often have internal technology staffs and proprietary software for benefits management, making them less likely to buy our solutions.

The market for our products and services is immature and volatile, and if it does not develop or if it develops more slowly than we expect, the growth of our business will be harmed.

The cloud-based benefits management software market is relatively new and unproven, and it is uncertain whether it will achieve and sustain high levels of demand and market acceptance. Our success will depend to a substantial extent on the willingness of employers, carriers, and consumers to increase their use of benefits management software. Many employers and carriers have invested substantial personnel and financial resources to integrate internally developed solutions or traditional enterprise software into their businesses for benefits management, and therefore might be reluctant or

unwilling to migrate to our cloud-based solutions. Furthermore, some businesses might be reluctant to use cloud-based solutions because they have concerns about the security of their data and the reliability of the technology delivery model associated with these solutions. If employers, carriers and consumers do not perceive the benefits of our solutions, then our market might not develop at all, or it might develop more slowly than we expect, either of which could significantly adversely affect our operating results. In addition, we have limited insight into trends that might develop and affect our business. We might make errors in predicting and reacting to relevant business trends, which could harm our business. If any of these risks occur, it could materially adversely affect our business, financial condition or results of operations.

The SaaS pricing model is evolving and our failure to manage its evolution and demand could lead to lower than expected revenue and profit.

We derive most of our revenue growth from subscription offerings and, specifically, SaaS offerings. This business model depends heavily on achieving economies of scale because the initial upfront investment is costly and the associated revenue is recognized on a ratable basis. If we fail to achieve appropriate economies of scale or if we fail to manage or anticipate the evolution and demand of the SaaS pricing model, then our business and operating results could be adversely affected.

If we do not continue to innovate and provide products and services that are useful to consumers, employers, insurance carriers, and brokers and provide high quality support services, we might not remain competitive, and our revenue and operating results could suffer.

Our success depends in part on providing products and services that consumers, employers, insurance carriers, and brokers will use to manage benefits. We must continue to invest significant resources in research and development in order to enhance our existing products and services and introduce new high quality products and services that customers will want. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we might lose customers. Our operating results would also suffer if our innovations are not responsive to the needs of our customers, are not appropriately timed with market opportunity, or are not effectively brought to market. As technology continues to develop, our competitors might be able to offer results that are, or that are perceived to be, substantially similar to or better than those generated by us. This would force us to compete on additional product and service attributes and to expend significant resources in order to remain competitive.

In addition, we may experience difficulties with software development, industry standards, design, or marketing that could delay or prevent our development, introduction, or implementation of new solutions and enhancements. The introduction of new solutions by competitors, the emergence of new industry standards, or the development of entirely new technologies to replace existing offerings could render our existing or future solutions obsolete.

Our success also depends on providing high quality support services to resolve any issues related to our products and services. High quality education and customer support is important for the successful marketing and sale of our products and services and for the renewal of existing customers. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to sell additional products and services to existing customers would suffer and our reputation with existing or potential customers would be harmed.

If we are unable to retain our existing customers, our revenue and results of operations would be adversely affected.

We sell our products and services pursuant to agreements that are generally one year for employers and three to five years for carriers. While our employer contracts generally automatically

renew on an annual basis, our carrier customers have no obligation to renew their contracts after their contract period expires, and these contracts may not be renewed on the same or on more profitable terms if at all. Additionally, some of our carrier customers are able to terminate their respective contracts without cause or for convenience, although generally our carrier contracts are only cancellable by the carrier in an instance of our uncured breach. As a result, our ability to grow depends in part on the continuance and renewal of our carrier contracts. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their level of satisfaction or dissatisfaction with our services, the cost of our services, the cost of services offered by our competitors, or reductions in our customers' spending levels. If our carrier customers terminate or do not renew their contracts for our services, renew on less favorable terms, or do not purchase additional functionality or products, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

A significant amount of our revenue is derived from our largest customers, and any reduction in revenue from any of these customers would reduce our revenue and net income.

Our ten largest customers by revenue in the past three years accounted for approximately 40.4%, 47.4% and 58.6% of our consolidated revenue in each of 2014, 2013 and 2012, respectively. Our largest customer by revenue in the past three years accounted for approximately 9.4%, 9.5% and 10.5% of our revenue in each of 2014, 2013 and 2012, respectively. If any of our large customers or strategic partners decides not to renew its contracts with us, or to renew on less favorable terms, our business, revenues, reputation, and our ability to obtain new customers could be materially and adversely affected.

If the number of individuals covered by our employer and carrier customers decreases or the number of products or services to which our employer and carrier customers subscribe decreases, our revenue will decrease.

Under most of our customer contracts, we base our fees on the number of individuals to whom our customers provide benefits and the number of products or services subscribed to by our customers. Many factors may lead to a decrease in the number of individuals covered by our customers and the number of products or services subscribed to by our customers, including:

- failure of our customers to adopt or maintain effective business practices;
- changes in the nature or operations of our customers;
- government regulations; and
- increased competition or other changes in the benefits marketplace.

If the number of individuals covered by our customers or the number of products or services subscribed to by our customers decreases for any reason, our revenue will likely decrease.

Failure to manage our rapid growth effectively could increase our expenses, decrease our revenue, and prevent us from implementing our business strategy.

We have been experiencing a period of rapid growth, which puts strain on our business. To manage this and our anticipated future growth effectively, we must continue to maintain and enhance our IT infrastructure, financial and accounting systems, and controls. We also must attract, train, and retain a significant number of qualified sales and marketing personnel, customer support personnel, professional services personnel, software engineers, technical personnel, and management personnel. Failure to effectively manage our rapid growth could lead us to over-invest or under-invest in development and operations, result in weaknesses in our infrastructure, systems, or controls, give rise to operational mistakes, losses, loss of productivity or business opportunities, and result in loss of

employees and reduced productivity of remaining employees. Our growth could require significant capital expenditures and might divert financial resources from other projects such as the development of new products and services. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue could decline or might grow more slowly than expected, and we might be unable to implement our business strategy. The quality of our products and services might suffer, which could negatively affect our reputation and harm our ability to retain and attract customers.

Economic uncertainties or downturns in the general economy or the industries in which our customers operate could disproportionately affect the demand for our solutions and negatively impact our results of operations.

General worldwide economic conditions have experienced a significant downturn, and market volatility and uncertainty remain widespread, making it extremely difficult for our customers and us to accurately forecast and plan future business activities. In addition, these conditions could cause our customers or prospective customers to decrease headcount, benefits, or HR budgets, which could decrease corporate spending on our products and services, resulting in delayed and lengthened sales cycles, a decrease in new customer acquisition, and/or loss of customers. Furthermore, during challenging economic times, our customers may have difficulty gaining timely access to sufficient credit or obtaining credit on reasonable terms, which could impair their ability to make timely payments to us and adversely affect our revenue. If that were to occur, our financial results could be harmed. Further, challenging economic conditions might impair the ability of our customers to pay for the products and services they already have purchased from us and, as a result, our write-offs of accounts receivable could increase. We cannot predict the timing, strength, or duration of any economic slowdown or recovery. If the condition of the general economy or markets in which we operate worsens, our business could be harmed.

We depend on our senior management team, and the loss of one or more key associates or an inability to attract and retain highly skilled associates could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers. We also rely on our leadership team in the areas of research and development, marketing, services, and general and administrative functions, and on mission-critical individual contributors in research and development. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. The loss of one or more of our executive officers or key associates could have a serious adverse effect on our business.

To continue to execute our growth strategy, we also must attract and retain highly skilled personnel. Competition is intense for engineers with high levels of experience in designing and developing software and Internet-related services. We might not be successful in maintaining our unique culture and continuing to attract and retain qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled personnel with appropriate qualifications. The pool of qualified personnel with SaaS experience and/or experience working with the benefits market is limited overall and specifically in Charleston, South Carolina, where our principal office is located. In addition, many of the companies with which we compete for experienced personnel have greater resources than we have and are located in geographic areas, like Silicon Valley, that may attract more qualified technology workers.

In addition, in making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the stock options they are to receive in connection with their employment. Volatility in the price of our stock might, therefore, adversely affect our ability to attract or retain highly skilled personnel. Furthermore, the requirement to expense stock

options might discourage us from granting the size or type of stock option awards that job candidates require to join our company. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

If we fail to maintain awareness of our brand cost-effectively, our business might suffer.

We believe that maintaining awareness of our brand in a cost-effective manner is critical to continuing the widespread acceptance of our existing solutions and is an important element in attracting new customers. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable and useful services at competitive prices. Our efforts to build and maintain our brand nationally have involved significant expenses. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in maintaining our brand. If we fail to successfully maintain our brand, or incur substantial expenses in an unsuccessful attempt to maintain our brand, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, including Mercer LLC, or Mercer, and its affiliates and others such as technology and content providers, and third party system integrators. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. Our recently expanded relationship with and sale of stock to Mercer increases our reliance on it and related risks, including Mercer's competitors being less likely to do business with us. Our competitors might be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our products and services. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our applications by potential customers. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer use of our applications or increased revenue.

If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to liability for past sales and our future sales may decrease.

We might lose sales or incur significant expenses if states successfully impose broader guidelines on state sales and use taxes. A successful assertion by one or more states requiring us to collect sales or other taxes on the licensing of our software or sale of our services could result in substantial tax liabilities for past transactions and otherwise harm our business. For example, in the quarter ended September 30, 2014, New York gave us notice it is auditing us, and as a result we increased our sales tax reserve by $0.3 million. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, voluntarily engage state tax authorities in order to determine how to comply with their rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we currently believe no such taxes are required.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we might be liable for past

taxes in addition to taxes going forward. Liability for past taxes might also include substantial interest and penalty charges. Our customer contracts typically provide that our customers must pay all applicable sales and similar taxes. Nevertheless, our customers might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our clients fail or refuse to reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our software and services to our customers and might adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

We might not be able to utilize a significant portion of our net operating loss or other tax credit carryforwards, which could adversely affect our profitability.

As of December 31, 2014, we had federal and state net operating loss carryforwards due to prior period losses, which if not utilized will begin to expire in 2022 for federal and state purposes. We also have South Carolina jobs tax credit and headquarters tax credit carryforwards, which if not utilized will begin to expire in 2020. These tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, our ability to utilize net operating loss carryforwards or other tax attributes in any taxable year may be limited if we experience an “ownership change”. A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules might apply under state tax laws. Future issuances of our stock could cause an “ownership change”. It is possible that an ownership change, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

We might be unable to adequately protect, and we might incur significant costs in enforcing, our intellectual property and other proprietary rights.

Our success depends in part on our ability to enforce our intellectual property and other proprietary rights. We rely on a combination of trademark, trade secret, copyright, patent, and unfair competition laws, as well as license and access agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring employees and consultants to enter into confidentiality, noncompetition, and assignment of inventions agreements. Our attempts to protect our intellectual property might be challenged by others or invalidated through administrative process or litigation. While we have three U.S. and one Chinese patent granted and a number of applications pending, we might not be able to obtain meaningful patent protection for our software. In addition, if any patents are issued in the future, they might not provide us with any competitive advantages, or might be successfully challenged by third parties. Agreement terms that address non-competition are difficult to enforce in many jurisdictions and might not be enforceable in certain cases. To the extent that our intellectual property and other proprietary rights are not adequately protected, third parties might gain access to our proprietary information, develop and market products or services similar to ours, or use trademarks similar to ours, each of which could materially harm our business. Existing U.S. federal and state intellectual property laws offer only limited protection. Moreover, the laws of other countries in which we might in the future conduct operations or contract for services might afford little or no effective protection of our intellectual property. The failure to adequately protect our intellectual property and other proprietary rights could materially harm our business.

In addition, if we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. Any litigation that is necessary in the future could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results or financial condition.

We might be sued by third parties for alleged infringement of their proprietary rights.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks, and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past, and might receive in the future, communications from third parties claiming that we have infringed the intellectual property rights of others. Our technologies might not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, and require us to pay monetary damages or enter into royalty or licensing agreements. In addition, many of our contracts contain warranties with respect to intellectual property rights, and most require us to indemnify our clients for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

Moreover, any settlement or adverse judgment resulting from such a claim could require us to pay substantial amounts of money or obtain a license to continue to use the software or information that is the subject of the claim, or otherwise restrict or prohibit our use of it. We might not be able to obtain a license on commercially reasonable terms, if at all, from third parties asserting an infringement claim; we might not be able to develop alternative technology on a timely basis, if at all; and we might not be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our clients to continue using, our affected services. Accordingly, an adverse determination could prevent us from offering our services to others.

Failure to adequately expand our direct sales force will impede our growth.

We believe that our future growth will depend on the continued development of our direct sales force and its ability to obtain new customers and to manage our existing customer base. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense, and attention. It can take six months or longer before a new sales representative is fully trained and productive. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenues. In particular, if we are unable to hire and develop sufficient numbers of productive direct sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, sales of our products and services will suffer and our growth will be impeded.

We might require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and might require additional funds to respond to business challenges or opportunities, including the need to develop new products and services or enhance our existing services, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we might need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive

covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we might not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Any future litigation against us could be costly and time-consuming to defend.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our clients in connection with commercial disputes or employment claims made by our current or former associates. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition, and operating results. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance, which could reduce the trading price of our stock.

If we acquire companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value, and adversely affect our operating results and the value of our common stock.

As part of our business strategy, we might acquire, enter into joint ventures with, or make investments in complementary companies, services, and technologies in the future. For example, in 2010, we acquired 100% of the net assets of Beninform Holdings, Inc., including its wholly owned subsidiary Benefit Informatics, Inc., and the intellectual property assets of BeliefNetworks, Inc. We spent considerable time, effort, and money pursuing these companies and successfully integrating them into our business. Acquisitions and investments involve numerous risks, including:

- difficulties in identifying and acquiring products, technologies or businesses that will help our business;
- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of entering new markets in which we have little to no experience; and
- delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses.

If we fail to properly evaluate acquisitions or investments, we might not achieve the anticipated benefits of any such acquisitions, we might incur costs in excess of what we anticipate, and management resources and attention might be diverted from other necessary or valuable activities.

Future sales to customers outside the United States or with international operations might expose us to risks inherent in international sales which, if realized, could adversely affect our business.

An element of our growth strategy is to expand internationally. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from those in the United States. Because of our limited experience with international operations, our international expansion efforts might not be successful in creating

demand for our products and services outside of the United States or in effectively selling our solutions in the international markets we enter. In addition, we will face risks in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our solutions for specific countries, including translation into foreign languages and associated expenses;
- data privacy laws which require that customer data be stored and processed in a designated territory;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy, and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences; and
- unstable regional economic and political conditions.

If we denominate our international contracts in local currencies, fluctuations in the value of the U.S. dollar and foreign currencies might impact our operating results when translated into U.S. dollars.

Risks Related to Our Products and Services Offerings

If our security measures are breached or fail, and unauthorized persons gain access to customers' and consumers' data, our products and services might be perceived as not being secure, customers and consumers might curtail or stop using our products and services, and we might incur significant liabilities.

Our products and services involve the storage and transmission of customers' and consumers' confidential information, which may include sensitive individually identifiable information that is subject to stringent legal and regulatory obligations. Because of the sensitivity of this information, security features of our software are very important. If our security measures are breached or fail and/or are bypassed as a result of third-party action, employee error, malfeasance, or otherwise, someone might be able to obtain unauthorized access to our customers' confidential information and/or patient data. As a result, our reputation could be damaged, our business might suffer, information might be lost, and we could face damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation and remediation efforts to prevent future occurrences.

In addition, we rely on various third parties, including employers' HR departments, carriers, and other third-party service providers and consumers themselves, as users of our system for key activities to protect and promote the security of our systems and the data and information accessible within them, such as administration of enrollment, consumer status changes, claims, and billing. On occasion,

people have failed to perform these activities. For example, employers sometimes have failed to terminate the login/password of former employees, or permitted current employees to share login/passwords. When we become aware of such breaches, we work with employers to terminate inappropriate access and provide additional instruction in order to avoid the reoccurrence of such problems. Although to date these breaches have not resulted in claims against us or in material harm to our business, failures to perform these activities might result in claims against us, which could expose us to significant expense, legal liability, and harm to our reputation, which might result in loss of business.

Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we might not be able to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our results of operations and financial condition. In addition, our customers might authorize or enable third parties to access their information and data that is stored on our systems. Because we do not control such access, we cannot ensure the complete integrity or security of such data in our systems.

Failure by our customers to obtain proper permissions and waivers might result in claims against us or may limit or prevent our use of data, which could harm our business.

We require our customers to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of information on the Benefitfocus platform, and we require contractual assurances from them that they have done so and will do so. If, however, despite these requirements and contractual obligations, our customers do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf might be limited or prohibited by state or federal privacy laws or other laws. This could impair our functions, processes and databases that reflect, contain, or are based upon such data and might prevent use of such data. In addition, this could interfere with, or prevent creation or use of, rules, analyses, or other data-driven activities that benefit us and our business. Moreover, we might be subject to claims or liability for use or disclosure of information by reason of lack of valid notices, agreements, permissions or waivers. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

Our proprietary software might not operate properly, which could damage our reputation, give rise to claims against us, or divert application of our resources from other purposes, any of which could harm our business and operating results.

Proprietary software development is time-consuming, expensive, and complex. Unforeseen difficulties can arise. We might encounter technical obstacles, and it is possible that we discover problems that prevent our proprietary applications from operating properly. If they do not function reliably or fail to achieve customer expectations in terms of performance, customers could assert liability claims against us and/or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain customers.

Moreover, benefits management software as complex as ours has in the past contained, and may in the future contain, or develop, undetected defects or errors. Material performance problems or defects in our products and services might arise in the future. Errors might result from the interface of our services with legacy systems and data, which we did not develop and the function of which is outside of our control. Defects or errors might arise in our existing or new software or service

processes. Because changes in employer, carrier, and legal requirements and practices relating to benefits are frequent, we are continuously discovering defects and errors in our software and service processes compared against these requirements and practices. Undiscovered vulnerabilities could expose our software to unscrupulous third parties who develop and deploy software programs that could attack our software or result in unauthorized access to customer data. Defects and errors and any failure by us to identify and address them could result in loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development and other resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our product or service processes might discourage existing or potential customers from purchasing services from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results.

In addition, customers that rely on our products and services to collect, manage, and report benefits data might have a greater sensitivity to service errors and security vulnerabilities than customers of software products in general. We market and sell services that, among other things, provide information to assist care providers in tracking and treating ill patients. Any operational delay in or failure of our software service processes might result in the disruption of patient care and could cause harm to our business and operating results.

Our customers might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our product or service processes. A product liability claim or errors or omissions claim could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such a claim.

Various events could interrupt customers' access to the Benefitfocus platform, exposing us to significant costs.

The ability to access the Benefitfocus platform is critical to our customers. Our operations and facilities are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (i) power loss and telecommunications failures, (ii) fire, flood, hurricane, and other natural disasters, (iii) software and hardware errors, failures or crashes in our own systems or in other systems, (iv) computer viruses, denial-of-service attacks, hacking and similar disruptive problems in our own systems and in other systems, and (v) civil unrest, war, and/or terrorism. We have implemented various measures to protect against interruptions of customers' access to our platform. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims by customers, particularly if the access interruption is associated with problems in the timely delivery of funds due to customers or medical information relevant to patient care. Our plans for disaster recovery and business continuity rely on third-party providers of related services. If those vendors fail us at a time when our systems are not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our obligations. Any significant instances of system downtime could negatively affect our reputation and ability to retain customers and sell our services, which would adversely impact our revenue.

In addition, retention and availability of patient care and physician reimbursement data are subject to federal and state laws governing record retention, accuracy, and access. Some laws impose obligations on our customers and on us to produce information for third parties and to amend or expunge data at their direction. Our failure to meet these obligations might result in liability, which could increase our costs and reduce our operating results.

We rely on data center providers, Internet infrastructure, bandwidth providers, third-party computer hardware and software, other third parties, and our own systems for providing services to our customers, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with customers, adversely affecting our brand and our business.

We serve all our customers from two data centers, one located in Raleigh, North Carolina and the other located in Charlotte, North Carolina. While we control and have access to our servers, we do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one of our data center operators is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. Problems faced by our third-party data center locations, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers. Our third-party data centers operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy faced by our third-party data centers operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict.

In addition, our ability to deliver our web-based services depends on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity, and security. Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced and expect that we will experience future interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with customers. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss, natural disasters and other force majeure events outside our control;
- communications failures;
- software and hardware errors, failures, and crashes;
- security breaches, computer viruses, hacking, denial-of-service attacks, and similar disruptive problems; and
- other potential interruptions.

We also rely on computer hardware purchased or leased and software licensed from third parties in order to offer our services, including software from Oracle Corporation and Microsoft Corporation, and routers and network equipment from Cisco and Hewlett-Packard Company. These licenses are generally commercially available on varying terms. However, it is possible that this hardware and software might not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated.

We exercise limited control over third-party vendors, which increases our vulnerability to problems with technology and information services they provide. Interruptions in our network access and services might in connection with third-party technology and information services reduce our revenue, cause us to issue refunds to customers for prepaid and unused subscription services, subject

us to potential liability, or adversely affect our renewal rates. Although we maintain insurance for our business, the coverage under our policies might not be adequate to compensate us for all losses that may occur. In addition, we might not be able to continue to obtain adequate insurance coverage at an acceptable cost, if at all.

The use of open source software in our products and solutions may expose us to additional risks and harm our intellectual property rights.

Some of our products and solutions use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable, and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our products or solutions, to re-develop our products or solutions, to discontinue sales of our products or solutions, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs.

While we monitor the use of all open source software in our products, solutions, processes, and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and our business, results of operations, and financial condition.

Risks Related to Regulation

Government regulation of the areas in which we operate creates risks and challenges with respect to our compliance efforts and our business strategies.

The employee benefits industry is highly regulated and is subject to changing political, legislative, regulatory, and other influences. Existing and new laws and regulations affecting the employee benefits industry could create unexpected liabilities for us, cause us to incur additional costs and restrict our operations. These laws and regulations are complex and their application to specific services and relationships are not clear. In particular, many existing laws and regulations affecting employee benefits, when enacted, did not anticipate the services that we provide, and these laws and regulations might be applied to our services in ways that we do not anticipate. Our failure to accurately anticipate the application of these laws and regulations, or our failure to comply, could create liability for us, result in adverse publicity, and negatively affect our business. Some of the risks we face from the regulation of employee benefits are as follows:

- *PPACA* . Governmental oversight punctuated with the passage of the PPACA, has led to an increasingly intricate regulatory framework under which health benefits are delivered, accessed, and maintained. Although many of the provisions of PPACA do not directly apply to

us, PPACA might affect the business of many of our customers. Carriers and large employers might experience changes in the numbers of individuals they insure as a result of Medicaid expansion and the creation of state and national exchanges, though it is unclear how many states will decline to implement the Medicaid expansion or adopt state-specific exchanges. Although we are unable to predict with any reasonable certainty or otherwise quantify the likely impact of PPACA on our business model, financial condition, or results of operations, changes in the business of our customers and the number of individuals they insure may negatively impact our business. Congress also has repeatedly but unsuccessfully attempted to repeal PPACA and we are unable to predict the impact. Moreover, a lawsuit challenging the legality of health insurance exchanges will likely be decided by the U.S. Supreme Court this summer. Should the U.S. Supreme Court determine that government exchanges are unlawful, the business of some of our customers could be substantially affected.

- *False or Fraudulent Claim Laws* . There are numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with submission and payment of claims for reimbursement from the government. In some cases, these laws also forbid abuse of existing systems for such submission and payment. Although our business operations are generally not subject to these laws and regulations, any contract we have with a government entity requires us to comply with these laws and regulations. Any failure of our services to comply with these laws and regulations could result in substantial liability, including but not limited to criminal liability, could adversely affect demand for our services, and could force us to expend significant capital, research and development, and other resources to address the failure. Any determination by a court or regulatory agency that our services with government clients violate these laws and regulations could subject us to civil or criminal penalties, invalidate all or portions of some of our government client contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, cause us to be disqualified from serving not only government clients but also all clients doing business with government payers, and have an adverse effect on our business.

- *HIPAA and Other Privacy and Security Requirements* . There are numerous U.S. federal and state laws and regulations related to the privacy and security of personal health information. In particular, regulations promulgated pursuant to HIPAA established privacy and security standards that limit the use and disclosure of individually identifiable health information, and require the implementation of administrative, physical, and technological safeguards to ensure the confidentiality, integrity, and availability of individually identifiable health information in electronic form. Health plans, healthcare clearinghouses, and most providers are considered by the HIPAA regulations to be “Covered Entities”. With respect to our operations as a healthcare clearinghouse, we are directly subject to the privacy regulations established under HIPAA, or Privacy Standards, and the security regulations established under HIPAA, or Security Standards. In addition, our carrier customers, or payors, are considered to be Covered Entities and are required to enter into written agreements with us, known as Business Associate Agreements, under which we are considered to be a “Business Associate” and that require us to safeguard individually identifiable health information and restrict how we may use and disclose such information. ARRA and the HIPAA Omnibus Final Rules extended the direct application of certain provisions of the Privacy Standards and Security Standards to us when we are functioning as a Business Associate of our carrier customers. ARRA and the HIPAA Omnibus Final Rule also subject Business Associates to direct oversight and audit by HHS.

  Violations of the Privacy Standards and Security Standards might result in civil and criminal penalties, and ARRA increased the penalties for HIPAA violations and strengthened the enforcement provisions of HIPAA. For example, ARRA authorizes state attorneys general to bring civil actions seeking either injunctions or damages in response to violations of Privacy Standards and Security Standards that threaten the privacy of state residents.

We might not be able to adequately address the business risks created by HIPAA implementation. Furthermore, we are unable to predict what changes to HIPAA or other laws or regulations might be made in the future or how those changes could affect our business or the costs of compliance.

Some payors and clearinghouses interpret HIPAA transaction requirements differently than we do. Where payors or clearinghouses require conformity with their interpretations as a condition of a successful transaction, we seek to comply with their interpretations.

In addition to the Privacy Standards and Security Standards, most states have enacted patient confidentiality laws that protect against the disclosure of confidential medical and/or health information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards, and data security breach notification requirements. Such state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements and we are required to comply with them.

Failure by us to comply with any state standards regarding patient privacy may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties. Such failure may injure our reputation and adversely affect our ability to retain customers and attract new customers.

- *Medicare and Medicaid Regulatory Requirements* . We have contracts with insurance carriers who offer Medicare Managed Care (also known as Medicare Advantage or Medicare Part C) and Medicaid Managed Care benefits plans. We also have contracts with insurance carriers who offer Medicare prescription drug benefits (also known as Medicare Part D) plans. The activities of the Medicare plans are regulated by the Centers for Medicare & Medicaid Services, or CMS, the federal agency that provides oversight of the Medicare and Medicaid programs. The Medicaid Managed Care plans are regulated by both CMS and the individual states where the plans are offered. Some of the activities that we might perform, such as the enrollment of beneficiaries, may be subject to CMS and/or state regulation, and such regulations may force us to change the way we do business or otherwise restrict our ability to provide services to such plans. Moreover, the regulatory environment with respect to these programs has become, and will likely continue to become, increasingly complex.
- *Financial Services-Related Laws and Rules* . Financial services and electronic payment processing services are subject to numerous laws, regulations and industry standards, some of which might impact our operations and subject us, our vendors, and our customers to liability as a result of the payment distribution and processing solutions we offer. Although we do not act as a bank, we offer solutions that involve banks, or vendors who contract with banks and other regulated providers of financial services. As a result, we might be impacted by banking and financial services industry laws, regulations, and industry standards, such as licensing requirements, solvency standards, requirements to maintain the privacy and security of nonpublic personal financial information, and Federal Deposit Insurance Corporation deposit insurance limits. In addition, our patient billing and payment distribution and processing solutions might be impacted by payment card association operating rules, certification requirements, and rules governing electronic funds transfers. If we fail to comply with applicable payment processing rules or requirements, we might be subject to fines and changes in transaction fees and may lose our ability to process credit and debit card transactions or facilitate other types of billing and payment solutions. Moreover, payment transactions processed using the ACH are subject to network operating rules promulgated by the National Automated Clearing House Association and to various federal laws regarding such operations, including laws pertaining to electronic funds transfers, and these rules and laws might impact our billing and payment solutions. Further, our solutions might impact the ability of our payor customers to comply with state prompt payment laws. These laws require payors to pay healthcare claims meeting the statutory or regulatory definition of a “clean claim” within a specified time frame.

- *Insurance Broker Laws* . Insurance laws in the United States are often complex, and states have broad authority to adopt regulations regarding brokerage activities. These regulations typically include the licensing of insurance brokers and agents and govern the handling and investment of client funds held in a fiduciary capacity. Although we believe our activities do not currently constitute the provision of insurance brokerage services, regulations may change from state to state, which could require us to comply with such expanded regulation.
- *ERISA* . The Employee Retirement Income Security Act of 1974, as amended, or ERISA, regulates how employee benefits are provided to or through certain types of employer-sponsored health benefits plans. ERISA is a set of laws and regulations that is subject to periodic interpretation by the U.S. Department of Labor as well as the federal courts. In some circumstances, and under certain customer contracts, we might be deemed to have assumed duties that make us an ERISA fiduciary, and thus be required to carry out our operations in a manner that complies with ERISA in all material respects. We believe that our current operations do not render us subject to ERISA fiduciary obligations, and therefore that we are in material compliance with ERISA and that any such compliance does not currently have a material adverse effect on our operations. However, there can be no assurance that continuing ERISA compliance efforts or any future changes to ERISA will not have a material adverse effect on us.
- *Third-Party Administrator Laws* . Numerous states in which we do business have adopted regulations governing entities engaged in third-party administrator, or TPA, activities. TPA regulations typically impose requirements regarding enrollment into benefits plans, claims processing and payments, and the handling of customer funds. Although we do not believe we are currently acting as a TPA, changes in state regulations could result in us being obligated to comply with such regulations, which might require us to obtain licenses to provide TPA services in such states.

We are subject to banking regulations that may limit our business activities.

The Goldman Sachs Group, affiliates of which owned approximately 33.3% of the voting and economic interest in our business at December 31, 2014, is regulated as a bank holding company and a financial holding company under the BHC Act. The BHC Act imposes regulations and requirements on The Goldman Sachs Group and on any company that is deemed to be controlled by The Goldman Sachs Group under the BHC Act and the regulations of the Board of Governors of the Federal Reserve System, or the Federal Reserve. Due to the size of its voting and economic interest, we are deemed to be controlled by The Goldman Sachs Group and are therefore considered to be a “subsidiary” of The Goldman Sachs Group under the BHC Act. We will remain subject to this regulatory regime until The Goldman Sachs Group is no longer deemed to control us for purposes of the BHC Act, which we do not generally have the ability to control and which will not occur until The Goldman Sachs Group has significantly reduced its voting and economic interest in us.

As a controlled subsidiary of The Goldman Sachs Group, we are restricted from engaging in activities that are not permissible under the BHC Act, or the rules and regulations promulgated thereunder. Permitted activities for a bank holding company or any controlled subsidiary generally include activities that the Federal Reserve has previously determined to be closely related to banking, financial in nature or incidental or complementary to financial activities, including data processing services such as those that we provide with our software solutions. Restrictions placed on The Goldman Sachs Group as a result of supervisory or enforcement actions under the BHC Act or otherwise may restrict us or our activities in certain circumstances, even if these actions are unrelated to our conduct or business. Further, as a result of being subject to regulation and supervision by the Federal Reserve, we may be required to obtain the prior approval of the Federal Reserve before engaging in certain new activities or businesses, whether organically or by acquisition. The Federal

Reserve could exercise its power to restrict us from engaging in any activity that, in the Federal Reserve's opinion, is unauthorized or constitutes an unsafe or unsound business practice. To the extent that these regulations impose limitations on our business, we could be at a competitive disadvantage because some of our competitors are not subject to these limitations.

Additionally, any failure of The Goldman Sachs Group to maintain its status as a financial holding company could result in further limitations on our activities and our growth. In particular, our permissible activities could be restricted to only those that constitute banking or activities closely related to banking. The Goldman Sachs Group's loss of its financial holding company status could be caused by several factors, including any failure by The Goldman Sachs Group's bank subsidiaries to remain sufficiently capitalized, by any examination downgrade of one of The Goldman Sachs Group's bank subsidiaries, or by any failure of one of The Goldman Sachs Group's bank subsidiaries to maintain a satisfactory rating under the Community Reinvestment Act. In addition, the Dodd-Frank Act broadened the requirements for maintaining financial holding company status by also requiring the holding company to remain "well capitalized" and "well managed". We have no ability to prevent such occurrences from happening.

As a subsidiary of a bank holding company, we are subject to examination by the Federal Reserve and required to provide information and reports for use by the Federal Reserve under the BHC Act. In addition, we may be subject to regulatory oversight and examination because we are a technology service provider to regulated financial institutions. The Federal Reserve may also impose substantial fines and other penalties for violations of applicable banking laws, regulations and orders. Further, the Dodd-Frank Act, including Title VI thereunder known as the "Volcker Rule", and related financial regulatory reform call for the issuance of numerous regulations designed to increase and strengthen the regulation of bank holding companies, including The Goldman Sachs Group and its affiliates. U.S. financial regulators approved the final rules to implement the Volcker Rule in December 2013. The Volker Rule, in relevant part, restricts banking entities from proprietary trading (subject to certain exemptions) and from acquiring or retaining any equity, partnership or other interests in, or sponsoring, a private equity fund, subject to satisfying certain conditions, and from engaging in certain transactions with funds.

We have agreed to certain covenants for the benefit of The Goldman Sachs Group that are intended to facilitate its compliance with the BHC Act, but that may impose certain obligations on our company. In particular, The Goldman Sachs Group has rights to conduct audits on, and access certain information of, our company and certain rights to review the policies and procedures that we implement to comply with the laws and regulations that relate to our activities. In addition, we are obligated to provide The Goldman Sachs Group with notice of certain events and business activities and cooperate with The Goldman Sachs Group to mitigate potential adverse consequences resulting therefrom.

Potential regulatory requirements placed on our software, services, and content could impose increased costs on us, delay or prevent our introduction of new service types, and impair the function or value of our existing service types.

Our products and services are and are likely to continue to be subject to increasing regulatory requirements in a number of ways. As these requirements proliferate, we must change or adapt our products and services to comply. Changing regulatory requirements might render our services obsolete or might block us from accomplishing our work or from developing new services. This might in turn impose additional costs upon us to comply or to further develop our products and services. It might also make introduction of new product or service types more costly or more time-consuming than we currently anticipate. It might even prevent introduction by us of new products or services or cause the continuation of our existing products or services to become unprofitable or impossible.

Potential government subsidy of services similar to ours, or creation of a single payor system, might reduce customer demand.

Recently, entities including brokers and U.S. federal and state governments have offered to subsidize adoption of online benefits platforms or clearinghouses. In addition, federal regulations have been changed to permit such subsidy from additional sources subject to certain limitations. To the extent that we do not qualify or participate in such subsidy programs, demand for our services might be reduced, which may decrease our revenue. In addition, prior proposals regarding healthcare reform have included the concept of creation of a single payor for healthcare insurance. This kind of consolidation of critical benefits activity could negatively impact the demand for our services.

Our services present the potential for embezzlement, identity theft, or other similar illegal behavior by our associates with respect to third parties.

Among other things, certain services offered by us involve collecting payment information from individuals, and this frequently includes check and credit card information. Even though we do not handle direct payments, our services also involve the use and disclosure of personal and business information that could be used to impersonate third parties, commit identity theft, or otherwise gain access to their data or funds. If any of our associates take, convert, or misuse such funds, documents, or data, we could be liable for damages, and our business reputation could be damaged or destroyed. Moreover, if we fail to adequately prevent third parties from accessing personal and/or business information and using that information to commit identity theft, we might face legal liabilities and other losses than can have a negative impact on our business.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the price at which you purchase it.

The stock market historically has experienced extreme price and volume fluctuations. As a result of this volatility, you might not be able to sell your common stock at or above the price at which you purchase it. The public market for our stock is very new. From our IPO in September 2013 through December 31, 2014, the per share trading price of our common stock has been as high as $77.00 and as low as $20.82. It might continue to fluctuate significantly in response to various factors, some of which are beyond our control. These factors include:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- announcements by us or our competitors of acquisitions, business plans, or commercial relationships;
- threatened or actual litigation;
- changes in laws or regulations relating to the sale of health insurance;
- any major change in our board of directors or management;
- publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders; and
- general political and economic conditions.

In addition, the stock market in general, and the market for Internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or

disproportionate to the operating performance of those companies. These fluctuations might be even more pronounced in the relatively new trading market for our stock. Additionally, securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources, and harm our business, operating results, and financial condition.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon future appreciation in its value, if any. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders purchased their shares.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of a substantial number of shares of our common stock in the public market or the market perception that the holder or holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

As of December 31, 2014, we had an aggregate of 25,608,937 shares of common stock outstanding. Of these shares, approximately 15,649,749 shares became eligible for sale on October 14, 2014, upon the expiration of lock-up agreements with the underwriters for our secondary offering, subject in some cases to volume and other restrictions of Rule 144 under the Securities Act. As of December 31, 2014, there were outstanding options and restricted stock units to purchase 3,103,251 shares of our common stock that, if exercised or vested, as applicable, will result in these additional shares becoming available for sale subject in some cases to Rule 144. On November 12, 2013, we also registered an aggregate of 6,249,766 shares of our common stock that we may issue under our stock plans. These shares can be freely sold in the public market upon issuance, unless they are held by "affiliates", as that term is defined in Rule 144 of the Securities Act. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock.

A limited number of stockholders will have the ability to influence the outcome of director elections and other matters requiring stockholder approval.

As of December 31, 2014, our directors, executive officers, and their affiliated entities beneficially owned more than 63% of our outstanding common stock. In particular, GS Capital Partners VI Parallel, L.P., GS Capital Partners VI Offshore Fund, L.P., GS Capital Partners VI Fund, L.P., and GS Capital Partners VI GmbH & CO. KG, which are affiliates of Goldman, Sachs & Co. and which we refer to as the Goldman Funds, collectively beneficially owned approximately 33.3%. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the amendment of our certificate of incorporation and bylaws, and the approval of mergers or other business combination transactions.

Additionally, the Goldman Funds, Oak Investment Partners XII, L.P., Mason R. Holland, Jr., our Executive Chairman and a director, and Shawn A. Jenkins, our President and Chief Executive Officer and a director, entered into a voting agreement for the election of directors. As of December 31, 2014,

these stockholders collectively beneficially owned more than 63% of our common stock. Pursuant to the voting agreement, the parties agree to vote all of their shares to elect two directors nominated by the Goldman Funds, one director nominated by Oak Investment Partners, and each of Messrs. Holland and Jenkins to our board of directors. As a result, these stockholders will have significant influence on the outcome of director elections. This concentration of ownership might discourage, delay, or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

We are a "controlled company" within the meaning of the NASDAQ Stock Market listing rules, and take advantage of exemptions from certain corporate governance requirements.

As of December 31, 2014, more than 63% of the voting power of our outstanding common stock was beneficially owned by a group of our significant stockholders consisting of Oak Investment Partners XII, L.P., the Goldman Funds, and Messrs. Holland and Jenkins. Under the NASDAQ Stock Market listing rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and is exempt from the corporate governance requirements that a majority of our directors be independent, as defined in the NASDAQ Stock Market listing rules, and that our compensation and nominating and corporate governance committees consist entirely of independent directors. We currently rely on the "controlled company" exemption under the NASDAQ Stock Market listing rules. While a majority of the members of our board of directors and all of the members of our compensation committee are independent directors, our nominating and corporate governance committee does not consist entirely of independent directors. Accordingly, while we remain a controlled company and during any transition period following a time when we are no longer a controlled company, you will not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ Stock Market's corporate governance requirements.

Provisions in our restated certificate of incorporation and amended and restated bylaws and Delaware law might discourage, delay, or prevent a change in control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Provisions of our certificate of incorporation and bylaws and Delaware law might discourage, delay, or prevent a merger, acquisition, or other change in control that stockholders consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions might also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- limitations on the ability of stockholders to call special meetings;
- The Goldman Sachs Group and its affiliates cease to own at least 35% of our voting equity, the inability of stockholders to act by written consent;
- the inability of stockholders to cumulate votes at any election of directors;
- the classification of our board of directors into three classes with only one class, representing approximately one-third of our directors, standing for election at each annual meeting; and
- the ability of our board of directors to make, alter or repeal our bylaws.

Our Board of Directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval. In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an

interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors are willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

Our business is subject to changing regulations regarding corporate governance, disclosure controls, internal control over financial reporting, and other compliance areas that will increase both our costs and the risk of noncompliance.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Act, and the rules and regulations of our stock exchange. The requirements of these rules and regulations will increase our legal, accounting, and financial compliance costs, will make some activities more difficult, time-consuming, and costly, and may also place undue strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Commencing with our fiscal year ending December 31, 2014, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 of the Sarbanes-Oxley Act will require that we incur substantial accounting expense and expend significant management efforts. Prior to our IPO, we had never been required to test our internal controls within a specified period, and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

We are required to disclose changes made to our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC or the date we are no longer an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, if we take advantage of the exemption available under the JOBS Act to the auditor attestation requirement in Section 404(b) of the Sarbanes-Oxley Act. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC, or other regulatory authorities, which would require additional financial and management resources.

Failure to develop and maintain adequate financial controls could cause us to have material weaknesses, which could adversely affect our operations and financial position.

As previously reported, in the first quarter of 2014, we identified a material weakness in internal controls over the accounting for leasing transactions which resulted in the identification of a material error in the accounting for our headquarters lease executed in May 2005. We might in the future discover other material weaknesses that require remediation. In addition, an internal control system, no matter how well-designed, cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we are not able to

comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we might not be able to produce timely and accurate financial statements. If that were to happen, the market price of our stock could decline and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the SEC, or other regulatory authorities.

Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports filed with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures or internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers, and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not be effective, however, in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act in a timely manner, that our internal controls are perceived as inadequate, or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline.

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved, and exemptions from the requirements of auditor attestation reports on the effectiveness of our internal control over financial reporting. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds $700 million as of June 30 of that fiscal year, (ii) the end of the fiscal year in which we have total annual gross revenue of $1 billion or more during such fiscal year, (iii) the date on which we issue more than $1 billion in non-convertible debt in a three-year period, or (iv) September 17, 2018.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, to some extent, on the research and reports that securities or industry analysts publish about us and our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our common stock or change their opinion of our common stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, our corporate headquarters occupied approximately 65,000 square feet in a facility on the Daniel Island Executive Center campus in Charleston, South Carolina under a lease expiring in 2021, and we had a second facility on the Daniel Island Executive Center campus that occupied approximately 78,000 square feet under a lease expiring in 2024. As of December 31, 2014, we had also executed a lease that commenced January 1, 2015 and runs for 15 years, to extend our campus in Charleston, South Carolina with a Customer Success Center of approximately 145,000 square feet and, at our option and under new leases, have either a four-story office building of approximately 145,000 square feet and/or a two-story welcome center of approximately 18,500 square feet built.

As of December 31, 2014, we also leased facilities in Greenville, South Carolina, San Francisco, California, and Tulsa, Oklahoma.

We believe that our current and planned facilities are sufficient for our needs. We may add other facilities or expand existing facilities as we expand our associate base and geographic markets in the future, and we believe that suitable additional space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings

From time to time, we might become involved in legal or regulatory proceedings arising in the ordinary course of our business. We are not currently a party to any material litigation or regulatory proceeding and we are not aware of any pending or threatened litigation or regulatory proceeding against us that could have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our common stock has been listed on the NASDAQ Global Market under the symbol "BNFT" since September 18, 2013. Prior to that date, there was no public trading market for our common stock. The following table sets forth for the periods indicated the high and low intraday sales prices per share of our common stock as reported on the NASDAQ Global Market.

	High	Low
Year Ended December 31, 2013		
Third quarter (from September 18, 2013)	$55.87	$41.50
Fourth quarter	$60.48	$37.32
Year Ended December 31, 2014		
First quarter	$77.00	$45.15
Second quarter	$49.34	$27.52
Third quarter	$47.75	$26.79
Fourth quarter	$34.28	$20.82

As of December 31, 2014, we had 84 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

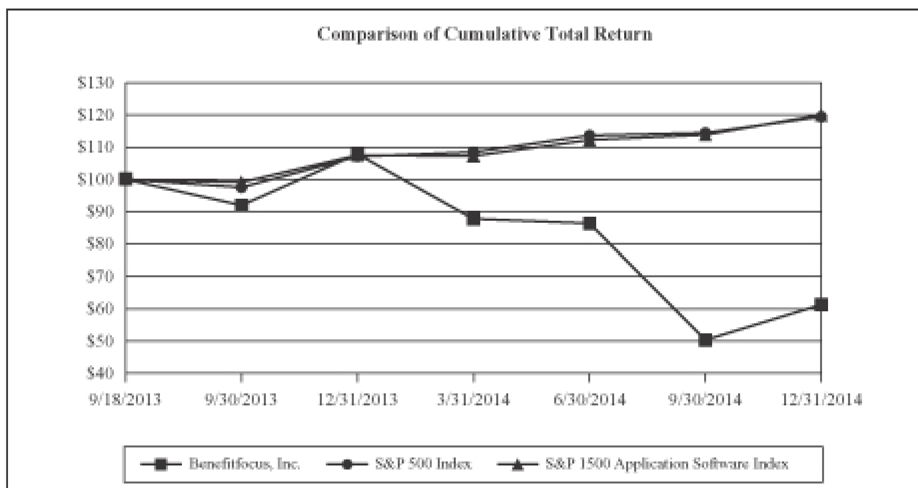
Dividend Policy

We have never declared or paid any cash dividend on our common stock. We currently intend to retain all of our future earnings, if any, generated by our operations for the development and growth of our business for the foreseeable future. The decision to pay dividends is at the discretion of our board of directors and depends upon our financial condition, results of operations, capital requirements, and other factors that our board of directors deems relevant.

Stock Performance Graph

The following shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

This chart compares the cumulative total return on our common stock with that of the S&P 500 Index and the S&P 1500 Application Software Index. The chart assumes $100 was invested at the close of market on September 18, 2013, in the common stock of Benefitfocus, Inc., the S&P 500 Index and the S&P 1500 Application Software Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



Company / Index	Base Period 9/18/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014
Benefitfocus, Inc.	$100.00	$ 91.80	$ 107.82	$ 87.71	$ 86.31	$ 50.31	$ 61.33
S&P 500 Index	$100.00	$ 97.45	$ 107.12	$108.51	$113.60	$114.30	$ 119.32
S&P 1500 Application Software Index	$100.00	$ 99.07	$ 107.46	$107.29	$112.30	$113.71	$ 120.00

Equity Compensation Plans

The information required by Item 5 of Form 10-K regarding equity compensation plans is incorporated herein by reference to "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

Use of Proceeds from Public Offering of Common Stock

On September 17, 2013, our Registration Statement on Form S-1, (File No. 333-190610) was declared effective in connection with our IPO, pursuant to which 5,675,250 shares of common stock were registered, including the full exercise of the underwriters' over-allotment option. Of the shares registered, we sold 3,000,000 shares of common stock at a price to the public of $26.50 per share for an aggregate price of $79,500,000. Selling shareholders sold the remaining 2,675,250 shares registered at the same per share price for an aggregate price of $70,894,000. The offering closed on September 23, 2013, and, as a result, we received net proceeds of $70,064,000 (after underwriters' discounts and commissions of $5,565,000 and additional offering related costs of $3,871,000). The joint managing underwriters of the offering were Goldman Sachs & Co., Deutsche Bank Securities Inc. and Jefferies LLC.

Of the expenses incurred by us in connection with our IPO, $134,000 were paid to or for the underwriters and $52,000 were paid to a related party vendor for private air travel. This vendor is owned and controlled by the Executive Chairman of our board of directors, who beneficially owns greater than 10% of our common stock.

There was no material change in the use of proceeds from our IPO as described in our final prospectus filed pursuant to Rule 424(b) of the Securities Act with the SEC on September 18, 2013. From the effective date of the registration statement through December 31, 2014, we have used the net proceeds from our IPO for working capital purposes and other general corporate purposes, including executing our growth strategy, developing new products and services, and funding additional capital expenditures, potential acquisitions, and investments. We have invested the funds received in short-term, interest bearing, investment-grade securities.

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Item 6. Selected Financial Data

CONSOLIDATED SELECTED FINANCIAL DATA

The following selected consolidated financial data for the years December 31, 2014, 2013, 2012, 2011, and 2010 and the selected consolidated balance sheet data as of December 31, 2014, 2013, 2012, 2011, and 2010 are derived from our audited consolidated financial statements. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report on Form 10-K.

Consolidated Statement of Operations Data

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except share and per share data)				
Revenue (1)	$ 137,420	$ 104,752	$ 81,739	$ 68,783	$ 67,122
Cost of revenue (2)	87,470	62,411	44,400	42,133	38,870
Gross profit	49,950	42,341	37,339	26,650	28,252
Operating expenses:					
Sales and marketing (2)	48,467	36,072	27,905	22,553	14,174
Research and development (2)	41,729	23,532	14,621	9,120	8,650
General and administrative (2)	18,657	10,974	7,494	5,821	6,038
Impairment of goodwill	—	—	—	1,670	—
Change in fair value of contingent consideration	—	(43)	121	503	—
Total operating expenses	108,853	70,535	50,141	39,667	28,862
Loss from operations	(58,903)	(28,194)	(12,802)	(13,017)	(610)
Total other expense, net	(4,251)	(2,198)	(1,987)	(2,012)	(1,855)
Loss before income taxes	(63,154)	(30,392)	(14,789)	(15,029)	(2,465)
Income tax expense (benefit)	25	(31)	84	35	10
Net loss	$ (63,179)	$ (30,361)	$ (14,873)	$ (15,064)	$ (2,475)
Net loss per common share—basic and diluted	$ (2.51)	$ (2.99)	$ (3.09)	$ (3.09)	$ (0.39)
Weighted-average common shares outstanding—basic and diluted	25,207,099	10,144,243	4,812,632	4,875,157	6,405,944
Other Financial Data					
Adjusted gross profit (3)	$ 58,886	$ 49,735	$ 45,161	$ 33,283	$ 34,682
Adjusted EBITDA (4)	$ (43,844)	$ (18,915)	$ (3,594)	$ (3,455)	$ 6,785

(1) In the first quarter of 2011 we increased the estimated expected life of our customer relationships for both employer and carrier customers. This change extended the term over which we will recognize our deferred revenue and results in less revenue recognized in each period.

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(2) Cost of revenue and operating expenses include stock-based compensation expense as follows:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Cost of revenue	$ 986	$ 274	$ 195	$ 252	$ 352
Sales and marketing	1,395	171	68	102	77
Research and development	1,376	255	130	121	87
General and administrative	1,831	502	319	246	519

(3) We define adjusted gross profit as gross profit before depreciation and amortization expense, as well as stock-based compensation expense. Please see "Adjusted Gross Profit and Adjusted EBITDA" below for more information and for a reconciliation of adjusted gross profit to gross profit, the most directly comparable financial measure calculated and presented in accordance with GAAP.

(4) We define adjusted EBITDA as net loss before net interest and other expense, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense and expense related to the impairment of goodwill and intangible assets. See "Adjusted Gross Profit and Adjusted EBITDA" below for more information and for a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

Our Segments

	Year Ended December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Revenue from external customers by segment:					
Employer	$ 62,016	$ 40,656	$23,760	$15,938	$ 9,356
Carrier	75,404	64,096	57,979	52,845	57,766
Total net revenue from external customers	$137,420	$104,752	$81,739	$68,783	$67,122
Gross profit by segment					
Employer	$ 16,186	$ 13,316	$ 9,810	$ 6,059	$ 3,121
Carrier	33,764	29,025	27,529	20,591	25,131
Total gross profit by segment	$ 49,950	$ 42,341	$37,339	$26,650	$28,252

Consolidated Balance Sheet Data

	As of December 31,				
	2014	2013	2012	2011	2010
			(in thousands)		
Cash and cash equivalents	$ 51,074	$ 65,645	$ 19,703	$ 15,856	$ 18,166
Marketable securities	5,135	13,168	—	—	—
Accounts receivable, net	21,311	23,668	13,372	9,060	7,163
Total assets	140,018	139,611	58,226	52,842	53,343
Deferred revenue, total	94,510	80,221	57,520	42,773	32,952
Total liabilities	182,841	128,179	89,357	69,809	55,433
Total redeemable convertible preferred stock	—	—	135,478	135,478	135,478
Common stock	26	24	6,109	4,923	3,574
Additional paid-in capital	223,409	214,487	—	—	—
Total stockholders' (deficit) equity	(42,823)	11,432	(166,609)	(152,445)	(137,569)

Adjusted Gross Profit and Adjusted EBITDA

Within this prospectus we use adjusted gross profit and adjusted EBITDA to provide investors with additional information regarding our financial results. Adjusted gross profit and adjusted EBITDA are non-GAAP financial measures. We have provided below reconciliations of these measures to the most directly comparable GAAP financial measures, which for adjusted gross profit is gross profit, and for adjusted EBITDA is net loss.

We have included adjusted gross profit and adjusted EBITDA in this Annual Report on Form 10-K because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short- and long-term operational plans. In particular, we believe that the exclusion of the expenses eliminated in calculating adjusted gross profit and adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted gross profit and adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results.

Our use of adjusted gross profit and adjusted EBITDA as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized might have to be replaced in the future, and adjusted gross profit and adjusted EBITDA do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted gross profit and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- adjusted gross profit and adjusted EBITDA do not reflect the potentially dilutive impact of stock-based compensation;
- adjusted gross profit and adjusted EBITDA do not reflect interest or tax payments that would reduce the cash available to us; and
- other companies, including companies in our industry, might calculate adjusted gross profit and adjusted EBITDA or similarly titled measures differently, which reduces their usefulness as comparative measures.

Because of these and other limitations, you should consider adjusted gross profit and adjusted EBITDA alongside other GAAP-based financial performance measures, including various cash flow metrics, gross profit, net income (loss) and our other GAAP financial results. The following table presents a reconciliation of adjusted gross profit to gross profit and adjusted EBITDA to net loss for each of the periods indicated:

	Year Ended December 31,				
	2014	2013	2012 (in thousands)	2011	2010
Reconciliation from Gross Profit to Adjusted Gross Profit:					
Gross profit	$ 49,950	$ 42,341	$ 37,339	$ 26,650	$28,252
Depreciation	5,459	4,257	4,228	4,096	4,272
Amortization of software development costs	2,257	2,618	3,145	2,009	1,690
Amortization of acquired intangible assets	234	245	254	276	116
Stock-based compensation expense	986	274	195	252	352
Adjusted gross profit	$ 58,886	$ 49,735	$ 45,161	$ 33,283	$34,682
Reconciliation from Net Loss to Adjusted EBITDA:					
Net loss	$(63,179)	$(30,361)	$(14,873)	$(15,064)	$ (2,475)
Depreciation	6,931	5,231	5,080	3,225	3,197
Amortization of software development costs	2,257	2,618	3,145	1,903	1,656
Amortization of acquired intangible assets	305	323	335	2,178	1,756
Interest income	(77)	(46)	(53)	(151)	(364)
Interest expense on building lease financing obligations	3,624	1,768	1,774	1,771	1,759
Interest expense on other borrowings	682	381	202	203	211
Income tax expense	25	(31)	84	35	10
Stock-based compensation expense	5,588	1,202	712	721	1,035
Impairment of goodwill and intangible assets	—	—	—	1,724	—
Total net adjustments	$ 19,335	$ 11,446	$ 11,279	$ 11,609	$ 9,260
Adjusted EBITDA	$(43,844)	$(18,915)	$ (3,594)	$ (3,455)	$ 6,785

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this report including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this report beginning on page 23 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leading provider of cloud-based benefits software solutions for consumers, employers, insurance carriers, and brokers. The Benefitfocus platform provides an integrated suite of solutions that enables our employer and insurance carrier customers to more efficiently shop, enroll, manage, and exchange benefits information. Our web-based platform has a user-friendly interface designed to enable the insured consumers to access all of their benefits in one place. Our comprehensive solutions support core benefits plans, including healthcare, dental, life, and disability insurance, and voluntary benefits plans, such as critical illness, supplemental income, and wellness programs. As the number of employer benefits plans has increased, with each plan subject to many different business rules and requirements, demand for the Benefitfocus platform has grown.

We serve two separate but related market segments. Our fastest growing market segment, the employer market, consists of employers offering benefits to their employees. Within this segment, we mainly target large employers with more than 1,000 employees, of which we believe there are approximately 18,000 in the United States. In our other market segment, we sell our solutions to insurance carriers, enabling us to expand our overall footprint in the benefits marketplace by aggregating many key constituents, including consumers, employers, and brokers. Our business model capitalizes on the close relationship between carriers and their members, and the carriers' ability to serve as lead generators for potential employer customers. Carriers pay for services at a rate reflective of the aggregated nature of their customer base on a per application basis. Carriers can then deploy their applications to employer groups and members. As employers become direct customers through our employer segment, we provide them our platform offering that bundles many software applications into a comprehensive benefits solution through HR InTouch Marketplace (now known as Benefitfocus Marketplace). We believe our presence in both the employer and insurance carrier markets gives us a strong position at the center of the benefits ecosystem.

We sell our software solutions and related services primarily through our direct sales force. We derive most of our revenue from software services fees, which primarily consist of monthly subscription fees paid to us for access to and usage of our cloud-based benefits software solutions, and related professional services. Software services fees paid to us from our employer customers are generally based on the number of employees covered by the relevant benefits plans at contracted rates for a specified period of time, which is usually one year. Software services fees paid to us from our carrier customers are based on the number of members contracted to use our solutions at contracted rates for a specified period of time, which usually ranges from three to five years. Our carrier contracts are

generally only cancellable by the carrier in an instance of our uncured breach, although some of our carrier customers are able to terminate their respective contracts without cause or for convenience. Software services revenue accounted for approximately 91%, 93%, and 93% of our total revenue during the years ended December 31, 2014, 2013 and 2012, respectively.

Another component of our revenue is professional services. We derive the majority of our professional services revenue from the implementation of our customers onto our platform, which typically includes discovery, configuration and deployment, integration, testing, and training. In general, it takes from four to five months to implement a new employer customer's benefits systems and eight to 10 months to implement a new carrier customer's benefits systems. We also provide customer support services and customized media content that supports our customers' effort to educate and communicate with consumers. Professional services revenue accounted for approximately 9%, 7%, and 7% of our total revenue during the years ended December 31, 2014, 2013 and 2012, respectively.

Increasing our base of large employer customers is an important source of revenue growth for us. We actively pursue new employer customers in the U.S. market, and we have increased the number of large employer customers utilizing our solutions from 121 as of December 31, 2009 to 553 as of December 31, 2014, a 35.5% compound annual growth rate. We believe that our continued innovation and new solutions, such as online benefits marketplaces, also known as private exchanges, enhanced mobile offerings, and more robust data analytics capabilities will help us attract additional large employer customers and increase our revenue from existing customers.

We believe that there is a substantial market for our services, and we have been investing in growth over the past four years. In particular, we have continued to invest in technology and services to better serve our larger employer customers, which we believe are an important source of growth for our business. We have also substantially increased our marketing and sales efforts and expect those increased efforts to continue. As we have invested in growth, we have had operating losses in each of the last four years, and expect our operating losses to continue for the foreseeable future. Due to the nature of our customer relationships, which have been very stable with relatively few customer losses over the past years, and the subscription nature of our financial model, we believe that our current investment in growth should lead to substantially increased revenue, which will allow us to achieve profitability in the relatively near future. Of course, our ability to achieve profitability will continue to be subject to many factors beyond our control.

Key Financial and Operating Performance Metrics

We regularly monitor a number of financial and operating metrics in order to measure our current performance and project our future performance. These metrics help us develop and refine our growth strategies and make strategic decisions. We discuss revenue, gross margin, and the components of operating loss, as well as segment revenue and segment gross profit, in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Operating Results". In addition, we utilize other key metrics as described below.

Number of Large Employer and Carrier Customers

We believe the number of large employer and carrier customers is a key indicator of our market penetration, growth, and future revenue. We have aggressively invested in and intend to continue to invest in our direct sales force to grow our customer base. We generally define a customer as an entity with an active software services contract as of the measurement date. The following table sets forth the number of large employer and carrier customers for the periods indicated:

	Year Ended December 31,		
	2014	2013	2012
Number of customers:			
Large employer	553	393	286
Carrier	43	40	34

Software Services Revenue Retention Rate

We believe that our ability to retain our customers and expand the revenue they generate for us over time is an important component of our growth strategy and reflects the long-term value of our customer relationships. We measure our performance on this basis using a metric we refer to as our software services revenue retention rate. We calculate this metric for a particular period by establishing the group of our customers that had active contracts for a given period. We then calculate our software services revenue retention rate by taking the amount of software services revenue we recognized for this group in the subsequent comparable period (for which we are reporting the rate) and dividing it by the software services revenue we recognized for the group in the prior period.

For 2014, 2013 and 2012 our software services revenue retention rate exceeded 95%.

Adjusted Gross Profit and Adjusted EBITDA

Adjusted gross profit represents our gross profit before depreciation and amortization, as well as stock-based compensation expense. Adjusted EBITDA represents our earnings before net interest and other expense, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation and impairment of goodwill and intangible assets. Adjusted gross profit and adjusted EBITDA are not measures calculated in accordance with United States generally accepted accounting principles, or GAAP. Please refer to “Selected Consolidated Financial Data—Adjusted Gross Profit and Adjusted EBITDA” in this report for a discussion of the limitations of adjusted gross profit and adjusted EBITDA and reconciliations of adjusted gross profit to gross profit and adjusted EBITDA to net loss, the most comparable GAAP measurements, respectively, for 2014, 2013 and 2012.

Components of Operating Results

Revenue

We derive the majority of our revenue from software services fees, which consist primarily of monthly subscription fees paid to us by our employer and carrier customers for access to, and usage of, our cloud-based benefits software solutions for a specified contract term. We also derive revenue from professional services fees, which primarily include fees related to the implementation of our customers onto our platform. Our professional services typically include discovery, configuration and deployment, integration, testing, and training.

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The following table sets forth a breakdown of our revenue between software services and professional services for the periods indicated (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Software services	$125,083	$ 97,713	$75,931
Professional services	12,337	7,039	5,808
Total revenue	$137,420	$104,752	$81,739

We generally recognize software services fees monthly based on the number of employees covered by the relevant benefits plans at contracted rates for a specified period of time, provided that an enforceable contract has been signed by both parties, access to our software has been granted to the customer and is available for their use, the fee for the software services is fixed or determinable, and collection is reasonably assured. We defer recognition of our professional services fees paid by customers in connection with implementation of our software services, or implementation fees, and recognize them, beginning once the software services have commenced, ratably over the longer of the contract term or the estimated expected life of the customer relationship. We will periodically evaluate the term over which revenue is recognized for most professional services as we gain more experience with customer contract renewals.

We generally invoice our employer and carrier customers for software services in advance, in monthly installments. We invoice our employer customers for implementation fees at the inception of the arrangement. We generally invoice our carrier customers for implementation fees at various contractually defined times throughout the implementation process. Implementation fees that have been invoiced are initially recorded as deferred revenue until recognized as described above.

Overhead Allocation

Expenses associated with our facilities, IT costs, and depreciation and amortization, are allocated between cost of revenue and operating expenses based on employee headcount determined by the nature of work performed.

Cost of Revenue

Cost of revenue primarily consists of salaries and other personnel-related costs, including benefits, bonuses, and stock-based compensation, for associates providing services to our customers and supporting our SaaS platform infrastructure. Additional expenses in cost of revenue include co-location facility costs for our data centers, depreciation expense for computer equipment directly associated with generating revenue, infrastructure maintenance costs, amortization expenses associated with capitalized software development costs, allocated overhead, and other direct costs.

Our cost of revenue is expensed as we incur the costs. However, the related revenue from fees we receive for our implementation services performed before a customer is operating on our platform is deferred until the commencement of the monthly subscription and recognized as revenue ratably over the longer of the related contract term or the estimated expected life of the customer relationship. Therefore, the cost incurred in providing these services is expensed in periods prior to the recognition of the corresponding revenue. Our cost associated with providing implementation services has been significantly higher as a percentage of revenue than our cost associated with providing our monthly subscription services due to the labor associated with providing implementation services.

We plan to continue to expand our capacity to support our growth, which will result in higher cost of revenue in absolute dollars. However, we expect cost of revenue as a percentage of revenue to

decline and gross margins to increase primarily from the growth of the percentage of our revenue from large employers and the realization of economies of scale driven by retention of our customer base.

Operating Expenses

Operating expenses consist of sales and marketing, research and development, and general and administrative expenses. Salaries and personnel-related costs are the most significant component of each of these expense categories. We expect to continue to hire new associates in these areas in order to support our anticipated revenue growth. As a result, we expect our operating expenses to increase in both aggregate dollars and as a percentage of revenue in the near term, but to decrease over the longer term as we achieve economies of scale.

Sales and marketing expense. Sales and marketing expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses, stock-based compensation, and commissions for our sales and marketing associates. We record expense for commissions at the time of contract signing. Additional expenses include advertising, lead generation, promotional event programs, corporate communications, travel, and allocated overhead. For instance, our most significant promotional event is One Place, which we have held annually in the second quarter and in 2015 will hold in the first quarter. We expect our sales and marketing expense to increase in both absolute dollars and as a percentage of revenue in the foreseeable future as we further increase the number of our sales and marketing professionals and expand our marketing activities in order to continue to grow our business.

Research and development expense. Research and development expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses, and stock-based compensation for our research and development associates. Additional expenses include costs related to the development, quality assurance, and testing of new technology, and enhancement of our existing platform technology, consulting, travel, and allocated overhead. We believe continuing to invest in research and development efforts is essential to maintaining our competitive position. We expect our research and development expense to increase in absolute dollars and as a percentage of revenue for the near term, but decrease as a percentage of revenue over the longer term as we achieve economies of scale.

General and administrative expense. General and administrative expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses, and stock-based compensation for administrative, finance and accounting, information systems, legal, and human resource associates. Additional expenses include consulting and professional fees, insurance and other corporate expenses, and travel. We expect our general and administrative expenses to increase in absolute terms as a result of operating as a public company and will include costs associated with compliance with the Sarbanes-Oxley Act and other regulations governing public companies, increased costs of directors' and officers' liability insurance, increased professional services expenses, and costs associated with an enhanced investor relations function.

Other Income and Expense

Other income and expense consists primarily of interest income and expense, accretion of contingent consideration, and gain (loss) on disposal of fixed assets. Interest income represents interest received on our cash and cash equivalents. Interest expense consists primarily of the interest incurred on outstanding borrowings under our financing obligations, existing notes and credit facilities.

Income Tax Expense

Income tax expense consists of U.S. federal and state income taxes. We incurred minimal income tax expense for 2014, 2013, and 2012. Net operating loss carryforwards for federal income tax

purposes were $68,235 million at December 31, 2014. State net operating loss carryforwards were approximately $61,583 million at December 31, 2014. Federal net operating loss carryforwards will expire at various dates beginning in 2022, if not utilized. State net operating losses will expire at various dates beginning in 2022, if not utilized. Valuation allowances are recorded to reduce deferred tax assets to the amount we believe is more likely than not to be realized.

Results of Operations

Consolidated Statements of Operations Data

The following table sets forth our consolidated statements of operations data for each of the periods indicated (in thousands).

	Year Ended December 31,		
	2014	2013	2012
Revenue	$137,420	$104,752	$ 81,739
Cost of revenue (1)	87,470	62,411	44,400
Gross profit	49,950	42,341	37,339
Operating expenses:			
Sales and marketing (1)	48,467	36,072	27,905
Research and development (1)	41,729	23,532	14,621
General and administrative (1)	18,657	10,974	7,494
Change in fair value of contingent consideration	—	(43)	121
Total operating expenses	108,853	70,535	50,141
Loss from operations	(58,903)	(28,194)	(12,802)
Other income (expense):			
Interest income	77	46	53
Interest expense on building lease financing obligations	(3,624)	(1,768)	(1,774)
Interest expense on other borrowings	(682)	(381)	(202)
Other expense	(22)	(95)	(64)
Total other expense, net	(4,251)	(2,198)	(1,987)
Loss before income taxes	(63,154)	(30,392)	(14,789)
Income tax expense (benefit)	25	(31)	84
Net loss	$ (63,179)	$ (30,361)	$(14,873)

(1) Cost of revenue and operating expenses include stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Cost of revenue	$ 986	$ 274	$ 195
Sales and marketing	1,395	171	68
Research and development	1,376	255	130
General and administrative	1,831	502	319

The following table sets forth our consolidated statements of operations data as a percentage of revenue for each of the periods indicated (as a percentage of revenue).

	Year Ended December 31,		
	2014	2013	2012
Revenue	100.0%	100.0%	100.0%
Cost of revenue	63.7	59.6	54.3
Gross profit	36.3	40.4	45.7
Operating expenses:			
Sales and marketing	35.3	34.4	34.1
Research and development	30.4	22.5	17.9
General and administrative	13.6	10.5	9.2
Change in fair value of contingent consideration	—	—	0.1
Total operating expenses	79.2	67.3	61.3
Loss from operations	(42.9)	(26.9)	(15.7)
Other income (expense):			
Interest income	0.1	—	0.1
Interest expense on building lease financing obligations	(2.6)	(1.7)	(2.2)
Interest expense on other borrowings	(0.5)	(0.4)	(0.2)
Other expense	—	(0.1)	(0.1)
Total other expense, net	(3.1)	(2.1)	(2.4)
Loss before income taxes	(46.0)	(29.0)	(18.1)
Income tax expense (benefit)	—	—	0.1
Net loss	(46.0)%	(29.0)%	(18.2)%

Our Segments

The following table sets forth segment results for revenue and gross profit for the periods indicated (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Revenue from external customers by segment:			
Employer	$ 62,016	$ 40,656	$23,760
Carrier	75,404	64,096	57,979
Total net revenue from external customers	$137,420	$104,752	$81,739
Gross profit by segment			
Employer	$ 16,186	$ 13,316	$ 9,810
Carrier	33,764	29,025	27,529
Total gross profit by segment	$ 49,950	$ 42,341	$37,339

Comparison of Years Ended December 31, 2014 and 2013

Revenue

	Year Ended December 31,				Period-to-Period Change	
	2014		2013			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Software services	$125,083	91.0%	$ 97,713	93.3%	$27,370	28.0%
Professional services	12,337	9.0	7,039	6.7	5,298	75.3
Total revenue	$137,420	100.0%	$104,752	100.0%	$32,668	31.2%

Growth in software services revenue was primarily attributable to the addition of new customers, as the number of large employer and carrier customers increased to 596 as of December 31, 2014 from 433 as of December 31, 2013. Our professional services revenue increased in absolute terms between the year ended December 31, 2013 and the year ended December 31, 2014, primarily due to revenue recognized from newly completed implementations of $3.2 million in addition to $2.1 million from the acceleration of the customer relationship period for customers that did not renew their contracts.

Segment Revenue

	Year Ended December 31,				Period-to-Period Change	
	2014		2013			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Employer	$ 62,016	45.1%	$ 40,656	38.8%	$21,360	52.5%
Carrier	75,404	54.9	64,096	61.2	11,308	17.6
Total revenue	$137,420	100.0%	$104,752	100.0%	$32,668	31.2%

The growth in our employer revenue was primarily attributable to a $20.0 million increase in our employer software services revenue driven primarily by an increase in the number of large employer customers using our platform as of December 31, 2014 as compared to December 31, 2013. Additionally, employer professional services contributed an increase of $1.4 million primarily related to newly completed implementations.

The growth in our carrier revenue was primarily attributable to an increase of $7.3 million in our carrier software services revenue driven primarily by an increase in software services revenue from recent customer product implementations during the year ended December 31, 2014 as compared to the year ended December 31, 2013. The remaining increase of $4.0 million is related to carrier professional services and is comprised of an increase of $1.9 million in revenue related to customers who went live on the platform and $2.1 million related to the acceleration of the customer relationship period for customers that did not renew their contracts.

Cost of Revenue

	Year Ended December 31,				Period-to-Period Change	
	2014		2013			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Cost of revenue	$87,470	63.7%	$62,411	59.6%	$25,059	40.2%

The increase in cost of revenue was in part attributable to an $18.6 million increase in salaries and personnel-related costs and professional fees, including an increase of $0.7 million related to stock-based compensation, of which $16.0 million was associated with increased client service capacity to support our growing number of customers and an increase in engineering costs of $1.2 million. Also, we experienced a $6.4 million increase in infrastructure maintenance costs to support our platform and additional depreciation and amortization and facilities costs related to the increase in the number of employees.

Gross Profit

	Year Ended December 31,					
	2014		2013		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Software services	$ 75,235	60.1%	$ 61,564	63.0%	$13,671	22.2%
Professional services	(25,285)	(205.0)	(19,223)	(273.1)	(6,062)	31.5
Gross profit	$ 49,950	36.3%	$ 42,341	40.4%	$ 7,609	18.0%

The increase in software services gross profit in absolute terms was driven by a $27.4 million, or 28.0%, increase in software services revenue. This increase was partially offset by a $13.7 million, or 37.9%, increase in software services cost of revenue. Software services cost of revenue included $0.4 million and $0.1 million of stock-based compensation expense for the years ended December 31, 2014 and 2013, respectively, and $7.2 million and $6.7 million of depreciation and amortization for the years ended December 31, 2014 and 2013, respectively.

The increase in professional services gross loss was driven by an $11.4 million, or 43.3%, increase in professional services cost of revenue, partially offset by an increase in professional services revenue of $5.3 million. Professional services cost of revenue included $0.5 million and $0.2 million of stock-based compensation expense for the years ended December 31, 2014 and 2013, respectively. In addition, professional services cost of revenue included $0.8 million and $0.4 million in depreciation and amortization for the years ended December 31, 2014 and 2013, respectively. As discussed in "Components of Operating Results—Cost of Revenue", our cost of revenue is expensed as we incur the costs. However, the related revenue from fees we receive for our implementation services performed before a customer is operating on our platform is deferred until the commencement of the monthly subscription and recognized as revenue ratably over the longer of the related contract term or the estimated expected life of the customer relationship, which is 10 years for the years presented. Therefore, the cost incurred in providing these services is expensed in periods prior to the recognition of the corresponding revenue. For this reason, as well as due to the personnel-related costs associated with providing implementation services, our cost associated with providing implementation services has been significantly higher as a percentage of related revenue than our cost associated with providing our monthly subscription services.

Segment Gross Profit

	Year Ended December 31,					
	2014		2013		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Employer	$16,186	26.1%	$13,316	32.8%	$ 2,870	21.6%
Carrier	33,764	44.8	29,025	45.3	4,739	16.3
Gross profit	$49,950	36.3%	$42,341	40.4%	$ 7,609	18.0%

Employer gross profit increased in absolute terms by $2.9 million, or 21.6%, between the year ended December 31, 2013 and the year ended December 31, 2014. The $21.4 million, or 52.5%, increase in employer revenue was offset by an $18.5 million, or 67.6%, increase in employer cost of revenue. The increase in cost of revenue is attributable to costs associated with supporting the increased number of employer customers live on the platform and the increased cost of providing services, including customer implementations. Our employer gross profit included $3.5 million and $2.5 million of depreciation and amortization for the years ended December 31, 2014 and December 31, 2013, respectively. In addition, our employer gross profit included $0.5 million and $0.1 million of stock-based compensation expense for the years ended December 31, 2014 and 2013, respectively.

Carrier gross profit increased by $4.7 million, or 16.3%, between the year ended December 31, 2013 and the year ended December 31, 2014. The $11.3 million, or 17.6%, increase in carrier revenue was offset by a $6.6 million, or 18.7%, increase in carrier cost of revenue. The increase in cost of revenue is attributable to costs associated with supporting the increased number of carrier customers live on the platform and the increased cost of providing services, including customer implementations. Our carrier gross profit included $4.5 million and $4.6 million in depreciation and amortization for the years ended December 31, 2014 and December 31, 2013, respectively. In addition, our carrier gross profit included $0.4 million and $0.2 million of stock-based compensation expense for the years ended December 31, 2014 and 2013, respectively.

Operating Expenses

	Year Ended December 31,					
	2014		2013		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Sales and marketing	$48,467	35.3%	$36,072	34.4%	$12,395	34.4%
Research and development	$41,729	30.4%	$23,532	22.5%	$18,197	77.3%
General and administrative	$18,657	13.6%	$10,974	10.5%	$ 7,683	70.0%

The increase in sales and marketing expense was primarily attributable to a $7.7 million increase in salaries and personnel-related costs, including an increase in stock-based compensation of $1.2 million, due to sales and marketing associates hired to continue driving revenue growth and $1.8 million related to sales and marketing events, $1.9 million related to increases in facilities and overhead allocation, recruiting and other operating costs driven by an increase in the number of employees, and $0.8 million in travel-related costs.

The increase in research and development expense was primarily attributable to a $10.8 million increase in salaries and personnel-related costs, including an increase in stock-based compensation of $1.1 million, due to additional research and development headcount. Additionally, we experienced a $5.5 million increase in engineering consulting fees for assistance in product development and $1.8 million related to increases in facilities and overhead allocation, other operating costs, and travel-related costs driven by an increase in the number of employees.

The increase in general and administrative expense was primarily attributable to a $3.1 million increase in consulting and professional fees and insurance related to being a publicly traded company, including $0.7 million in costs related to our follow-on offering on July 17, 2014. We also experienced a $3.0 million increase in salaries and personnel-related costs, including a $1.3 million increase in stock-based compensation expense due to increased headcount. In addition, we experienced a $1.2 million increase related primarily to increases in facilities and overhead costs.

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Comparison of Years Ended December 31, 2013 and 2012

Revenue

	Year Ended December 31,				Period-to-Period Change	
	2013		2012			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Software services	$ 97,713	93.3%	$75,931	92.9%	$21,782	28.7%
Professional services	7,039	6.7	5,808	7.1	1,231	21.2
Total revenue	$104,752	100.0%	$81,739	100.0%	$23,013	28.2%

Growth in both software services and professional services revenues year over year was primarily attributable to the addition of new customers, as the number of large employer and carrier customers increased to 433 as of December 31, 2013 from 320 as of December 31, 2012.

Segment Revenue

	Year Ended December 31,				Period-to-Period Change	
	2013		2012			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Employer	$ 40,656	38.8%	$23,760	29.1%	$16,896	71.1%
Carrier	64,096	61.2	57,979	70.9	6,117	10.6
Total revenue	$104,752	100.0%	$81,739	100.0%	$23,013	28.2%

The growth in employer revenue for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to a $16.5 million increase in our employer software services revenue driven primarily by an increase in the number of large employer customers using our platform as of December 31, 2013 as compared to December 31, 2012. The growth in carrier revenue year over year was primarily attributable to an increase of $5.3 million in our carrier software services revenue, driven primarily by an increase in the number of carrier customers using our platform as well as an increase in the number of products being utilized by our carrier customers during the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Cost of Revenue

	Year Ended December 31,				Period-to-Period Change	
	2013		2012			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Cost of revenue	$62,411	59.6%	$44,400	54.3%	$18,011	40.6%

The increase in cost of revenue for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to a $10.7 million increase in salaries and personnel-related costs and a $4.6 million increase in professional fees. Customer services salaries and personnel-related costs increased $6.8 million and professional fees increased by $2.6 million to support a growing number of customers and to prepare for and assist with an open enrollment period at a large customer. Engineering salaries and personnel-related costs increased $3.4 million and professional fees increased by $1.8 million to perform customer implementations for a certain large

employer customer and for our Marketplace product at carrier customers. In addition, we experienced a $0.4 million increase in telecommunications and other expense related to increased open enrollment volume and $0.6 million increase in travel expenses to client sites. Further, we experienced a $1.3 million increase in infrastructure maintenance costs to support our products and platform and a $0.8 million increase in facilities expenses as a result of adding office space. Additional hiring led to a $0.2 million increase in recruiting costs. These increases were partially offset by a net decrease of $0.5 million in amortization expense primarily due to an impairment charge during the year ended December 31, 2012 related to capitalized software development costs offset by additions to property and equipment related to our growth.

Gross Profit

	Year Ended December 31,					
	2013		2012		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Software services	$ 61,564	63.0%	$47,115	62.0%	$14,449	30.7%
Professional services	(19,223)	(273.1)	(9,776)	(168.3)	(9,447)	96.6
Gross profit	$ 42,341	40.4%	$37,339	45.7%	$ 5,002	13.4%

The increase in software services gross profit for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was driven by a $21.8 million, or 28.7%, increase in software services revenue, partially offset by a $7.3 million, or 25.5%, increase in software services cost of revenue. Software services cost of revenue included $93,000 and $100,000 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively; and $6.7 million and $7.2 million of depreciation and amortization for the years ended December 31, 2013 and 2012, respectively. The net decrease in depreciation and amortization expense was primarily due to an impairment charge during the year ended December 31, 2013 related to capitalized software development costs partially offset by additions to property and equipment related to our growth.

The increase in professional services gross loss for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was driven by a $10.7 million, or 68.5%, increase in professional services cost of revenue, partially offset by a $1.2 million, or 21.2%, increase in professional services revenue. Professional services cost of revenue included $181,000 and $95,000 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively. In addition, professional services cost of revenue included approximately $0.4 million in depreciation and amortization for the years ended December 31, 2013 and 2012.

Segment Gross Profit

	Year Ended December 31,					
	2013		2012		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Employer	$13,316	32.8%	$ 9,810	41.3%	$ 3,506	35.7%
Carrier	29,025	45.3	27,529	47.5	1,496	5.4
Gross profit	$42,341	40.4%	$37,339	45.7%	$ 5,002	13.4%

The increase in employer gross profit for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was driven by a $16.9 million, or 71.1%, increase in employer revenue, partially offset by a $13.4 million, or 96.0%, increase in employer cost of revenue. The

increase in cost of revenue was primarily attributable to costs associated with providing implementation services, which increased due to a higher number of new individual employer customer implementations. Our employer gross profit included $2.5 million and $1.9 million of depreciation and amortization for the years ended December 31, 2013 and 2012, respectively. In addition, our employer gross profit included $115,000 and $60,000 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively.

The increase in carrier gross profit year over year was driven by a $6.1 million, or 10.6%, increase in carrier revenue, partially offset by a $4.6 million, or 15.2%, increase in carrier cost of revenue. The increase in cost of revenue is primarily attributable to new individual carrier customer and product implementations, including our Marketplace product. Our carrier gross profit included $4.6 million and $5.7 million in depreciation and amortization for the years ended December 31, 2013 and 2012, respectively. In addition, our carrier gross profit included $159,000 and $135,000 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively.

Operating Expenses

	Year Ended December 31,					
	2013		2012		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Sales and marketing	$36,072	34.4%	$27,905	34.1%	$ 8,167	29.3%
Research and development	$23,532	22.5%	$14,621	17.9%	$ 8,911	60.9%
General and administrative	$10,974	10.5%	$ 7,494	9.2%	$ 3,480	46.4%

The increase in sales and marketing expense for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to a $5.1 million increase in commissions and sales bonus expenses due to increased sales year over year. We also hired sales and marketing personnel to continue driving revenue growth, leading to a $1.5 million increase in salaries and personnel related costs. The additional hiring resulted in a $0.5 million increase in recruiting costs.

The increase in research and development expense for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to a $6.0 million increase in salaries and personnel-related costs, a $0.3 million increase in recruiting costs, and a $1.7 million increase in engineering consulting fees, all related to continued product development and feature enhancement. Additionally, we experienced a $0.3 million increase in travel expenses to client sites and a $0.3 million increase in facilities expenses and depreciation as a result of adding office space and equipment to accommodate increased headcount.

The increase in general and administrative expense for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily attributable to a $1.8 million increase in salaries and personnel-related costs associated with an increase in general and administrative personnel to support our growing business and an increase in performance-driven management bonuses. We also experienced a $0.2 million increase in stock-based compensation expense due to grants made in October 2012, May 2013, and August 2013 to incentivize our management. In addition, we experienced a $0.8 million increase in consulting and professional fees and a $0.3 million increase in travel costs incurred in connection with our IPO. Further, other operating expense increased by $0.2 million year over year primarily due to increased insurance costs.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe reasonable under the circumstances. Actual results might differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K, we believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue Recognition and Deferred Revenue

We derive the majority of our revenue from software services fees, which consist primarily of monthly subscription fees paid to us by our customers for access to, and usage of, our cloud-based benefits software solutions for a specified contract term. We also derive revenue from professional services which primarily include fees related to the implementation of our customers onto our platform, which typically includes discovery, configuration and deployment, integration, testing, and training.

We recognize revenue when there is persuasive evidence of an arrangement, we have provided the service, the fees to be paid by the customer are fixed and determinable and collectability is reasonably assured. We consider that delivery of our cloud-based software services has commenced once we have granted the customer access to our platform.

We generally recognize software services fees monthly based on the number of employees covered by the relevant benefits plans at contracted rates for a specified period of time once the criteria for revenue recognition described above have been satisfied. We defer recognition of our professional services fees and begin recognizing them once the services are performed and related software services have commenced, ratably over the longer of the contract term or the estimated expected life of the customer relationship.

We estimate our customer relationship period based on various factors including, but not limited to, contract terms, contract extensions and renewals, customer attrition, the nature and pace of technology advancements and obsolescence, and the anticipated impact of demand, competition, and other regulatory and economic factors.

Most of our deferred revenue relates to professional services performed for our carrier customers, which require a more extensive and lengthy implementation. We will evaluate the term over which revenue is recognized for our implementation fees as we gain more experience with customer contract renewals.

In January 2015, we adjusted the estimated expected life of the customer relationship period for both segments. This change in estimate was the result of analyzing recent quantitative and qualitative observations in the market and factors impacting our business. This change in estimate shortens the term over which deferred revenue will be recognized from 10 to 7 years and will be applied prospectively to unamortized professional services fees over the longer of the contract term or the adjusted estimated expected life of the customer relationship.

Accounts Receivable and Allowances for Doubtful Accounts and Returns

We state accounts receivable at realizable value, net of an allowance for doubtful accounts that we maintain for estimated losses expected to result from the inability of some customers to make

payments as they become due. We base our estimated allowance on our analysis of past due amounts and ongoing credit evaluations. Historically, our actual collection experience has not varied significantly from our estimates, due primarily to our credit and collection policies and the financial strength of our customers.

The allowances for returns are accounted for as reductions of revenue and are estimated based on the Company's periodic assessment of historical experience and trends. The Company considers factors such as the time lag since the initiation of revenue recognition, historical reasons for adjustments, new customer volume, complexity of billing arrangements, timing of software availability, and past due customer billings.

Goodwill

Goodwill represents the excess of the aggregate of the fair value of consideration transferred in a business combination over the fair value of assets acquired, net of liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test. We test goodwill for impairment at the reporting unit level annually on October 31, or more frequently if events or changes in business circumstances indicate the asset might be impaired.

When testing goodwill for impairment, we first perform an assessment of qualitative factors, including but not limited to, macroeconomic conditions, industry and market conditions, company-specific events, changes in strategy and circumstances, revenue, and operating margins. If qualitative factors indicate that it is more likely than not that the fair value of the relevant reporting unit is less than its carrying amount, we test goodwill for impairment at the reporting unit level using a two-step approach. In step one, we determine if the fair value of the reporting unit exceeds the unit's carrying value. If step one indicates that the fair value of the reporting unit is less than its carrying value, we perform step two, determining the fair value of goodwill and, if the carrying value of goodwill exceeds the implied fair value, recording an impairment charge.

We have determined that we have two operating segments, employer and carrier. Further, we have identified that the employer operating segment contains a component, Benefit Informatics. To determine the fair value of our reporting units, we primarily use a discounted cash flow analysis, which requires significant assumptions and estimates about future operations. Significant judgments inherent in this analysis include the determination of an appropriate discount rate, estimated terminal value and the amount and timing of expected future cash flows.

Stock-Based Compensation

We have issued two types of stock-based awards under our stock plans: stock options and restricted stock units. Stock-based awards granted to associates, directors, and non-associate third parties are measured at fair value at each grant date. We recognize stock-based compensation expense, net of forfeitures, ratably over the requisite service period of the option award. Generally, options vest 25% on the one-year anniversary of the grant date with the balance vesting over the following 36 months. We previously granted options that vest 100% on the fifth anniversary of the grant date. Restricted stock unit awards generally vest 25% on each anniversary of the grant date over 4 years.

Determination of the Fair Value of Stock-Based Compensation Grants

Prior to our IPO, we were a private company with no active public market for our common stock. We have periodically determined for financial reporting purposes the estimated per share fair value of our common stock at various dates using contemporaneous valuations performed in accordance with

the guidance outlined in the American Institute of Certified Public Accountants Practice Aid, "Valuation of Privately Held Company Equity Securities Issued as Compensation," or the Practice Aid. When determining the fair market value of our common stock, we considered what we believe to be comparable publicly traded companies, discounted free cash flows, and an analysis of our enterprise value.

Since our IPO, we determined fair value for restricted stock unit awards based on the closing price of our common stock on the date of grant or, if not a trading day, the trading day preceding the grant date.

The determination of the fair value of stock-based compensation arrangements is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate, and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

The following summarizes the assumptions used for estimating the fair value of stock options granted during the periods indicated (we did not grant any stock options in 2014):

	Year Ended December 31,	
	2013	2012
Risk-free interest rate	1.0% - 1.7%	0.8% - 1.2%
Expected term (years)	6.08	6.08
Expected volatility	52%	53% - 55%
Dividend yield	0%	0%
Weighted-average grant date fair value per share	$ 7.71	$ 4.24

We have assumed no dividend yield because we do not expect to pay dividends in the foreseeable future, which is consistent with our past practice. The risk-free interest rate assumption is based on observed interest rates for constant maturity U.S. Treasury securities consistent with the expected life of our associate stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is presumed to be the midpoint between the vesting date and the end of the contractual term. We used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The list of comparable companies we used to determine expected volatility was consistent with those used to determine the corresponding fair value of our common stock at each grant date.

We based our estimate of pre-vesting forfeitures, or forfeiture rate, on our analysis of historical behavior by stock award holders. We apply the estimated forfeiture rate to the total estimated fair value of the awards, as derived from the Black-Scholes model, to compute the stock-based compensation expense, net of pre-vesting forfeitures, to be recognized in our consolidated statements of operations.

Based upon our closing stock price on December 31, 2014 of $32.84, the aggregate intrinsic value of outstanding options to purchase shares of our common stock as of December 31, 2014 was $60.7 million, of which $53.7 million related to vested options and $7.0 million to unvested options. The aggregate intrinsic value of outstanding restricted stock units as of December 31, 2014 was $23.7 million, of which all were unvested.

Income Taxes

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect of a change in tax rates on deferred tax assets and liabilities in the results of operations in the period that includes the enactment date. We reduce the measurement of a deferred tax asset, if necessary, by a valuation allowance if it is more likely than not that we will not realize some or all of the deferred tax asset.

We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is more likely than not that the position will be sustained upon examination. We recognize potential accrued interest and penalties associated with unrecognized tax positions within our global operations in income tax expense.

Liquidity and Capital Resources

Sources of Liquidity

As of December 31, 2014, our primary sources of liquidity were our cash and cash equivalents totaling $51.1 million and $5.1 million in marketable securities, $21.3 million in accounts receivables, net of allowance, and unused revolving line of credit of $12.5 million. The terms of our revolving line of credit are described in Note 8 of our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Prior to our IPO, we funded our operations primarily through cash from operating activities, bank and subordinated debt borrowings, and private placements of redeemable convertible preferred stock. From 2007 to 2010, we raised $135.5 million from the sale of redeemable convertible preferred stock to third parties.

On September 23, 2013, we closed our IPO in which we sold 3,000,000 shares of common stock at a public offering price of $26.50 per share, resulting in net proceeds of $70.1 million. See Note 1 of our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional details regarding our IPO.

In February 2015, the existing revolving line of credit was replaced with a senior revolving line of credit, or Senior Revolver, with a syndicate of lenders led by the existing lender. The three-year Senior Revolver has a borrowing limit of $60.0 million. Borrowing capacity under the Senior Revolver is subject to a borrowing base limit that is a function of our monthly recurring revenue as adjusted to reflect lost customer revenue during the previous three calendar months. Therefore, credit available under the line of credit may be less than the $60 million borrowing limit. The outstanding indebtedness under the existing revolving line of credit was repaid with proceeds from the Senior Revolver and the existing revolving line of credit was terminated. Interest is payable monthly. Advances under the Senior Revolver bear interest at the prime rate as published in the Wall Street Journal plus a margin based on our liquidity that ranges between 1.0% and 1.5%. We are charged for amounts unused under this arrangement at a rate based on our liquidity of 0.300% to 0.375% per year. Any outstanding principal is due at the end of the term.

We are bound by customary affirmative and negative covenants in connection with the Senior Revolver, including financial covenants related to liquidity and EBITDA. In the event of a default, the lenders may declare all obligations immediately due and stop advancing money or extending credit under the line of credit. The line of credit is collateralized by substantially all of our tangible and intangible assets, including intellectual property and the equity of our subsidiaries.

On February 24, 2015, we entered into a Securities Purchase Agreement to sell shares of our common stock to Mercer, one of our customers. Pursuant to the agreement, on the same date, we sold 2,817,526 shares of our common stock to Mercer for $26.50 per share or an aggregate of approximately $74.7 million. At the same time, we also issued Mercer a warrant to purchase up to an additional 580,813 shares of our common stock for $26.50 per share at any time during the 30-month term of the warrant. The agreement, among other things, includes certain standstill provisions and prevents Mercer from disposing of its shares of our common stock until the earlier of December 31, 2017, the expiration or termination of the Mercer Exchange Software as a Service Agreement, as amended between us and Mercer Health & Benefits, LLC, the date on which Mercer and its affiliates own less than 75% of the shares it purchased pursuant to the Securities Purchase Agreement, and the date on which Mercer and its affiliates own less than 5% of our outstanding common stock. We received all of the proceeds from this sale of shares and will use the proceeds for working capital and other general corporate purposes.

Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and existing cash balances, which include the net proceeds from our IPO, will be sufficient to meet our cash requirements for at least the next 12 months.

Going forward, we may access capital markets to raise additional equity or debt financing for various business reasons, including required debt payments and acquisitions. The timing, term, size, and pricing of any such financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing.

Cash Flows

Our cash flows for the years ended December 31, 2014, 2013, and 2012 were as follows:

	Year Ended December 31,		
	2014	2013	2012
		(in thousands)	
Cash (used in) provided by:			
Operating activities	$(18,878)	$ 1,067	$12,408
Investing activities	(1,953)	(22,077)	(6,308)
Financing activities	6,260	66,952	(2,253)
Net (decrease) increase in cash and cash equivalents	$(14,571)	$ 45,942	$ 3,847

Operating Activities

For the year ended December 31, 2014, our operating activities used $18.9 million of cash, as $24.8 million of cash provided by changes in working capital and $19.5 million in adjustments for non-cash items, were more than offset by a net loss of $63.2 million. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of $9.5 million, non-cash stock compensation expense of $5.6 million, change in fair value and accretion of warrant of $0.7 million, and accrual of interest on financing obligations of $3.6 million. The cash provided by changes in working capital primarily consisted of an increase in deferred revenue of $14.3 million, an increase in accrued compensation and benefits of $3.2 million, an increase in accrued expenses of $2.5 million, and a decrease in accounts receivable of $2.4 million. The increase in deferred revenue was a result of contracts closed during the period with associated upfront fees, which will be recognized as revenue, ratably over the customer relationship period, beginning once the software services have commenced. The increase in accrued compensation and benefits resulted from an increase in the number of associates. The decrease in accounts receivable resulted from normal timing of customer payments. The increase in accrued expenses resulted from an increase in cost of revenue and operating expenses.

For the year ended December 31, 2013, net cash and cash equivalents provided by operating activities of $1.1 million consisted of a net loss of $30.4 million more than offset by $19.4 million of cash provided by changes in working capital and $12.1 million in adjustments for non-cash items. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of $8.2 million, accrued interest on financing obligation of $1.8 million, non-cash stock compensation expense of $1.2 million, and a change in fair value and accretion of warrant of $0.9 million. The cash provided by changes in working capital primarily consisted of an increase in deferred revenue of $22.7 million, an increase in accrued compensation and benefits of $4.5 million, and an increase in accounts payable and accrued expenses of $3.5 million. The increase in deferred revenue was a result of contracts closed during the period with associated upfront fees, which will be recognized as revenue ratably over the customer relationship period beginning once the software services have commenced. The increase in accrued compensation and benefits resulted from normal fluctuation in payroll dates and an increase in the number of associates. The increase in accounts payable resulted from an increase in cost of revenue and operating expenses. These increases were partially offset by a decrease in operating cash flow due to a $10.3 million increase in accounts receivable. The increase in accounts receivable was primarily attributable to the growth of our revenue and fees.

For the year ended December 31, 2012, our net cash and cash equivalents provided by operating activities of $12.4 million consisted of a net loss of $14.9 million, more than offset by $15.4 million of cash provided by changes in working capital and $11.8 million in adjustments for non-cash items. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of $8.6 million, accrued interest on financing obligation of $1.8 million, non-cash stock compensation expense of $0.7 million and the change in fair value of contingent consideration of $0.2 million. The increase in cash resulting from changes in working capital primarily consisted of an increase in deferred revenue of $14.7 million and an increase in accrued compensation and benefits of $3.1 million as a result of increased headcount. The increase in deferred revenue was a result of contracts closed during the period with associated upfront fees, which will be recognized as revenue, ratably over the customer relationship period, beginning once the software services have commenced. In addition, we experienced an increase in accounts payable and accrued expenses of $1.4 million, primarily driven by increased operating costs during the period. These increases were partially offset by a decrease in operating cash flow due to a $4.4 million increase in accounts receivable, primarily driven by increased revenue during the year as we continue to expand our operations.

Investing Activities

Net cash used in investing activities totaled $2.0 million for 2014. For the year ended December 31, 2014, net cash used for the purchase of property and equipment was $9.8 million partially offset by the cash provided by net maturity of short-term investments held to maturity of $7.9 million.

Net cash used in investing activities totaled $22.1 million for 2013. We purchased corporate bonds in the amount of $13.2 million. In addition, we spent $8.9 million to purchase property and equipment. For the year ended December 31, 2012, net cash used in investing activities was $6.3 million, for the purchase of property and equipment.

Financing Activities

For the year ended December 31, 2014, net cash provided by financing activities was $6.3 million, consisting of a $14.0 million draw on revolving line of credit and $2.8 million in proceeds from exercises of stock options, offset by $8.2 million in payments on financing and capital lease obligations and payments on revolving line of credit of $2.1 million.

On March 28, 2014, a major customer exercised its warrant through a cashless exercise in accordance with the warrant's terms, resulting in the issuance of 455,521 shares of common stock. The measured value of the warrant became fully recognized against revenue in October 2014.

Net cash provided by financing activities totaled $67.0 million for 2013, which resulted primarily from $70.1 million in proceeds from our IPO, net of issuance costs, $12.2 million in proceeds from line of credit and notes payable borrowings and $0.7 million from exercises of stock options, partially offset by $15.8 million in repayments of notes payable, line of credit, and financing and capital lease obligations and $0.3 million in payments of contingent consideration.

For the year ended December 31, 2012, net cash used in financing activities was $2.3 million, consisting of $4.2 million in repayments of debt and financing and capital lease obligations, $0.6 million in repurchases of our common stock and $2.1 million in payments of contingent consideration related to an acquisition during the year ended December 31, 2010. These amounts were partially offset by $4.5 million in proceeds from notes payable borrowing and $0.1 million in cash received upon the exercise of stock options.

Operating and Capital Expenditure Requirements

We believe that our existing cash and cash equivalents balances and cash generated from operations will be sufficient to meet our anticipated cash requirements through at least the next 12 months. Our future capital requirements will depend on many factors, including our customer growth rate, subscription renewal activity, the timing and extent of development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings, and the continuing market acceptance of our services. We might require additional capital beyond our currently anticipated amounts. If our available cash and cash equivalents balances are insufficient to satisfy our liquidity requirements, we may seek to sell equity or convertible debt securities or enter into an additional credit facility. The sale of equity and convertible debt securities may result in dilution to our stockholders and those securities may have rights senior to those of our common shares. If we raise additional funds through the issuance of convertible debt securities, these securities could contain covenants that would restrict our operations. Additional capital may not be available on reasonable terms, or at all.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under our outstanding debt facilities, non-cancelable leases for our office space and computer equipment and purchase commitments for our co-location and other support services. The following table summarizes these contractual obligations at December 31, 2014. Future events could cause actual payments to differ from these estimates.

Contractual Obligations	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Long-term debt—Revolving line of credit (1)	$ 17,657	$ —	$17,657	$ —	$ —
Operating lease obligations (2)	39,401	3,857	7,846	7,588	20,110
Capital lease obligations	4,944	2,621	2,321	2	—
Financing obligations, build-to-suit leases (2)	87,111	5,863	12,259	13,006	55,983
Financing obligations, other	2,790	1,599	1,191	—	—
Purchase commitments	5,001	2,621	2,380	—	—
Total	$156,904	$ 16,561	$43,654	$20,596	$ 76,093

(1) Repayment of the revolving line of credit is due at end of the term in 2016. Early repayment is allowed. Interest is paid monthly.

(2) Includes future minimum payments totaling $81.5 million for office space that was under construction as of December 31, 2014. During January 2015, the Company occupied the additional office space constructed under the 15-year build-to-suit lease, signed in December 2013.

In February 2015, the Company replaced its existing revolving line of credit, or Revolver, with the Senior Revolver involving a syndicate of lenders led by the existing lender. The three-year Senior Revolver has a borrowing limit of $60 million. Borrowing capacity under the Senior Revolver is subject to a borrowing base limit that is a function of our monthly recurring revenue as adjusted to reflect lost customer revenue during the previous three calendar months. Therefore, credit available under the Senior Revolver may be less than the $60 million borrowing limit. The outstanding indebtedness under the Revolver will be repaid with proceeds from the Senior Revolver. Interest is payable monthly. Advances under the Senior Revolver bear interest at the prime rate as published in the Wall Street Journal plus a margin based on our liquidity that ranges between 1.0% and 1.5%. We are charged for amounts unused under this arrangement at a rate based on our liquidity of 0.300% to 0.375% per year. Any outstanding principal is due at the end of the term.

On December 13, 2013, we entered into a 15 year build-to-suit lease for additional office space at our Charleston, South Carolina campus. The estimated rentable area of the building to be constructed is approximately 145,000 square feet and the lease commenced on January 1, 2015. Future minimum under the arrangement payments total $81.5 million are included in the contractual obligations table above. Under this lease agreement we executed an option to lease two additional adjacent buildings. The annual cost of the option is $466,000 per year for term of the option which is three years. Additionally, we may incur a termination fee if we terminate the option or let the option expire. The termination fee of $757,000 will be prorated through the date of termination or expiration. As of December 31, 2014, we recognized a liability related to the option in the amount of $489,000. No amounts have been recognized related the to the termination fee. However, if we had terminated the option effective December 31, 2014, we would have incurred expense in the amount of $265,000.

Off-Balance Sheet Arrangements

As of December 31, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities other than as disclosed in Note 15 for which we are not the primary beneficiary of, nor do we have a controlling financial interest in, any variable interest entity. Accordingly, we have not consolidated any variable interest entities.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers”, which amends the revenue recognition requirements in the FASB Accounting Standards Codification, or ASC. This statement requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The statement shall be applied using one of two methods: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying this statement recognized at the date of initial application. The Company has not yet determined which method it will apply. This statement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company’s consolidated financial position and results of operations.

We are evaluating other accounting standards and exposure drafts that have been issued or proposed by the FASB or other standards setting bodies that do not require adoption until a future date to determine whether adoption will have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Risk

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument might change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we might enter into exchange rate hedging arrangements to manage the risks described below.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Borrowings under the revolving line of credit with Silicon Valley Bank, which was entered into in August 2013, bear interest at rates that are variable. Increases in the LIBOR or Prime Rate would increase the amount of interest payable under this line of credit. Borrowings outstanding under our previous credit arrangements were not subject to interest rate risk because they bore interest at fixed rates.

Interest Rate Sensitivity

We are subject to interest rate risk in connection with borrowings under our revolving line of credit, which are subject to a variable interest rate. At December 31, 2014, we had borrowings under our revolving line of credit of $17.7 million. As a result, each change of one percentage point in interest rates would result in an approximate $177,000 change in our annual interest expense on our outstanding borrowings at December 31, 2014. Any debt we incur in the future may also bear interest at variable rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is set forth in the Consolidated Financial Statements and Notes thereto beginning at page F-1 of this Report.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer, and our Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on their evaluation and given the remediation of our material weakness in internal controls over the accounting for leasing transactions as of September 30, 2014, our President and Chief Executive Officer, and our Chief Financial Officer, concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer, and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures as of December 31, 2014.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, including out President and Chief Executive Officer, and our Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our President and Chief Executive Officer, and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (1992 framework). Based on this evaluation

under the Internal Control—Integrated Framework and given the remediation of our material weakness in internal controls over the accounting for leasing transactions as of September 30, 2014, our President and Chief Executive Officer, and our Chief Financial Officer, have concluded that our internal control over financial reporting was effective as of December 31, 2014.

Changes in Internal Control Over Financial Reporting

No change in internal control over financial reporting occurred during the most recent fiscal quarter with respect to our operations, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm due to an exemption established by the JOBS Act for emerging growth companies.

Item 9B. Other Information

Unregistered Sales of Equity Securities

On February 24, 2015, we entered into a Securities Purchase Agreement with Mercer LLC, a Delaware limited liability company and a wholly owned subsidiary of Marsh & McLennan Companies, Inc., a Delaware corporation, or the Investor. Pursuant to the Securities Purchase Agreement, we sold and issued to the Investor 2,817,526 shares of our common stock for $26.50 per share or an aggregate of $74,664,439. At the same time, we also issued Mercer a warrant, or the Warrant, to purchase an additional 580,813 shares of our common stock for $26.50 per share at any time during the 30-month term of the Warrant.

The offer and sale of the shares of our common stock and Warrant to Mercer are exempt from registration under the Securities Act pursuant to Section 4(a)(2) of the Securities Act and Rule 506 promulgated thereunder, based on the fact that the sale was to only one accredited investor.

The Securities Purchase Agreement provides as follows:

Board Observer Right . Until the earlier of (i) the expiration or termination of the Alliance Agreement (as defined below) and (ii) the first date on which the Investor and its affiliates own less than (A) 75% of the shares of our common stock acquired on February 24, 2015 or (B) 5% of our common stock outstanding, in each case in this clause (ii), for a period of at least 45 consecutive days, or the Termination Date, the Investor is entitled to designate an observer as outlined in the Securities Purchase Agreement, to attend all meetings of our board of directors and its committees, subject to certain exceptions.

Standstill . Until the Termination Date and subject to certain exceptions as set forth in the Securities Purchase Agreement, the Investor and its affiliates are restricted from, among other things, acquiring additional shares of our common stock such that they beneficially own more than 17.5% of our common stock outstanding and any shares issuable pursuant to the Warrant without consent of our board of directors, proposing to enter into, directly or indirectly, any merger or business combination involving our company, taking certain actions to seek control of our management, board of directors or policies, soliciting proxies with respect to our common stock, or joining a group for the purpose of acquiring, holding, voting or disposing of our common stock. These standstill restrictions immediately terminate in circumstances including, but not limited to, any public third-party proposal or announcement relating to a merger of business combination with our company or certain third parties acquiring shares representing 15% or more of our common stock outstanding.

Lockup . Until the earlier of the Termination Date or December 31, 2017, the Investor will not sell, transfer or otherwise dispose of, directly or indirectly, any shares of our common stock or enter into any swap or other arrangement that transfers to another person any of the economic consequences of ownership thereof, except: to our company; in response to a tender or exchange offer for our common stock; as part of a merger or other transaction in which all outstanding shares of our common stock are converted into or exchanged for other consideration and is approved by our stockholders; transfers to affiliates of the Investor in accordance with the Securities Purchase Agreement; or with approval of our board of directors.

Right of Notice . Until the Termination Date, in the event that our board of directors initiates or participates in a process with respect to a transaction that would result in a sale of substantially all the assets of our company or would result in a change of control of our company, the Investor is entitled to notice of such process and to participate in such process on terms at least as favorable as the most favorable terms offered to any third party participating therein.

In addition, for the same period, we have agreed not to enter into any agreement providing for a change of control, unless we notify the Investor in writing at least five business days before taking such action, and consider in good faith any offer or proposal made by the Investor within such period.

Right of First Offer . We have granted the Investor a right of first offer with respect to certain new issuances of our equity securities, as have our majority stockholder and other large stockholders with respect to sales of their shares of our common stock pursuant to Right of First Offer Agreement. In general, we and the applicable stockholders are required to offer the Investor the right to purchase any shares of our common stock or other equity securities of our company that we or such stockholders propose to issue or sell, at a price we or the stockholders, as applicable, specify, and if the Investor declines to purchase such shares or other securities at such price, we or the stockholders may issue or sell such securities to one or more third parties at a price no less than the price offered to the Investor. These rights of first offer are subject to the limitation on acquisitions of additional shares of common stock by the Investor under the standstill restrictions described above, and are also subject to certain other exceptions, including only applying to 50% of shares or other securities proposed to be sold by any stockholder in a registered offering or certain other similar forms of sales. These rights of first offer will remain in effect until the Termination Date, subject to certain exceptions.

Other Provisions . The Securities Purchase Agreement contains customary representations, warranties, covenants and other agreements of each of the parties thereto.

Amendment to Rights Agreement

On February 24, 2015, the parties to our existing Investors' Rights Agreement, dated September 18, 2013, or Rights Agreement, entered into an amendment to the Rights Agreement to (i) provide that the Investor is now party to and bound by the Rights Agreement, (ii) alter the thresholds surrounding registration rights of the stockholders who are party to the Rights Agreement, and (iii) eliminate the termination period of the Rights Agreement.

Alliance Agreement

In connection with the Securities Purchase Agreement, we entered into an amendment of the Mercer Exchange Software as a Service Agreement, or Alliance Agreement, with Mercer Health & Benefits LLC, a Delaware limited liability company and an affiliate of the Investor, or Mercer Health. The amendment to the Alliance Agreement, among other things, expands certain terms and conditions of the existing relationship between our company and Mercer Health.

The description of the Securities Purchase Agreement, Warrant, Right of First Offer Agreement and the amendment to the Rights Agreement, collectively, the Transaction Documents, is qualified in its entirety by reference to the full and complete terms of such agreements, which are filed as exhibits hereto and incorporated herein by reference. The representations, warranties and covenants contained in the Transaction Documents are made only for purposes of that agreement and as of specific dates, are solely for the benefit of the parties to such Transaction Documents, may be subject to limitations agreed upon by the parties, including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the parties that differ from those applicable to investors. Investors should not rely on the representations, warranties and covenants or any description thereof as characterizations of the actual state of facts or condition of the parties to the Transaction Documents or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Transaction Documents, and such subsequent information may not be fully reflected in public disclosures by the parties to the Transaction Documents.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item concerning our directors is incorporated by reference from the sections captioned “Election of Directors” and “Corporate Governance Matters” contained in our proxy statement related to the 2015 Annual Meeting of Stockholders currently scheduled to be held on June 12, 2015 which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

Our board of directors has determined that of the members of the Audit Committee, Messrs. Pelzer, Swad and Dennerline are independent within the meaning of the NASDAQ Stock Market listing rules and meet the additional test for independence for audit committee members imposed by Securities and Exchange Commission regulation and the NASDAQ Stock Market listing rules. Our board has also determined that the Mr. Pelzer is an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K.

We have adopted a code of ethics relating to the conduct of our business by all of our employees, officers, and directors, as well as a code of conduct specifically for our principal executive officer and senior financial officers. Each of these policies is posted on our website, *www.benefitfocus.com* .

The information required by this Item concerning our executive officers is set forth at the end of Part I of this Annual Report on Form 10-K.

The information required by this Item concerning compliance with Section 16(a) of the United States Securities Exchange Act of 1934, as amended, is incorporated by reference from the section of the proxy statement captioned “Section 16(a) Beneficial Ownership Reporting Compliance”.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information under the sections captioned “Executive Compensation” and “Director Compensation” in the proxy statement.

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

The following table sets forth the indicated information as of December 31, 2014 with respect to our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders			
2012 Stock Plan, as amended	1,370,413	$ 4.95	1,966,602
Amended and Restated 2000 Stock Option Plan	1,732,838	$ 6.24	—
Total	3,103,251	$ 5.67	1,966,602

Our equity compensation plans consist of the 2012 Stock Plan, as amended and the Amended and Restated 2000 Stock Option Plan, which were approved by our stockholders. We do not have any equity compensation plans or arrangements that have not been approved by our stockholders.

The other information required by this Item is incorporated by reference to the information under the section captioned "Security Ownership of Certain Beneficial Owners and Management" contained in the proxy statement.

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

The information required by this Item is incorporated by reference to the information under the section captioned "Certain Relationships and Related Party Transactions" and "Corporate Governance Matters" in the proxy statement.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to the information under the section captioned "Audit Committee Report" in the proxy statement.

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PART IV

Item 15. Exhibits and Financial Schedules

(a) 1. Financial Statements.

The following statements are filed as part of this Annual Report on Form 10-K:

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2. Financial Statement Schedules.

Schedule II-Valuation and Qualifying Accounts F-35

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

(b) Exhibits

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated) Form	File	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated August 29, 2013 by and among Benefitfocus.com, Inc., Benefitfocus, Inc., and Benefitfocus Mergeco, Inc.	S-1/A	333-190610	2.1	September 5, 2013
3.1.3	Restated Certificate of Incorporation of Benefitfocus, Inc.	10-Q	—	3.1.3	November 12, 2013
3.2	Amended and Restated Bylaws of Benefitfocus, Inc.	S-1/A	333-190610	3.2	September 5, 2013
4.1	Specimen Certificate for Common Stock.	S-1/A	333-190610	4.1	September 5, 2013
4.3	Form of Second Amended and Restated Investors' Rights Agreement, dated , 2013, by and among Benefitfocus, Inc. and certain stockholders named therein.	S-1/A	333-190610	4.3	September 16, 2013
4.3.1	First Amendment to Second Amended and Restated Investors' Rights Agreement, dated February 24, 2015, by and among Benefitfocus, Inc. and certain stockholders named therein.	—	—	—	Filed herewith
4.5	Warrant for the Purchase of Shares of Common Stock of Benefitfocus, Inc. issued February 24, 2015.	—	—	—	Filed herewith

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated)			
		Form	File	Exhibit	Filing Date
10.2	Form of Second Amended and Restated Voting Agreement, dated , 2013, by and among Benefitfocus, Inc., and certain stockholders named therein.	S-1/A	333-190610	10.2	September 5, 2013
10.3	Amended and Restated 2000 Stock Option Plan.#	S-1	333-190610	10.3	August 14, 2013
10.4	2012 Stock Plan, as amended.#	DEF 14A			April 25, 2014
10.5	Form of Grant Notice and Stock Option Agreement under the Amended and Restated 2000 Stock Option Plan.#	S-1	333-190610	10.5	August 14, 2013
10.6	Form of Grant Notice and Stock Option Agreement under the 2012 Stock Plan, as amended.#	S-1	333-190610	10.6	August 14, 2013
10.7	Form of Management Incentive Bonus Program.#	S-1	333-190610	10.7	August 14, 2013
10.7.1	Benefitfocus, Inc. Management Incentive Bonus Program.#	DEF 14A			April 25, 2014
10.8	Employment Agreement, dated January 19, 2007, by and between Benefitfocus.com, Inc. and Mason R. Holland, Jr.#	S-1	333-190610	10.8	August 14, 2013
10.9	Employment Agreement, dated January 19, 2007, by and between Benefitfocus.com, Inc. and Shawn A. Jenkins.#	S-1	333-190610	10.9	August 14, 2013
10.10	Employment Agreement, dated November 16, 2011, by and between Benefitfocus.com, Inc. and Milton A. Alpern.#	S-1	333-190610	10.10	August 14, 2013
10.11	Form of Employment Agreement.#	S-1	333-190610	10.11	August 14, 2013
10.12	Form of Indemnification Agreement.#	S-1	333-190610	10.12	August 14, 2013
10.13	Lease between Daniel Island Executive Center, LLC and Benefitfocus.com, Inc., dated as of January 1, 2009, as amended.	S-1	333-190610	10.13	August 14, 2013
10.14	Lease between Daniel Island Executive Center, LLC and Benefitfocus.com, Inc., dated as of May 31, 2005.	S-1	333-190610	10.14	August 14, 2013
10.15	Master Business Agreement between Aetna Life Insurance Company and Benefitfocus.com, Inc., dated as of November 28, 2006.†	S-1	333-190610	10.15	August 14, 2013

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated) Form	File	Exhibit	Filing Date
10.16	Master Guidance Line of Credit Agreement between Benefitfocus.com, Inc. and NBSC, a division of Synovus Bank, dated as of November 21, 2012 and the form of the Security Agreement and Promissory Notes thereunder.†	S-1	333-190610	10.16	August 14, 2013
10.17	Loan and Security Agreement between Silicon Valley Bank, Benefitfocus.com, Inc., Benefit Informatics, Inc., and Benefitfocus, Inc., dated as of August 27, 2013.	S-1/A	333-190610	10.17	September 5, 2013
10.18	Second Amendment Agreement between Silicon Valley Bank, Benefitfocus.com, Benefit Informatics, Inc., and Benefitfocus, Inc., dated December 10, 2013.	8-K	—	10.18	December 12, 2013
10.19	Lease between DIEC II, LLC and Benefitfocus.com, Inc., dated as of December 13, 2013.	10-K	—	10.19	March 21, 2014
10.20	Securities Purchase Agreement, dated as of February 24, 2015, by and among Benefitfocus, Inc. and Mercer LLC.	—	—	—	Filed herewith
10.21	Right of First Offer Agreement, dated as of February 24, 2015, by and among Benefitfocus, Inc., Mercer LLC, GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG, GS Capital Partners VI Fund, L.P., GS Capital Partners VI Offshore Fund, L.P., Oak Investment Partners XII, Limited Partnership and certain stockholders named therein.	—	—	—	Filed herewith
21.1	List of Subsidiaries of Registrant.	—	—	—	Filed herewith
23.1	Consent of Ernst & Young LLP.	—	—	—	Filed herewith
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated) Form	File	Exhibit	Filing Date
32.1	Certification of the President and Chief Executive Officer, and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
101.INS	XBRL Instance Document.	—	—	—	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	—	—	—	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	—	—	—	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	—	—	—	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	—	—	—	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	—	—	—	Filed herewith

Management contract or compensatory plan.
† The registrant has received confidential treatment with respect to portions of this exhibit. Those portions have been omitted from the exhibit and filed separately with the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Benefitfocus, Inc.

Date: February 27, 2015

By: /s/ Milton A. Alpern
Milton A. Alpern
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Mason R. Holland, Jr. Mason R. Holland, Jr.	Chairman of the Board of Directors	February 27, 2015
/s/ Shawn A. Jenkins Shawn A. Jenkins	President and Chief Executive Officer (principal executive officer) and Director	February 27, 2015
/s/ Milton A. Alpern Milton A. Alpern	Chief Financial Officer (principal financial and accounting officer)	February 27, 2015
/s/ Douglas A. Dennerline Douglas A. Dennerline	Director	February 27, 2015
/s/ Joseph P. DiSabato Joseph P. DiSabato	Director	February 27, 2015
/s/ Ann H. Lamont Ann H. Lamont	Director	February 27, 2015
/s/ A. Lanham Napier A. Lanham Napier	Director	February 27, 2015
/s/ Francis J. Pelzer V Francis J. Pelzer V	Director	February 27, 2015
/s/ Stephen M. Swad Stephen M. Swad	Director	February 27, 2015

BENEFITFOCUS, INC.
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CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Benefitfocus, Inc.

We have audited the accompanying consolidated balance sheets of Benefitfocus, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Benefitfocus, Inc. at December 31, 2014 and 2013 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Raleigh, North Carolina
February 27, 2015

BENEFITFOCUS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of December 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 51,074	$ 65,645
Marketable securities	5,135	13,168
Accounts receivable, net	21,311	23,668
Prepaid expenses and other current assets	4,242	4,322
Total current assets	81,762	106,803
Property and equipment, net	54,021	27,444
Intangible assets, net	951	1,256
Goodwill	1,634	1,634
Other non-current assets	1,650	2,474
Total assets	$ 140,018	$ 139,611
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	$ 5,589	$ 4,354
Accrued expenses	9,171	3,911
Accrued compensation and benefits	17,374	14,183
Deferred revenue, current portion	20,384	15,158
Financing and capital lease obligations, current portion	4,197	4,288
Total current liabilities	56,715	41,894
Deferred revenue, net of current portion	74,126	65,063
Revolving line of credit	17,657	5,757
Financing and capital lease obligations, net of current portion	32,240	14,263
Other non-current liabilities	2,103	1,202
Total liabilities	182,841	128,179
Commitments and contingencies		
Stockholders' (deficit) equity:		
Preferred stock, par value $0.001, 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2014 and 2013	—	—
Common stock, par value $0.001, 50,000,000 shares authorized, 25,608,937 and 24,495,651 shares issued and outstanding at December 31, 2014 and 2013, respectively	26	24
Additional paid-in capital	223,409	214,487
Accumulated deficit	(266,258)	(203,079)
Total stockholders' (deficit) equity	(42,823)	11,432
Total liabilities and stockholders' (deficit) equity	$ 140,018	$ 139,611

The accompanying notes are an integral part of the Consolidated Financial Statements.

BENEFITFOCUS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)

	Year Ended December 31,		
	2014	2013	2012
Revenue	$ 137,420	$ 104,752	$ 81,739
Cost of revenue	87,470	62,411	44,400
Gross profit	49,950	42,341	37,339
Operating expenses:			
Sales and marketing	48,467	36,072	27,905
Research and development	41,729	23,532	14,621
General and administrative	18,657	10,974	7,494
Change in fair value of contingent consideration	—	(43)	121
Total operating expenses	108,853	70,535	50,141
Loss from operations	(58,903)	(28,194)	(12,802)
Other income (expense):			
Interest income	77	46	53
Interest expense on building lease financing obligations	(3,624)	(1,768)	(1,774)
Interest expense on other borrowings	(682)	(381)	(202)
Other expense	(22)	(95)	(64)
Total other expense, net	(4,251)	(2,198)	(1,987)
Loss before income taxes	(63,154)	(30,392)	(14,789)
Income tax expense (benefit)	25	(31)	84
Net loss	$ (63,179)	$ (30,361)	$ (14,873)
Comprehensive loss	$ (63,179)	$ (30,361)	$ (14,873)
Net loss per common share:			
Basic and diluted	$ (2.51)	$ (2.99)	$ (3.09)
Weighted-average common shares outstanding:			
Basic and diluted	25,207,099	10,144,243	4,812,632

The accompanying notes are an integral part of the Consolidated Financial Statements.

BENEFITFOCUS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, except share data)

	Common Stock, No Par Value		Common Stock, $0.001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Par Value	Shares	Par Value			
Balance, December 31, 2011	4,805,957	$ 4,923	—	$ —	$ —	$ (157,368)	$ (152,445)
Exercise of stock options	50,410	108	—	—	—	—	108
Repurchase of common stock	(64,020)	(122)	—	—	—	(477)	(599)
Stock-based compensation expense	—	712	—	—	—	—	712
Accretion of customer warrant	—	488	—	—	—	—	488
Net loss	—	—	—	—	—	(14,873)	(14,873)
Balance, December 31, 2012	4,792,347	$ 6,109	—	$ —	$ —	$ (172,718)	$ (166,609)
Exercise of stock options	71,694	168	129,750	—	531	—	699
Issuance of common stock	5,000	68	—	—	—	—	68
Effects of corporate restructuring	(4,869,041)	(7,328)	4,869,041	5	7,323	—	—
Initial public offering, net of issuance costs	—	—	3,000,000	3	70,061	—	70,064
Conversion of redeemable convertible preferred stock	—	—	16,496,860	16	135,461	—	135,477
Stock-based compensation expense	—	537	—	—	665	—	1,202
Accretion of customer warrant	—	446	—	—	446	—	892
Net loss	—	—	—	—	—	(30,361)	(30,361)
Balance, December 31, 2013	—	$ —	24,495,651	$ 24	$ 214,487	$ (203,079)	$ 11,432
Exercise of stock options	—	—	642,152	1	2,817	—	2,818
Issuance of common stock upon vesting of restricted stock units, net of shares surrendered for taxes	—	—	15,613	—	(226)	—	(226)
Issuance of common stock for cashless exercise of warrant	—	—	455,521	1	(1)	—	—
Stock-based compensation expense	—	—	—	—	5,588	—	5,588
Accretion of customer warrant	—	—	—	—	744	—	744
Net loss	—	—	—	—	—	(63,179)	(63,179)
Balance, December 31, 2014	—	$ —	25,608,937	$ 26	$ 223,409	$ (266,258)	$ (42,823)

The accompanying notes are an integral part of the Consolidated Financial Statements.

BENEFITFOCUS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net loss	$(63,179)	$(30,361)	$(14,873)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:			
Depreciation and amortization	9,493	8,172	8,560
Stock-based compensation expense	5,588	1,202	712
Change in fair value and accretion of warrant	744	892	488
Interest accrual on financing obligation	3,624	1,768	1,774
Change in fair value of contingent consideration	—	(17)	188
Provision for doubtful accounts	—	(32)	98
Loss on disposal or impairment of property and equipment	25	65	17
Changes in operating assets and liabilities:			
Accounts receivable, net	2,357	(10,264)	(4,411)
Accrued interest on short-term investments	162	—	—
Prepaid expenses and other current assets	833	(1,440)	639
Other non-current assets	824	—	—
Accounts payable	(199)	2,625	862
Accrued expenses	2,469	904	532
Accrued compensation and benefits	3,192	4,521	3,102
Contingent consideration related to acquisition	—	—	(320)
Deferred revenue	14,288	22,701	14,747
Other non-current liabilities	901	331	293
Net cash and cash equivalents (used in) provided by operating activities	(18,878)	1,067	12,408
Cash flows from investing activities			
Purchases of short-term investments held to maturity	(12,959)	(13,168)	—
Proceeds from maturity of short-term investments held to maturity	20,830	—	—
Purchases of property and equipment	(9,824)	(8,918)	(6,308)
Proceeds from sale of property and equipment	—	9	—
Net cash and cash equivalents used in investing activities	(1,953)	(22,077)	(6,308)
Cash flows from financing activities			
Proceeds from initial public offering, net of issuance costs	—	70,064	—
Draws on revolving line of credit	14,000	10,757	—
Payments on revolving line of credit	(2,100)	(5,000)	—
Proceeds from notes payable borrowing	—	1,465	4,535
Repayment of notes payable	—	(7,447)	(1,074)
Proceeds from exercises of stock options	2,817	699	108
Proceeds from issuance of common stock (excluding IPO)	—	68	—
Remittance of taxes upon vesting of restricted stock units	(226)	—	—
Repurchases of common stock	—	—	(599)
Payments of contingent consideration	—	(311)	(2,078)
Payments on financing and capital lease obligations	(8,231)	(3,343)	(3,145)
Net cash and cash equivalents provided by (used in) financing activities	6,260	66,952	(2,253)
Net (decrease) increase in cash and cash equivalents	(14,571)	45,942	3,847
Cash and cash equivalents, beginning of year	65,645	19,703	15,856
Cash and cash equivalents, end of year	$ 51,074	$ 65,645	$ 19,703
Supplemental disclosure of non-cash investing and financing activities			
Property and equipment acquisitions in accounts payable and accrued expenses	$ 4,226	$ 524	$ —
Property and equipment acquired with financing and capital lease obligations	$ 21,739	$ 5,440	$ 132
Post contract support acquired with financing obligations	$ 754	$ 3,872	$ —
Supplemental disclosure of cash flow information			
Income taxes paid	$ 38	$ 169	$ 40
Interest paid	$ 2,449	$ 2,146	$ 1,973

The accompanying notes are an integral part of the Consolidated Financial Statements.

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1. Organization and Description of Business

Benefitfocus, Inc. (the "Company") is a leading provider of cloud-based benefits software solutions for consumers, employers, insurance carriers and brokers delivered under a software-as-a-service ("SaaS") model. The financial statements of the Company include the financial position and operations of its wholly owned subsidiaries, Benefitfocus.com, Inc., Benefit Informatics, Inc. and BenefitStore, Inc.

Corporate restructuring

The Company, a Delaware corporation, was originally a wholly owned subsidiary of Benefitfocus.com, Inc., the South Carolina corporation that conducts the business of the Company. On March 13, 2013, the board of directors of each of Benefitfocus, Inc. and Benefitfocus.com, Inc. approved a corporate restructuring to be effected prior to the completion of the Company's initial public offering ("IPO") of shares of its common stock. On September 13, 2013, the Company restructured its organization by merging Benefitfocus.com, Inc. with a newly formed South Carolina corporation, which was a wholly owned subsidiary of the Company. As a result of the corporate restructuring, Benefitfocus.com, Inc. became a wholly owned operating subsidiary of the Company. Additionally, the common and preferred stockholders of Benefitfocus.com, Inc. became common and preferred stockholders, respectively, of Benefitfocus, Inc. and warrants that were exercisable for common shares of Benefitfocus.com, Inc. became exercisable for common shares of Benefitfocus, Inc. Similarly, holders of options to purchase common shares of Benefitfocus.com, Inc. became holders of options to purchase shares of common stock of Benefitfocus, Inc.

Initial Public Offering

In September 2013, the Company completed its IPO in which it issued and sold 3,000,000 shares of common stock and existing shareholders sold 2,675,250 shares of common stock at a public offering price of $26.50 per share. The Company did not receive any proceeds from the sale of common stock by the existing shareholders. The Company received net proceeds of $70,064 after deducting underwriting discounts and commissions of $5,565 and other offering expenses of $3,871. Upon the closing of the IPO, all shares of the Company's then-outstanding redeemable convertible preferred stock automatically converted into 16,496,860 shares of its $0.001 par value common stock.

2. Summary of Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we have a controlling financial interest in, any variable interest entity. Accordingly, we have not consolidated any variable interest entity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Such estimates include revenue recognition and the customer relationship

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period, allowances for doubtful accounts and returns, valuations of deferred income taxes, long-lived assets, warrants, the useful lives of assets, capitalizable software development costs and the related amortization, contingent consideration, stock-based compensation, and the recognition and impairment assessment of acquired intangibles and goodwill. Determination of these transactions and account balances are based on the Company's estimates and judgments. These estimates are based on the Company's knowledge of current events and actions it may undertake in the future as well as on various other assumptions that it believes to be reasonable. Actual results could differ materially from these estimates.

Revenue and Deferred Revenue

The Company derives the majority of its revenue from software services fees, which consist primarily of monthly subscription fees paid by customers for access to and usage of the Company's cloud-based benefits software solutions for a specified contract term. The Company also derives revenue from professional services which primarily include fees related to the integration of customers' systems with the Company's platform, which typically includes discovery, configuration, deployment, testing, and training.

The Company recognizes revenue when there is persuasive evidence of an arrangement, the service has been provided, the fees to be paid by the customer are fixed and determinable and collectability is reasonably assured. The Company considers delivery of its cloud-based software services has commenced once it has granted the customer access to its platform.

The Company's arrangements generally contain multiple elements comprised of software services and professional services. The Company evaluates each element in an arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within the Company's control. The Company's professional services are not sold separately from the software services and there is no alternative use for them. As such, the Company has determined that the professional services do not have standalone value. Accordingly, software services and professional services are combined and recognized as a single unit of accounting.

The Company generally recognizes software services fees monthly based on the number of employees covered by the relevant benefits plans at contracted rates for a specified period of time, once the criteria for revenue recognition described above have been satisfied. The Company defers recognition of revenue for professional services fees and begins recognizing such revenue once the services are performed and the related software services have commenced, ratably over the longer of the contract term or the estimated expected life of the customer relationship. Costs incurred by the Company in connection with providing such professional services are charged to expense as incurred and are included in "Cost of revenue."

In January 2015, the Company adjusted the estimated expected life of its customer relationship. This change in estimate was the result of analyzing quantitative and qualitative observations in the market and the Company's business. This change shortens the term over which deferred revenue will be recognized from 10 to 7 years and will be applied prospectively to unamortized professional services fees over the longer of the contract term or the adjusted estimated expected life of the customer relationship.

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Cost of Revenue

Cost of revenue primarily consists of employee compensation, professional services, data center co-location costs, networking expenses, depreciation expense for computer equipment directly associated with generating revenue, amortization expense for capitalized software development costs, and infrastructure maintenance costs. In addition, the Company allocates a portion of overhead, such as rent, additional depreciation and amortization expense, and employee benefit costs, to cost of revenue based on headcount.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank checking accounts and money market accounts. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Marketable Securities

Marketable securities consist of short-term investments in corporate securities. The Company classifies its marketable securities as held-to-maturity at the time of purchase. As a result, the marketable securities are recorded at amortized cost and any gains or losses realized upon maturity are reported in other expense, net in the consolidated statements of operations and comprehensive loss.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. All of the Company's cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The bank deposits of the Company might, at times, exceed federally insured limits and are generally uninsured and uncollateralized. The Company has not experienced any losses on cash and cash equivalents to date. To manage accounts receivable risk, the Company evaluates the creditworthiness of its customers and maintains an allowance for doubtful accounts.

Accounts receivable were unsecured and were derived from revenue earned from customers located in the United States. Accounts receivable from one customer, Aetna, represented 13.3% and 11.3% of the total accounts receivable at December 31, 2014 and 2013, respectively.

No customer represented more than 10% of total revenue for the years ended December 31, 2014 and 2013. Revenue from one customer, Aetna, represented 10.5% of total revenue for the year ended December 31, 2012. Revenue from this customer is reported in the Company's Carrier segment.

Accounts Receivable and Allowance for Doubtful Accounts and Returns

Accounts receivable is stated at realizable value, net of allowances for doubtful accounts and returns. The Company utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of amounts due, and other relevant factors. Bad debt expense is recorded in general and administrative expense on the consolidated statements of

operations and comprehensive loss. The Company's estimate is based on historical collection experience and a review of the current status of accounts receivable. Historically, actual write-offs for uncollectible accounts have not significantly differed from the Company's estimates. The Company removes recorded receivables and the associated allowances when they are deemed permanently uncollectible. However, higher than expected bad debts may result in future write-offs that are greater than the Company's estimates. The allowance for doubtful accounts was $10 as of December 31, 2014 and 2013.

The allowances for returns are accounted for as reductions of revenue and are estimated based on the Company's periodic assessment of historical experience and trends. The Company considers factors such as the time lag since the initiation of revenue recognition, historical reasons for adjustments, new customer volume, complexity of billing arrangements, timing of software availability, and past due customer billings. The allowance for returns was $1,653 and $800 as of December 31, 2014 and 2013, respectively.

Property and Equipment

Property and equipment, including capitalized software development costs, are stated at cost less accumulated depreciation and amortization. Expenditures for major additions and improvements are capitalized. Depreciation and amortization is recognized over the estimated useful lives of the related assets using the straight-line method.

The estimated useful lives for significant property and equipment categories are generally as follows:

Computers and related equipment	3-7 years
Furniture and fixtures	7 years
Other equipment	5-12 years
Purchased software and licenses	1-7 years
Vehicles	5 years
Buildings	30 years
Leasehold improvements	Lesser of estimated useful life of asset or lease term

Useful lives of significant assets are periodically reviewed and adjusted prospectively to reflect the Company's current estimates of the respective assets' expected utility. Costs associated with maintenance and repairs are expensed as incurred.

In the event the Company has been deemed the owner for accounting purposes of construction projects in build-to-suit lease arrangements, the estimated construction costs incurred to date are recorded as assets in Property and Equipment, net. Upon occupancy of facilities under build-to-suit leases, the Company assesses whether arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the Company continues to be the deemed owner for accounting purposes, the cost of the building is depreciated over its estimated useful life.

Capitalized Software Development Costs

The Company capitalizes certain costs related to its software developed or obtained for internal use. Costs related to preliminary project activities and post-implementation activities are expensed as

incurred. Internal and external costs incurred during the application development stage, including upgrades and enhancements representing modifications that will result in significant additional functionality, are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized costs are recorded as part of property and equipment and are amortized on a straight-line basis over the software's estimated useful life which is three years. The Company evaluates these assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Identifiable Intangible Assets

Identifiable intangible assets with finite lives are recorded at their fair values at the date of acquisition and are amortized on a straight-line basis over their respective estimated useful lives, which is the period over which the asset is expected to contribute directly or indirectly to future cash flows. The estimated remaining useful lives used in computing amortization range from 1 to 4 years.

Impairment of Long-Lived Assets and Goodwill

The Company reviews long-lived assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset or asset group to future undiscounted net cash flows expected to be generated. If such assets are not recoverable, the impairment to be recognized, if any, is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value (discounted cash flow) of the assets or asset group. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell.

Goodwill represents the excess of the aggregate of the fair value of consideration transferred in a business combination over the fair value of assets acquired, net of liabilities assumed. Goodwill is not amortized; rather, goodwill is tested for impairment at the reporting unit level as of October 31 of each year, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value before performing a two-step approach to testing goodwill for impairment for each reporting unit. The reporting units are determined by the components of the Company's operating segments that constitute a business for which both (1) discrete financial information is available and (2) segment management regularly reviews the operating results of that component. If it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company performs the impairment test by applying a fair-value-based test. The first step measures for impairment by applying fair-value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair-value-based tests to the individual assets and liabilities within each reporting unit.

As part of determining its reporting units, the Company has identified two operating segments, Employer and Carrier. To determine the fair value of the Company's reporting units, the Company has used a discounted cash flow analysis, which requires significant assumptions and estimates about future operations. Significant judgments inherent in this analysis include the determination of an appropriate discount rate, estimated terminal value and the amount and timing of expected future cash

flows. The Company may also determine fair value of its reporting units using a market approach by applying multiples of earnings of peer companies to its operating results.

Financing Obligations

In its build-to-suit lease arrangements where the Company is involved in the construction of its buildings, the Company is deemed the owner for accounting purposes during the construction period. The Company records an asset for the amount of the total project costs in Property and Equipment, net and the related financing obligation in Financing and Capital Lease Obligations on the Consolidated Balance Sheet. Once construction is complete, the Company determines if the asset qualifies for sale-leaseback accounting treatment. If the arrangement does not qualify for sale-lease back treatment, the Company continues to reduce the obligation over the lease term as payments are made and depreciates the asset over its useful life. The Company does not report rent expense for the portion of the rent payment determined to be related to the assets which are owned for accounting purposes. Rather, this portion of the rent payment under the lease is recognized as a reduction of the financing obligation and as interest expense.

Financing obligations also include liabilities for service agreements related to property and equipment under capital leases.

Sales Commissions

Sales commissions are expensed when the sales contract is executed by the customer.

Advertising

The Company expenses advertising costs as they are incurred. Direct advertising costs for 2014, 2013, and 2012 were $394, $265, and $257, respectively.

Comprehensive Loss

The Company’s net loss equals comprehensive loss for all periods presented.

Stock-Based Employee Compensation

Stock-based employee compensation is measured based on the grant-date fair value of the awards and recognized in the Consolidated Statements of Operations and Comprehensive Loss over the period during which the award holder is required to perform services in exchange for the award, which is the vesting period. Compensation expense is recognized over the vesting period of the applicable award using the straight-line method. Compensation costs related to restricted stock units (‘RSUs’) is recorded based on the market price on the grant date. The Company uses the Black-Scholes option pricing model for estimating the fair value of stock options. The use of the option valuation model requires the input of subjective assumptions, including the estimated fair value of the Company’s common stock in the periods preceding the IPO, the expected life of the option and the expected stock price volatility based on peer companies. Additionally, the recognition of stock-based compensation expense requires the estimation of the number of options that will ultimately vest and the number of options that will ultimately be forfeited.

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Income Taxes

The Company uses the asset and liability method for income tax accounting. This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. Valuation allowances are recorded to reduce deferred tax assets to the amount the Company believes is more likely than not to be realized. The tax benefits of uncertain tax positions are recognized only when the Company believes it is more likely than not that the tax position will be upheld on examination by the taxing authorities based on the merits of the position. The Company recognizes interest and penalties, if any, related to unrecognized income tax benefits in income tax expense.

Basic and Diluted Net Loss per Common Share

The Company uses the two-class method to compute net loss per common share because the Company has issued securities, other than common stock, that contractually entitle the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Holders of each series of the Company's redeemable convertible preferred stock are entitled to participate in distributions, when and if declared by the board of directors that are made to common stockholders, and as a result are considered participating securities.

Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the participating securities have no obligation to fund losses. Diluted net loss per common share is computed under the two-class method by using the weighted-average number of shares of common stock outstanding plus, for periods with net income attributable to common stockholders, the potential dilutive effects of stock awards and warrants. In addition, the Company analyzes the potential dilutive effect of the outstanding participating securities under the "if-converted" method when calculating diluted earnings per share, in which it is assumed that the outstanding participating securities convert into common stock at the beginning of the period. The Company reports the more dilutive of the approaches (two-class or "if-converted") as its diluted net income per share during the period. Due to net losses for the years ended December 31, 2014, 2013, and 2012 basic and diluted loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers", which amends the revenue recognition requirements in the FASB Accounting Standards Codification (ASC). This statement requires that an entity recognize revenue to depict the transfer of promised

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goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The statement shall be applied using one of two methods: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying this statement recognized at the date of initial application. The Company has not yet determined which method it will apply. This statement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial position and results of operations.

3. Net Loss Per Common Share

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss. The following common share equivalent securities have been excluded from the calculation of weighted-average common shares outstanding because the effect is anti-dilutive for the periods presented:

Anti-Dilutive Common Share Equivalents	Year Ended December 31, 2014	2013	2012
Redeemable convertible preferred stock:			
Series A	—	—	14,055,851
Series B	—	—	2,441,009
Restricted stock units	720,370	97,700	—
Stock options	2,382,881	3,058,795	3,121,064
Warrant to purchase common stock	—	500,000	500,000
Total anti-dilutive common share equivalents	3,103,251	3,656,495	20,117,924

Basic and diluted net loss per common share is calculated as follows:

	Year Ended December 31, 2014	2013	2012
Numerator:			
Net loss	$ (63,179)	$ (30,361)	$ (14,873)
Net loss attributable to common stockholders	$ (63,179)	$ (30,361)	$ (14,873)
Denominator:			
Weighted-average common shares outstanding, basic and diluted	25,207,099	10,144,243	4,812,632
Net loss per common share, basic and diluted	$ (2.51)	$ (2.99)	$ (3.09)

4. Marketable Securities

Marketable securities consist of corporate bonds and are classified as held-to-maturity. The amortized cost basis and net carrying amount of marketable securities was $5,135 and $13,168 and the aggregate fair value, determined by Level 2 inputs, was $5,134 and $13,166, as of December 31, 2014 and 2013, respectively. The gross unrealized holding gains were $0 and $0 and the gross

unrealized losses were $1 and $2, as of December 31, 2014 and 2013, respectively. Corporate bonds held in marketable securities have contractual maturities of between 1 and 3 months as of December 31, 2014.

The following table presents information about the Company's investments that were in an unrealized loss position and for which an other-than-temporary impairment has not been recognized in earnings as of December 31:

	2014	2013
Aggregate fair value of investments with unrealized losses (1)	$5,135	$1,281
Aggregate amount of unrealized losses	(1)	(2)

(1) Investments have been in a continuous loss position for less than 12 months

5. Fair Value Measurement

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, net accounts receivable, accounts payable and other accrued liabilities, and accrued compensation and benefits, approximate fair value due to their short-term nature. The carrying value of the Company's financing obligations and revolving line of credit approximates fair value, considering the borrowing rates currently available to the Company for financing obligations with similar terms and credit risks.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. The three tiers are defined as follows:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2. Other inputs that are directly or indirectly observable in the marketplace.

Level 3. Unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made.

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The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis using the above categories, as of December 31, 2014 and 2013.

Description	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market mutual funds (1)	$50,695	$ —	$ —	$50,695
Total assets	$50,695	$ —	$ —	$50,695

Description	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market mutual funds (1)	$65,443	$ —	$ —	$65,443
Total assets	$65,443	$ —	$ —	$65,443

(1) Money market funds are classified as cash equivalents in the Company's consolidated balance sheets. As short-term, highly liquid investments readily convertible to known amounts of cash, with remaining maturities of three months or less at the time of purchase, the Company's cash equivalent money market funds have carrying values that approximate fair value.

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following table presents the changes in the Company's Level 3 instruments measured at fair value on a recurring basis for the year ended December 31, 2013 (no such assets in 2014):

	2013
Balance of contingent consideration at beginning of period	$ 328
Change in fair value	(43)
Accretion of discount	26
Payment	(311)
Balance of contingent consideration at end of period	$ —

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6. Property and Equipment

Property and equipment consists of the following as of December 31:

	2014	2013
Building, leased	$ 7,965	$ 7,965
Computers and related equipment	18,871	13,954
Purchased software and licenses	20,392	17,556
Software developed	18,397	16,182
Furniture and fixtures	3,834	2,717
Leasehold improvements	3,334	1,730
Other equipment	2,009	1,922
Vehicles	111	111
Construction in progress	24,296	1,781
Total property and equipment, at cost	99,209	63,918
Accumulated depreciation and amortization	(45,188)	(36,474)
Property and equipment, net	$ 54,021	$ 27,444

Depreciation and amortization expense on property and equipment was $9,188, $7,849 and $8,225, for the years ended December 31, 2014, 2013 and 2012, respectively. Property and equipment at December 31, 2014 and 2013 includes fixed assets acquired under capital lease agreements of $8,569 and $8,463, respectively. Accumulated depreciation of assets under capital leases totaled $1,521 and $2,033 as of December 31, 2014 and 2013, respectively. Amortization of assets under capital leases is included in depreciation expense.

During 2012, the Company determined it was no longer probable that certain software developed for internal use and certain purchased software would produce expected cash flows for the remainder of their respective useful lives. As a result, the Company recognized an impairment charge related to these long-lived assets totaling $1,051 in the Employer segment, for the year ended December 31, 2012.

The Company capitalized software development costs of $2,215 and $2,751 for the years ended December 31, 2014 and 2013, respectively. Amortization of capitalized software development costs totaled $2,257, $2,618 and $3,145 during the years ended December 31, 2014, 2013 and 2012, respectively. The net book value of capitalized software development costs was $4,134 and $4,101 at December 31, 2014, and 2013, respectively.

7. Goodwill and Intangible Assets

The Company’s goodwill balance of $1,634 is solely attributable to the Employer reporting unit. There have been no changes in the carrying amount of goodwill in the years ended December 31, 2014 and 2013.

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Information regarding the Company's acquisition-related intangible assets is as follows:

	As of December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life (in years)
Trademarks	$ 240	$ (212)	$ 28	0.6
Customer agreements	2,060	(1,137)	923	3.6
Non-compete agreements	126	(126)	—	—
Total	$2,426	$ (1,475)	$ 951	3.5

	As of December 31, 2013			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Remaining Useful Life (in years)
Trademarks	$ 240	$ (164)	$ 76	1.6
Customer agreements	2,060	(880)	1,180	4.6
Non-compete agreements	126	(126)	—	—
Total	$2,426	$ (1,170)	$ 1,256	4.4

Amortization expense of acquisition-related intangible assets for the years ended December 31, 2014, 2013 and 2012 was $305, $323 and $335, respectively. As of December 31, 2014, expected amortization expense for the intangible assets for each of the next five years and thereafter was as follows:

2015	$286
2016	257
2017	257
2018	151
2019	—
Total	$951

There were no impairments of intangible assets during the years ended December 31, 2014, 2013 and 2012.

8. Revolving Line of Credit and Notes Payable

During 2013, the Company transitioned its general business financing from its existing master credit facility to a revolving line of credit at a different bank.

At January 1, 2013, the Company had a $6,000 master credit facility under which two senior secured promissory notes totaling $4,535 were outstanding ("Credit Facility Notes"). In March 2013 and June 2013, the Company borrowed an additional $874 and $591, respectively, under two additional senior secured

promissory notes bearing interest at fixed annual rates ranging from 3.6% to 3.7% and repayable in equal monthly installments of principal and interest through dates ranging from December 2015 to July 2016.

On August 27, 2013, the Company entered into a loan and security agreement with Silicon Valley Bank for a revolving line of credit of up to $35,000 for working capital, to fund general business requirements, and to repay the indebtedness under the master credit facility and other senior secured promissory notes.

In August 2014, the borrowing limit under the Company's line of credit increased from $15,000 to $35,000 in accordance with the terms of the agreement as amended on December 10, 2013. Borrowing capacity under the line of credit is subject to a borrowing base limit that is a function of the Company's monthly recurring revenue as adjusted to reflect lost customer revenue during the previous quarter. Therefore, credit available under the line of credit may be less than the specified limit.

Advances can be designated as LIBOR advances or prime rate advances. LIBOR advances bear interest at 2.75% plus the greater of 0.50% or current LIBOR for the applicable period, generally 30 days, adjusted for certain regulatory reserve requirements. The LIBOR rate is adjusted approximately monthly. Prime Rate advances bear interest at the prime rate as published in the Wall Street Journal. The line of credit has an annual commitment fee of $70 and an unused line of credit fee of a rate of 0.20% per year.

The Company made customary affirmative and negative covenants in connection with the loan and security agreement, including financial covenants related to liquidity and revenue growth. In the event of a default, Silicon Valley Bank may declare all obligations immediately due and stop advancing money or extending credit under the line of credit. The line of credit is collateralized by substantially all of the Company's tangible and intangible assets, including any proceeds of intellectual property (but not the underlying intellectual property itself), and the Company has agreed not to encumber any of its intellectual property without Silicon Valley Bank's prior written consent. As of December 31, 2014, the Company was in compliance with the covenants.

On August 30, 2013, the Company borrowed $5,757 under this line of credit, which it used to repay all of the amounts outstanding under its master credit facility and two senior promissory notes with its previous lender. In September 2013, the Company borrowed and repaid an additional $5,000 under this line of credit.

In June 2014, the Company borrowed $7,000 under its line of credit, which was used to fund the general operations of the Company. In December 2014, the Company borrowed an additional $7,000 to fund the general operations of the Company and repaid $2,100 under its line of credit.

As of December 31, 2014, the amount outstanding under this line of credit was $17,657 and the amount available to borrow was $12,507. The amount outstanding, which represents principal and currently bears interest at 3.25%, is due August 27, 2016. No other amounts are due in any other year.

9. Commitment and Contingencies

Operating Lease Commitments

In September 2014, the Company entered into an amendment to its operating lease for office space in Greenville, South Carolina. The amendment expands the space leased, extends the term of the lease for five years to February 2020, and grants the Company the right to extend the lease for five

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additional one-year periods. The amended lease contains a free-rent period and a provision for escalating rent payments. Accordingly, rent expense will be recognized on a straight-line basis over the lease term. Monthly lease payments under the amended lease will begin February 2015. Expenses under this lease will total approximately $95 per quarter.

In February 2013, the Company entered into an amendment to a 2009 operating lease for additional office space. The lease commenced January 1, 2014 and will terminate in 2024 as stated in the original agreement.

In August 2013, the Company entered into an amendment to a 2012 office lease agreement for its facility in Tulsa, Oklahoma. Under the terms of the lease agreement, the Company has committed to extend its lease term to April 2015.

The Company also leases office facilities under various non-cancelable operating lease agreements with original lease periods expiring between 2017 and 2029. Some of the leases provide for renewal terms at the Company’s option. Certain future minimum lease payments due under these operating lease agreements contain free rent periods or escalating rent payment provisions. These leases generally do not contain purchase options. Rent expense on these operating leases is recognized over the term of the lease on a straight-line basis.

Rent expense totaled $4,099, $2,517 and $1,946 for the years ended December 31, 2014, 2013 and 2012, respectively.

Future minimum lease payments are as follows:

	Operating Leases
Year Ending December 31,	
2015	$ 3,857
2016	3,912
2017	3,934
2018	3,747
2019	3,841
Thereafter	20,110
Total minimum lease payments	$39,401

Financing and Capital Lease Obligations

The Company has entered into various capital lease arrangements to obtain property and equipment for operations. These agreements range from 12 months to 5 years with interest rates ranging from 3.0% to 12.4%. The leases are secured by the underlying leased property and equipment.

In September 2014, the Company entered into an agreement for support services for call hosting. The Company recorded this agreement as a financing obligation. Total payments under this one-year agreement total $150. As of December 31, 2014, financing obligations include $113 under this agreement.

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In April 2014, the Company entered into a lease with a 3-year term for data processing equipment and software. The total payments under the lease are $3,779, including a down payment of $1,340 and aggregate monthly payments of $2,439. The lease provides for a bargain purchase option at the end of its 3 year term. As of December 31, 2014, capital lease obligations include amounts under this lease of $1,803.

Related to the April 2014 capital lease, the Company recorded a financing obligation for support services for data processing equipment. Total payments under this three-year arrangement are $629, including a down payment of $223 and aggregate monthly payments of $406. As of December 31, 2014, financing obligations include $300 under this agreement.

In November 2013, the Company entered into a lease with a term of 3 years to finance data processing equipment and software. The total payments under the lease are $4,160. The present value of the lease payments exceeds the fair value of assets leased at inception. The Company accounts for this arrangement as a capital lease. As of December 31, 2014 and 2013, capital lease obligations include amounts under this lease of $2,355 and $3,988, respectively.

Related to the November 2013 capital lease, the Company entered into a 3 year financing obligation for support services of data and processing equipment. The total payments under the arrangement are $4,039. The Company accounts for this arrangement as a financing obligation. As of December 31, 2014 and 2013, financing obligations include $2,287 and $3,872, respectively, under this agreement.

In March 2013, the Company entered into a lease with a term of 3 years to finance data processing equipment and software. The total payments under the lease are $1,117. The lease provides for a bargain purchase option at the end of its term. The Company accounts for this arrangement as a capital lease. As of December 31, 2014 and 2013, capital lease obligations include amounts under this lease of $448 and $785, respectively.

The Company entered into additional various leases with terms ranging from one year or less to five years to finance data processing equipment and software. The leases contain terms that either provide for the title to pass to the Company at the end of its term, or the lease term exceeds 75% of economic life of the asset, or the present value of the minimum lease payments exceeds 90% of the fair value of assets leased. The Company accounts for these arrangements as capital leases. As of December 31, 2014 and 2013, capital lease obligations include amounts under these leases of $135 and $216, respectively.

In 2011, the Company entered into a lease with a term of 3 years to finance data processing equipment. The lease provides for a bargain purchase option at the end of the term. The total payments under the lease are $3,005. The Company accounts for this arrangement as a capital lease. As of December 31, 2014 and 2013, capital lease obligations include amounts under this lease of $0 and $465, respectively.

Financing obligations were $31,697 and $13,097, as of December 31, 2014 and 2013, respectively, and consist of obligations for build-to-suit lease arrangements and the support components of a software financing arrangement. The aggregate amount of future minimum payments for financing obligations was $89,901 at December 31, 2014 which includes aggregate payments of $14,357 related to the headquarters building build-to-suit arrangement and $72,754 related to assets

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under construction under a build-to-suit lease entered into in December 2013. Details of the build-to-suit lease arrangements are disclosed in Note 15 “Related Parties.” Financing Obligations are allocated as follows:

	As of December 31,	
	2014	2013
Headquarters building, build-to-suit	$ 8,873	$ 9,023
Software support	2,700	3,872
Construction in progress, build-to-suit	20,124	202
Total financing obligations	$31,697	$13,097
Less: current portion	(1,720)	(1,702)
Financing obligations, net of current portion	$29,977	$11,395

Future minimum lease payments are as follows:

	Capital Leases	Financing Obligations
Year Ending December 31,		
2015	$ 2,621	$ 7,462
2016	1,998	7,185
2017	323	6,265
2018	2	6,407
2019	—	6,599
Thereafter	—	55,983
Total minimum lease and financing obligation payments	4,944	$ 89,901
Less: imputed interest	(204)	
Less: current portion	(2,477)	
Capital lease obligations, net of current portion	$ 2,263	

Contractual Commitments

In December 2013, the Company entered into a 15 year lease for additional office space at its Charleston, South Carolina campus. Under the build-to-suit arrangement, the leased premises will be constructed by and leased from an entity with which two of the Company’s significant stockholders and executives are affiliated. The lease payments will commence in January 2015. The total minimum payments under the arrangement are $81,487 based on an estimated rentable area of approximately 145,000 square feet. In connection with the lease, the Company entered into an option to lease space in two additional adjacent buildings. The option term is 36 months and requires the Company to incur costs annually prior to the exercise of the option in the amount of up to $466 per year. If the Company terminates the option or does not exercise the option prior to expiration it will incur termination fees pro-rated through the dates of termination or expiration. The maximum liability for termination fees is $757. The commitment for the lease and pro-rated termination fees is not accrued in the consolidated balance sheet of the Company. Had the Company terminated the options effective December 31, 2014, the liability for the termination fee would have been $265. The pro-rated commitment for the annual option expense is accrued in other non-current liabilities in the balance sheet. The minimum

lease payments related to this lease have been excluded from the future minimum lease payment schedule above.

The Company also has $5,001 of non-cancellable contractual commitments as of December 31, 2014 related to the purchase of software and colocation services. These commitments are not accrued in the consolidated balance sheet of the Company.

Legal Contingencies

The Company may become a party to a variety of legal proceedings that arise in the normal course of business. While the results of such normal course legal proceedings cannot be predicted with certainty, management believes, based on current knowledge, that the final outcome of any matters will not have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

10. Stock-Based Compensation

Employee Stock-based Compensation Plan

The Company maintains the Amended and Restated Benefitfocus.com, Inc. 2000 Stock Option Plan (the "2000 Plan") and the Benefitfocus.com, Inc. 2012 Stock Plan, as amended (the "2012 Plan"), pursuant to which the Company has reserved 5,069,853 shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2012 Plan, effective on January 31, 2012, serves as the successor to the 2000 Plan and permits the granting of incentive stock options, non-statutory stock options, stock bonuses, stock purchase rights, stock appreciation rights, and restricted stock units and awards. No new awards will be issued under the 2000 Plan as of the effective date of the 2012 Plan. Outstanding awards under the 2000 Plan continue to be subject to the terms and conditions of the 2000 Plan. Shares available for grant under the 2000 Plan, which were reserved but not issued or subject to outstanding awards under the 2000 Plan as of the effective date, were added to the reserves of the 2012 Plan. As of December 31, 2014, the Company had 1,966,602 shares allocated to the 2012 Plan, but not yet issued.

The terms of the stock-based award grants, including the exercise price per share and vesting periods, are determined by the Chairman of the Board who is delegated the authority by the Company's board of directors. Stock options are granted at exercise prices not less than the estimated fair market value of the Company's common stock at the date of grant. The grant date value of restricted stock units is equal to the closing price of the Company's stock on the date of grant, or, if not a trading day, the closing price of the previous trading day. Generally, the Company issues previously unissued shares for the exercise of stock options or exchange of restricted stock units; however, previously acquired shares may be reissued to satisfy future issuances. The options and restricted stock unit awards typically vest quarterly over a four-year period. The options expire 10 years from the grant date. Compensation expense for the fair value of the stock-based awards at their grant date is recognized ratably over the vesting schedule.

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The Company has issued two types of awards under these plans: options and restricted stock units. The following table sets forth the number of awards outstanding for each award type is as follows:

Award type	Outstanding at December 31, 2014	2013	2012
Stock options	2,382,881	3,058,795	3,121,064
Restricted stock units	720,370	97,700	—

Stock-based compensation expense related to stock-based awards is included in the following line items in the accompanying consolidated statements of operations and comprehensive loss for the years ended December 31:

	2014	2013	2012
Cost of revenue	$ 986	$ 274	$195
Sales and marketing	1,395	171	68
Research and development	1,376	255	130
General and administrative	1,831	502	319
	$5,588	$1,202	$712

The total compensation cost related to non-vested awards not yet recognized as of December 31, 2014 was $23,767 and will be recognized over a weighted-average period of approximately 3.4 years.

Restricted Stock Units

During 2014, the Company granted restricted stock units under the 2012 Plan. Restricted stock units granted to employees vest in equal annual installments generally over 4 years from the grant date. The fair value of the stock at the time of grant is amortized based on a straight-line basis over the period of vesting. Income tax benefits resulting from vesting of restricted stock are recognized in the period the unit is exchanged to the extent the expense has been recognized.

The summary of unvested restricted stock units is as follows:

	Restricted stock units	Weighted average grant date fair value
Unvested at December 31, 2013	97,700	$ 48.31
Granted	679,587	37.97
Forfeited	(33,175)	46.87
Vested	(23,742)	48.23
Unvested at December 31, 2014	720,370	$ 38.63

As of December 31, 2014, the number and intrinsic value of restricted stock units expected to vest was 662,186 and $21,746, respectively. The aggregate fair value of restricted stock units vested during the year ended December 31, 2014 was $661. No restricted stock units vested during 2013 or 2012.

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Stock options

The following is a summary of the option activity for the year ended December 31, 2014:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding balance at December 31, 2013	3,058,795	$ 6.75		
Granted	—	—		
Exercised	(642,152)	4.39		
Forfeited	(31,664)	9.98		
Expired	(2,098)	1.38		
Outstanding balance at December 31, 2014	2,382,881	$ 7.39	4.0	$ 60,652
Exercisable at December 31, 2014	2,064,624	$ 6.84	3.4	$ 53,690
Vested and expected to vest at December 31, 2014	2,374,256	$ 7.37	4.0	$ 60,465

The aggregate intrinsic value of employee options exercised during the years ended December 31, 2014, 2013, and 2012 was $23,397, $6,448 and $293, respectively.

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the per share fair value as a private company, risk-free interest rate, expected life, expected stock price volatility and dividend yield. Prior to the IPO, the Company was a private company with no active public market for its common stock. The Company has periodically determined for financial reporting purposes the estimated per share fair value of its common stock at various dates using contemporaneous valuations performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants Practice Aid, “Valuation of Privately Held Company Equity Securities Issued as Compensation.” When determining the fair market value of its common stock, the Company considered what it believes to be comparable publicly traded companies, discounted free cash flows, and an analysis of its enterprise value. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company’s employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. The Company used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. The Company has a limited history of trading as a public company, therefore expected volatility was based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumed no dividend yield because it does not expect to pay dividends in the near future, which is consistent with the Company’s history of not paying dividends.

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The following table summarizes the assumptions used for estimating the fair value of stock options granted for the years ended December 31, (No options granted in 2014):

	2013	2012
Risk-free interest rate	1.0% - 1.7%	0.8% - 1.2%
Expected term (years)	6.08	6.08
Expected volatility	52%	53% - 55%
Expected dividend yield	0%	0%
Weighted-average grant date fair value per share	$ 7.71	$ 4.24

11. Stockholders' Deficit

Preferred stock

Upon the closing of the IPO, all shares of the Company's then-outstanding redeemable convertible preferred stock automatically converted into 16,496,860 shares of its $0.001 par value common stock. Subsequent to this conversion, the Company restated its certificate of incorporation and reduced number of authorized shares of preferred stock from 21,496,860 to 5,000,000. The Company's preferred stock is undesignated.

Common Stock

The holders of common stock are entitled to one vote for each share. The voting, dividend and liquidation rights of the holders of common stock are subject to and qualified by the rights, powers and preferences of the holders of preferred stock.

At December 31, 2014, the Company had reserved a total of 5,069,853 of its authorized 50,000,000 shares of common stock for future issuance as follows:

Outstanding stock options	2,382,881
Restricted stock units	720,370
Possible future issuance under stock option plans	1,966,602
Total common shares reserved for future issuance	5,069,853

During 2009, in connection with a new five-year contract executed with a major customer, the Company issued a warrant to the customer for the right to purchase 500,000 shares of common stock at $5.48 per share. The warrant was issued from the incentive stock option pool of shares approved by the Company's board of directors and had a term of 10 years. Under the terms of the warrant, the warrant expires in 10 years. The customer was originally entitled to exercise the warrant in its entirety in 9.5 years. Earlier exercise rights for all or part of the warrants are triggered under certain conditions, the most relevant of which are, on or after the third anniversary date of the issuance date if an IPO has occurred and immediately prior to the closing of a defined Corporate Transaction. In the event the customer cancels the contract prior to the end of the five-year term, one half of the warrants would have been forfeited. In March 2013, the Company made this warrant fully exercisable. In March 2014, the customer exercised the warrant through a cashless exercise in accordance with the warrant's terms. The Company issued 455,521 shares to satisfy its obligation under the warrant.

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The Company used an option pricing model to determine the fair value of the common stock warrant. Significant inputs included an estimate of the fair value of the Company's common stock, the remaining contractual life of the warrant, an estimate of the probability and timing of a liquidity event, a risk-free rate of interest and an estimate of the Company's stock volatility using the volatilities of guideline peer companies. The value of the exercisable portion of the warrant is not dependent on the customer's fulfillment of the contract and was measured on the issuance date, with the total fair value at issuance being recognized as a reduction to revenue over the contract period on the straight line basis. The remaining half of the warrant that was dependent on contract fulfillment by the customer was re-measured each quarter, with the resulting increment or decrement in value recognized as a revenue reduction on the straight line basis beginning in the quarter of the revaluation through the end of the contract. The related reduction of revenue during the years ended December 31, 2014, 2013 and 2012 was $744, $892, and $488, respectively. As of October 31, 2014, the fair value of the warrant had been fully recognized.

12. Employee Benefit Plan

The Company maintains a qualified defined contribution plan under Section 401(k) of the U.S. Internal Revenue Code (the "401(k) Plan") covering substantially all employees. Employees are eligible to participate in the 401(k) Plan after one day of service and upon attainment of age 21, and may elect to defer an amount or percentage of their annual compensation up to amounts prescribed by law. The Company makes discretionary matching contributions to employee plan accounts. During each of the years ended December 31, 2014, 2013 and 2012, the Company matched 50% of the employees' contribution, with the match limited to 3% of qualifying compensation. Employee vesting in matching company contributions occurs at a rate of 20% per year after achieving two years of service. Starting in 2014, employees vesting in company contributions began after one year of service. During the years ended December 31, 2014, 2013, and 2012, employer matching contributions were $2,083, $1,339 and $1,013, respectively.

13. Income Taxes

The Company files income tax returns in the U.S. for federal and various state jurisdictions. The Company is subject to U.S. federal income tax examination for calendar tax years 2007 through 2013 as well as state income tax examinations for various years depending on statutes of limitations of those jurisdictions.

The following summarizes the components of income tax expense (benefit) for the years ended December 31:

	2014	2013	2012
Current:			
Federal	$ —	$ —	$ —
State and local	25	(31)	84
Total current expense (benefit)	$ 25	$ (31)	$ 84
Deferred:			
Federal	$ —	$ —	$ —
State and local	—	—	—
Total deferred taxes	$ —	$ —	$ —

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Reconciliation between the effect of applying the federal statutory rate and the effective income tax rate used to calculate the Company's income tax provision is as follows for the years ended December 31:

	2014	2013	2012
Federal statutory rate	34.0%	34.0%	34.0%
Effect of:			
State income taxes, net of federal benefit	4.8%	3.2%	3.5%
Change in tax rates	0.4%	0.4%	2.6%
State tax credits	0.4%	0.9%	0.0%
Change in valuation allowance	(39.3%)	(33.5%)	(38.7%)
Uncertain tax positions	0.0%	(0.9%)	0.0%
Contingent consideration amortization	0.0%	0.0%	(0.4%)
Stock-based compensation	(0.2%)	(0.9%)	(1.2%)
Other permanent items	(0.1%)	(0.4%)	(0.4%)
Deferred tax true-up	0.0%	(2.7%)	0.0%
Income tax provision effective rate	0.0%	0.1%	(0.6%)

The significant components of the Company's deferred tax asset and liability were as follows as of December 31:

	2014	2013
Deferred tax assets relating to:		
Net operating loss carryforwards	$ 26,132	$ 15,553
Deferred revenue	23,612	16,779
Commissions and incentive accrual	1,771	463
Deferred rent	816	1,027
State tax credits	3,195	2,961
Stock-based compensation	1,993	1,615
Compensation and other accruals	3,964	1,361
Total gross deferred tax assets	61,483	39,759
Deferred tax liabilities:		
Prepaid expenses	$ —	$ (727)
Property and equipment, financing obligations and intangible assets	(2,514)	(4,610)
Total gross deferred tax liabilities	(2,514)	(5,337)
Deferred tax assets less liabilities	58,969	34,422
Less: valuation allowance	(58,969)	(34,422)
Net deferred tax asset (liability)	$ —	$ —

As of December 31, 2014 and 2013, the Company's gross deferred tax was reduced by a valuation allowance of $58,969 and $34,422 respectively.

The valuation allowance increased by $24,547 and $10,191 during the years ended December 31, 2014 and 2013, respectively. The valuation allowance increase resulted primarily from changes in the deferred tax assets related to the net operating loss carryforwards and deferred revenue.

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences in the future. In recognition of this risk, the Company has provided a full valuation allowance on the deferred tax assets relating to net operating loss carryforwards. The Company's $30,749 of federal and state net operating losses include excess tax benefits related to deductions from the exercise of nonqualified stock options. The tax benefit of these deductions has not been recognized in deferred tax assets. If utilized, $5,024 of benefits from these deductions will be recorded as adjustments to taxes payable and additional paid-in-capital.

Net operating loss carryforwards for federal income tax purposes were approximately $68,235 and $41,374 at December 31, 2014 and 2013, respectively. State net operating loss carryforwards were $61,583 and $33,665 at December 31, 2014 and 2013, respectively. The federal net operating loss carryforwards will expire at various dates beginning in 2022 through 2033, if not utilized. Net operating loss carryforwards and credit carryforwards reflected above may be limited due to historical and future ownership changes.

South Carolina jobs tax credit and headquarters tax credit carryovers of $5,277 and $4,497 were available at December 31, 2014 and 2013, respectively. Headquarters credits are expected to be used to offset future state income tax license fees. The credits expire in various amounts during 2020 through 2028.

The Company follows FASB ASC 740-10 for accounting for unrecognized tax benefits. As of December 31, 2014, the Company had gross unrecognized tax benefits of $437.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows for the year ended December 31, 2014 and 2013 (no unrecognized tax benefits in 2012):

	2014	2013
Balance at beginning of year	$ 437	$ —
Additions based on tax positions related to the current year	—	—
Additions for tax positions in prior years	—	437
Reductions for tax positions of prior years	—	—
Reductions for tax positions due to lapse of statute	—	—
Settlements	—	—
Balance at end of year	$ 437	$ 437

At December 31, 2014 and 2013, none of the $437 liabilities for unrecognized tax benefits could impact the Company's effective tax rate, if recognized. The Company does not expect the unrecognized tax benefits to change within the next twelve months.

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The Company is subject to U.S. income taxes, as well as various taxes state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before the tax year ended December 31, 2011, although carryforward attributes that were generated prior to 2011 may still be adjusted upon examination by the taxing authorities if they either have been used or will be used in a future period.

14. Segments and Geographic Information

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") for purposes of allocating resources and evaluating financial performance. The Company's CODM, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by information about operating segments, for purposes of allocating resources and evaluating financial performance.

The Company's reportable segments are based on the type of customer. The Company determined its operating segments to be: Employer, which derives substantially all of its revenue from customers that use the Company's services for the provision of benefits to their employees, and administrators acting on behalf of employers; and Carrier, which derives substantially all of its revenue from insurance companies that provide coverage at their own risk.

During 2014, the Company changed how it evaluates its operating segments. It no longer reports operating income by segment to the CODM. Segments are evaluated based on gross profit. The Company does not allocate interest income, interest expense or income tax expense by segment. Accordingly, the Company does not report such information. Additionally, Employer and Carrier segments share the majority of the Company's assets. Therefore, no segment asset information is reported.

	Year Ended December 31,		
	2014	2013	2012
Revenue from external customers by segment:			
Employer	$ 62,016	$ 40,656	$23,760
Carrier	75,404	64,096	57,979
Total net revenue from external customers	$137,420	$104,752	$81,739
Depreciation and amortization by segment:			
Employer	$ 4,392	$ 3,035	$ 2,337
Carrier	5,101	5,137	6,223
Total depreciation and amortization	$ 9,493	$ 8,172	$ 8,560
Gross profit by segment			
Employer	$ 16,186	$ 13,316	$ 9,810
Carrier	33,764	29,025	27,529
Total gross profit by segment	$ 49,950	$ 42,341	$37,339

Substantially all assets were held and all revenue was generated in the United States during the years ended December 31, 2014, 2013 and 2012.

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15. Related Parties

Related Party Leasing Arrangements

The Company leases its office space at its Charleston, South Carolina headquarters campus under the terms of two non-cancellable leases from an entity with which two of the Company's directors, significant stockholders, and executives are affiliated. The Company's headquarters building is accounted for as a build-to-suit lease and recorded as a financing obligation in the Consolidated Balance Sheets. Additional office space is accounted for as an operating lease. Both the financing obligation and the operating lease have 15-year terms which started in 2006 and 2009, respectively. The Company has an option to renew the leases for five additional years. The arrangements provide for 3.0% fixed annual rent increases.

In February 2013, the Company entered into an amendment to a 2009 operating lease agreement. Under terms of the agreement, the Company committed to rent additional space under the agreement. Payments for the additional space commenced in January 2014.

Furthermore, as disclosed in Note 9 "Commitments and Contingencies", the Company entered into a 15-year build-to-suit lease in December 2013 for additional office space to expand its headquarters campus. The leased premises are being constructed and leased from an entity with which two of the Company's significant stockholders and executives are affiliated. Because the Company is involved extensively in the construction of the premises and is deemed the "owner" for accounting purposes during the construction period, it is required to capitalize the project costs during the construction on its Consolidated Balance Sheet. The lease will commence in January 2015. As of December 31, 2014, financing obligations included $20,124 related to this build-to-suit lease.

The Company has options to lease two additional office facilities from the leasing entity with which two of the Company's directors, significant stockholders and executives are affiliated. The leasing entity meets the criteria to be a variable interest entity. The Company is not the primary beneficiary of the leasing entity, as the activities that are most significant to the leasing entity's economic performance, consisting of financing, development, management, and sale of office facilities, are directed by another party. As such, the Company is not required to consolidate the entity as the primary beneficiary. The lease terms would not include a residual value guarantee, fixed-price purchase option, or similar feature that would obligate the Company to absorb decreases in value or would entitle the Company to participate in increases in the value of the office facilities. The Company has not and does not intend to provide financial or other support to the leasing entity. The Company's maximum exposure, assuming the exercise of the options, would consist of carrying fees paid for the options, rent to be paid over the 15-year term of the leases, construction cost overruns, and operating expenses in excess of a certain threshold. The Company's maximum exposure currently cannot be quantified.

Payments related to these agreements were $5,634, $3,729, and $3,834 for the years ended December 31, 2014, 2013 and 2012, respectively. Amounts due to the related parties were $1,807 and $268 as of December 31, 2014 and 2013, respectively. Amounts due to the related parties were recorded as $949 in "Accounts Payable" and $858 in "Accrued Expenses" as of December 31, 2014 and $268 in "Accounts Payable" as of December 31, 2013.

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BENEFITFOCUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

Related Party Travel Expenses

The Company utilizes the services of a private air transportation companies that are owned and controlled by one of the Company's significant stockholders and executives. Expenses related to these companies were $438, $345 and $125 for the years ended December 31, 2014, 2013 and 2012 respectively, and consist of air travel related to the operations of the business. Amounts due to the related party were $44 as of December 31, 2014 and $25 as of December 31, 2013.

16. Selected Quarterly Financial Data (unaudited)

The following tables set forth selected unaudited quarterly statements of operations data for each of the eight quarters in the years ended December 31, 2014 and 2013.

	Quarter Ended							
	December 31, 2014 (b)	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Consolidated Statements of Operations Data:								
Revenue	$ 40,187	$ 34,200	$ 32,337	$ 30,696	$ 30,256	$ 26,317	$ 24,332	$ 23,847
Gross profit	16,335	10,845	11,300	11,470	10,783	10,146	10,010	11,402
Total operating expenses	28,241	28,607	28,711	23,294	18,474	16,504	19,091	16,466
Operating loss	(11,906)	(17,762)	(17,411)	(11,824)	(7,691)	(6,358)	(9,081)	(5,064)
Net loss	$ (13,689)	$ (18,888)	$ (18,200)	$ (12,402)	$ (8,282)	$ (6,836)	$ (9,628)	$ (5,615)
Net loss per common share (a)	(0.54)	(0.74)	(0.72)	(0.51)	(0.34)	(1.08)	(2.00)	(1.17)
Weighted-average common shares outstanding—basic and diluted	25,569,203	25,503,194	25,200,093	24,541,359	24,474,566	6,320,731	4,809,518	4,798,043

(a) Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of the per-share amounts for the quarters may not agree with per share amounts for the year.

(b) During the fourth quarter of 2014, the Company recorded a cumulative adjustment to correct prior period errors that related to an overstatement of amortization of certain capitalized software costs. The impact of these items on the Company's Consolidated Statement of Operations decreased cost of revenue, increased gross profit, and decreased loss from operations, loss before income taxes, and net loss by $628. The Company did not adjust the prior periods as it concluded that such adjustments were not material to the current or prior period Consolidated Financial Statements.

The quarterly unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements included in this report and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information when read in conjunction with our annual audited consolidated financial statements (as restated) and notes appearing in this report. The operating results for any quarter do not necessarily indicate the results for any subsequent period or for the entire fiscal year.

BENEFITFOCUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

17. Subsequent Events

Restricted Stock Units

During January 2015, the Company granted 26,050 restricted stock units to employees with an aggregate grant date fair value of $815. These restricted stock units vest in equal annual installments generally over 4 years from the grant date. The Company amortizes the fair value of the stock subject to the restricted stock units at the time of grant on a straight-line basis over the period of vesting. The Company recognizes the income tax benefits resulting from vesting of restricted stock units in the period they vest, to the extent the compensation expense has been recognized.

Build-to-Suit Lease

During January 2015, the Company began to occupy the additional office space constructed under the 15-year build-to-suit lease signed in December 2013. During the construction of the premises, the Company was deemed the “owner” for accounting purposes due to its extensive involvement in the construction process. Upon completion, the Company was also deemed the “owner” for accounting purposes. As such, $18,243 included in “Construction-in-Progress” related to the construction of this premises at December 31, 2014, will be allocated to “Buildings, leased.” Any additional capitalizable costs incurred as part of the completion of construction will be allocated to the asset. Also, related to occupying this building, other amounts included in “Construction-in-Progress” at December 31, 2014 will be allocated to the applicable property and equipment category as follows: $2,346 to “Furniture and fixtures,” $2,277 to “Leasehold improvements,” and $764 to “Computers and related equipment.”

Revolving Line of Credit

In February 2015, the Company replaced its existing revolving line of credit (“Revolver”) with a senior revolving line of credit (“Senior Revolver”) with a syndicate of lenders led by the existing lender. Outstanding balances under the Revolver were repaid with proceeds from the Senior Revolver and the Revolver was terminated. The three-year Senior Revolver has a borrowing limit of $60,000. Borrowing capacity under the Senior Revolver is subject to a borrowing base limit that is a function of the Company’s monthly recurring revenue as adjusted to reflect lost customer revenue during the previous three calendar months. Therefore, credit available under the Senior Revolver may be less than the $60,000 borrowing limit. Interest is payable monthly. Advances under the Senior Revolver bear interest at the prime rate as published in the Wall Street Journal plus a margin based on the Company’s liquidity that ranges between 1.0% and 1.5%. The Company is charged for amounts unused under this arrangement at a rate based on its liquidity of 0.300% to 0.375% per year. Any outstanding principal is due at the end of the term.

The Company is bound by customary affirmative and negative covenants in connection with the Senior Revolver, including financial covenants related to liquidity and EBITDA. In the event of a default, the lenders may declare all obligations immediately due and stop advancing money or extending credit under the line of credit. The line of credit is collateralized by substantially all of the Company’s tangible and intangible assets, including intellectual property and the equity of subsidiaries.

BENEFITFOCUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data)

Common Stock

On February 24, 2015, the Company entered into a Securities Purchase Agreement to sell shares of its common stock to Mercer, LLC ("Mercer"), a customer of the Company. Pursuant to the agreement, on the same date, the Company sold 2,817,526 shares of its common stock to Mercer for $26.50 per share or an aggregate of $74,664. At the same time, the Company also issued Mercer a warrant to purchase up to an additional 580,813 shares of its common stock for $26.50 per share at any time during the 30-month term of the warrant. The agreement, among other things, includes certain standstill provisions and prevents Mercer from disposing of its shares of Company common stock until the earlier of December 31, 2017, the expiration or termination of the Mercer Exchange Software as a Service Agreement, as amended between the Company and Mercer Health & Benefits, LLC, the date on which Mercer and its affiliates own less than 75% of the shares it purchased pursuant to the Securities Purchase Agreement, and the date on which Mercer and its affiliates own less than 5% of the outstanding common stock of the Company. The Company received all of the proceeds from this sale of shares and will use the proceeds for working capital and other general corporate purposes.

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Schedule II—Valuation and Qualifying Accounts (in thousands)

	Balance at Beginning of Period	Additions Charged To Expense	Additions Charged Against Revenue	Deductions	Balance at End of Period
Allowance for doubtful accounts and returns:					
Year Ended December 31, 2014	$ 810	$ 94	$ 4,585	$ (3,826)	$ 1,663
Year Ended December 31, 2013	$ 900	$ (22)	$ 2,315	$ (2,383)	$ 810
Year Ended December 31, 2012	$ 358	$ 98	$ 1,330	$ (886)	$ 900

	Balance at Beginning of Period	Additions Charged To Costs and Expenses (1)	Deductions	Balance at End of Period
Deferred tax asset valuation allowance:				
Year Ended December 31, 2014	$ 34,422	$ 24,547	$ —	$ 58,969
Year Ended December 31, 2013	$ 24,231	$ 10,191	$ —	$ 34,422
Year Ended December 31, 2012	$ 18,510	$ 5,721	$ —	$ 24,231

(1) Increase in valuation allowance is related to the generation of net operating losses and other deferred tax assets.

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EXHIBIT INDEX

Exhibit Number	Exhibit Title	Form	Incorporated by Reference (Unless Otherwise Indicated) File	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated August 29, 2013 by and among Benefitfocus.com, Inc., Benefitfocus, Inc., and Benefitfocus Mergeco, Inc.	S-1/A	333-190610	2.1	September 5, 2013
3.1.3	Restated Certificate of Incorporation of Benefitfocus, Inc.	10-Q		3.1.3	November 12, 2013
3.2	Amended and Restated Bylaws of Benefitfocus, Inc.	S-1/A	333-190610	3.2	September 5, 2013
4.1	Specimen Certificate for Common Stock.	S-1/A	333-190610	4.1	September 5, 2013
4.3	Form of Second Amended and Restated Investors' Rights Agreement, dated , 2013, by and among Benefitfocus, Inc. and certain stockholders named therein.	S-1/A	333-190610	4.3	September 16, 2013
4.3.1	First Amendment to Second Amended and Restated Investors' Rights Agreement, dated February 24, 2015, by and among Benefitfocus, Inc. and certain stockholders named therein.	—	—	—	Filed herewith
4.5	Warrant for the Purchase of Shares of Common Stock of Benefitfocus, Inc. issued February 24, 2015.	—	—	—	Filed herewith
10.2	Form of Second Amended and Restated Voting Agreement, dated , 2013, by and among Benefitfocus, Inc., and certain stockholders named therein.	S-1/A	333-190610	10.2	September 5, 2013
10.3	Amended and Restated 2000 Stock Option Plan.#	S-1	333-190610	10.3	August 14, 2013
10.4	2012 Stock Plan, as amended.#	DEF 14A			April 25, 2014
10.5	Form of Grant Notice and Stock Option Agreement under the Amended and Restated 2000 Stock Option Plan.#	S-1	333-190610	10.5	August 14, 2013
10.6	Form of Grant Notice and Stock Option Agreement under the 2012 Stock Plan, as amended.#	S-1	333-190610	10.6	August 14, 2013
10.7	Form of Management Incentive Bonus Program.#	S-1	333-190610	10.7	August 14, 2013
10.7.1	Benefitfocus, Inc. Management Incentive Bonus Program.#	DEF 14A			April 25, 2014

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Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated) Form	File	Exhibit	Filing Date
10.8	Employment Agreement, dated January 19, 2007, by and between Benefitfocus.com, Inc. and Mason R. Holland, Jr.#	S-1	333-190610	10.8	August 14, 2013
10.9	Employment Agreement, dated January 19, 2007, by and between Benefitfocus.com, Inc. and Shawn A. Jenkins.#	S-1	333-190610	10.9	August 14, 2013
10.10	Employment Agreement, dated November 16, 2011, by and between Benefitfocus.com, Inc. and Milton A. Alpern.#	S-1	333-190610	10.10	August 14, 2013
10.11	Form of Employment Agreement.#	S-1	333-190610	10.11	August 14, 2013
10.12	Form of Indemnification Agreement.#	S-1	333-190610	10.12	August 14, 2013
10.13	Lease between Daniel Island Executive Center, LLC and Benefitfocus.com, Inc., dated as of January 1, 2009, as amended.	S-1	333-190610	10.13	August 14, 2013
10.14	Lease between Daniel Island Executive Center, LLC and Benefitfocus.com, Inc., dated as of May 31, 2005.	S-1	333-190610	10.14	August 14, 2013
10.15	Master Business Agreement between Aetna Life Insurance Company and Benefitfocus.com, Inc., dated as of November 28, 2006.†	S-1	333-190610	10.15	August 14, 2013
10.16	Master Guidance Line of Credit Agreement between Benefitfocus.com, Inc. and NBSC, a division of Synovus Bank, dated as of November 21, 2012 and the form of the Security Agreement and Promissory Notes thereunder.†	S-1	333-190610	10.16	August 14, 2013
10.17	Loan and Security Agreement between Silicon Valley Bank, Benefitfocus.com, Inc., Benefit Informatics, Inc., and Benefitfocus, Inc., dated as of August 27, 2013.	S-1/A	333-190610	10.17	September 5, 2013
10.18	Second Amendment Agreement between Silicon Valley Bank, Benefitfocus.com, Benefit Informatics, Inc., and Benefitfocus, Inc., dated December 10, 2013.	8-K		10.18	December 12, 2013
10.19	Lease between DIEC II, LLC and Benefitfocus.com, Inc., dated as of December 13, 2013.	10-K		10.19	March 21, 2014

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Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated) Form	File	Exhibit	Filing Date
10.20	Securities Purchase Agreement, dated as of February 24, 2015, by and among Benefitfocus, Inc. and Mercer LLC.	—	—	—	Filed herewith
10.21	Right of First Offer Agreement, dated as of February 24, 2015, by and among Benefitfocus, Inc., Mercer LLC, GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG, GS Capital Partners VI Fund, L.P., GS Capital Partners VI Offshore Fund, L.P., Oak Investment Partners XII, Limited Partnership and certain stockholders named therein.	—	—	—	Filed herewith
21.1	List of Subsidiaries of Registrant.	—	—	—	Filed herewith
23.1	Consent of Ernst and Young LLP.	—	—	—	Filed herewith
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
32.1	Certification of the President and Chief Executive Officer, and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
101.INS	XBRL Instance Document.	—	—	—	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	—	—	—	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	—	—	—	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	—	—	—	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	—	—	—	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	—	—	—	Filed herewith

Management contract or compensatory plan.

† The registrant has received confidential treatment with respect to portions of this exhibit. Those portions have been omitted from the exhibit and filed separately with the U.S. Securities and Exchange Commission.

Exhibit 4.3.1

FIRST AMENDMENT TO
SECOND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This FIRST AMENDMENT TO SECOND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT (this " **Amendment** ") is made as of the 24 th day of February, 2015 by and among Benefitfocus, Inc., a Delaware corporation (the " **Company** ") and each of the undersigned Investors.

RECITALS

WHEREAS , on September 18, 2013, the Company, GS Capital Partners VI Fund, L.P., GS Capital Partners VI Offshore Fund, L.P., GS Capital Partners VI GmbH & Co. KG, and GS Capital Partners VI Parallel, L.P., Oak Investment Partners XII, Limited Partnership, Mason R. Holland, Jr. and Shawn Jenkins entered into a Second Amended and Restated Investors' Rights Agreement (the " **Rights Agreement** ");

WHEREAS , Section 5.6 of the Rights Agreement provides that the Company and the holders of sixty-six and two thirds percent (66-2/3%) of the Registrable Securities then outstanding can amend the Rights Agreement by written consent; and

WHEREAS , in connection with the transactions contemplated by the Securities Purchase Agreement (the " **Securities Purchase Agreement** "), dated as of the date hereof, by and among the Company and Mercer LLC, a Delaware limited liability company and a wholly owned subsidiary of Marsh & McLennan Companies, Inc., a Delaware corporation (" **Mercer** "), all of the parties to the Rights Agreement desire to amend the Rights Agreement to, among other things, grant Mercer certain registration rights with respect to the capital stock of the Company, add Mercer as an Investor to the Rights Agreement, and amend the duration of registration rights under the Rights Agreement.

NOW, THEREFORE , the parties hereby agree as follows:

1. Capitalized Terms . All capitalized terms used herein that are not otherwise defined herein shall have the meanings assigned to them in the Rights Agreement unless the context hereof requires otherwise.

2. Amendments . Effective upon the consummation of the transactions contemplated by the Securities Purchase Agreement (the " **Closing** "), the Rights Agreement shall be amended as follows:

(a) The definition of "Registrable Securities" in Section 1.29 of the Rights Agreement is hereby amended and restated in its entirety to read:

"1.29. " **Registrable Securities** " means (i) the Common Stock issuable or issued upon conversion of the Preferred Stock; (ii) any Common Stock issued as (or issuable upon the conversion or exercise of any warrant, right, or other security that is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares

referenced in clause (i) above; (iii) any Common Stock otherwise held by executive-level employees of the Company; (iv) any Common Stock held by Mason Holland or Shawn Jenkins or their Affiliates; and (v) any Common Stock held by, or issuable upon the conversion or exercise of any warrant, right or other security issued to, Mercer or its Affiliates; excluding in all cases, however, all shares of Common Stock held by a Person that, together with its Affiliates, holds less than 5% of the outstanding capital stock of the Company, and any Registrable Securities sold by a Person in a transaction in which the applicable rights under this Agreement are not assigned pursuant to Section 5.1."

(b) The first sentence of Section 2.1(b) of the Rights Agreement is hereby amended and restated in its entirety to read:

"If at any time when it is eligible to use a Form S-3 registration statement, the Company receives a request from Holders of at least five percent (5%) of the Registrable Securities then outstanding that the Company file a Form S-3 registration statement with respect to outstanding Registrable Securities of such Holders having an anticipated aggregate offering price, net of Selling Expenses, of at least $5,000,000, then the Company shall (i) within ten (10) days after the date such request is given, give a Demand Notice to all Holders other than the Initiating Holders; and (ii) as soon as practicable, and in any event within forty-five (45) days after the date such request is given by the Initiating Holders, file a Form S-3 registration statement under the Securities Act covering all Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within twenty (20) days of the date the Demand Notice is given, and in each case, subject to the limitations of Section 2.1(c) and Section 2.3 ."

(c) The reference to "Section 4.9" in Section 2.10 of the Rights Agreement is hereby deleted and replaced with a reference to "Section 5.9".

(d) Section 2.11 of the Rights Agreement is hereby deleted in its entirety and replaced with "2.11. Reserved.".

(e) Section 2.13 of the Rights Agreement is hereby deleted in its entirety and replaced with "2.13. Reserved.".

(f) Schedule A (Investors) to the Rights Agreement is hereby amended to include Mercer and its address as listed below its signature hereto.

3. Joinder to Rights Agreement .

(a) At the Closing, Mercer shall become an "Investor" under the Rights Agreement. From and after the Closing, Mercer agrees to be bound by, and shall have the benefit of, the terms and provisions thereof applicable to Investors, and the parties acknowledge and agree that all references in the Rights Agreement to the term "Investor" shall be deemed to include Mercer.

(b) From and after the Closing, Mercer shall also have the benefit of the terms and provisions of Sections 4.1, 4.3(a), 4.3(b) and 4.8 of the Rights Agreement applicable to the Designated GS Entity, the GS Investors or the GS Group or any of its Affiliates, and the parties acknowledge and agree that such Sections shall apply to Mercer on a *mutatis mutandis* basis, and for so long as Mercer holds Registrable Securities, notwithstanding Section 4.6 of the Rights Agreement.

4. Representations. Each party represents and warrants to each other party that (i) such party has the requisite corporate, partnership or other entity power and authority to enter into this Amendment, (ii) the execution and delivery of this Amendment by such party has been duly authorized by all necessary corporate, partnership or other entity action on the part of such party, and (iii) this Amendment has been duly executed by such party and is the valid and binding obligation of such party enforceable against such party in accordance with its terms.

5. Termination. This Amendment shall terminate and be of no further force or effect if and at such time as the Securities Purchase Agreement is terminated in accordance with its terms prior to the Closing.

6. Entire Agreement. Except as modified by this Amendment, all of the terms and conditions of the Rights Agreement shall remain unchanged and are and shall continue in full force and effect.

7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflicts of law.

8. Counterparts; Facsimile. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment may also be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first written above.

THE COMPANY: **BENEFITFOCUS, INC.**

By: /s/ Mason R. Holland, Jr.
Name: Mason R. Holland, Jr.
Title: Executive Chairman of the Board
Address: 100 Benefitfocus Way
Charleston, SC 29492

[Additional Signature Page Follows]

Signature Page to First Amendment to Second Amended and Restated Investors' Rights Agreement

INVESTORS:

GS CAPITAL PARTNERS VI FUND, L.P.

By: GSCP VI Advisors, L.L.C.
its General Partner

/s/ Joseph P. DiSabato
Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI OFFSHORE FUND, L.P.

By: GSCP VI Offshore Advisors, L.L.C.
its General Partner

/s/ Joseph P. DiSabato
Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI GMBH & CO. KG

By: GS Advisors VI, L.L.C.
its Managing Limited Partner

/s/ Joseph P. DiSabato
Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI PARALLEL, L.P.

By: GS Advisors VI, L.L.C.
its General Partner

/s/ Joseph P. DiSabato
Name: Joseph P. DiSabato
Title: Vice President

[Additional Signature Page Follows]

OAK INVESTMENT PARTNERS XII, LIMITED PARTNERSHIP

By: Oak Associates XII, LLC, its General Partner

By: /s/ Ann H. Lamont
Name: Ann H. Lamont
Title: Managing Member

/s/ Mason R. Holland, Jr.
Mason R. Holland, Jr.

/s/ Shawn Jenkins
Shawn Jenkins

[Additional Signature Page Follows]

Signature Page to First Amendment to Second Amended and Restated Investors' Rights Agreement

MERCER:

MERCER LLC

By: /s/ Julio Portalatin
Name: Julio Portalatin
Title: President and Chief Executive Officer

Signature Page to First Amendment to Second Amended and Restated Investors' Rights Agreement

Exhibit 4.5

BENEFITFOCUS, INC.

WARRANT FOR THE PURCHASE OF SHARES OF COMMON STOCK OF BENEFITFOCUS, INC.

February 24, 2015

No. 001 **Warrant to Purchase 580,813 Shares**

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. SUCH SHARES MAY NOT BE SOLD, PLEDGED, OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR A VALID EXEMPTION FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SAID ACT.

FOR VALUE RECEIVED, BENEFITFOCUS, INC. , a Delaware corporation (the " **Company** "), hereby certifies that Mercer LLC, a Delaware limited liability company (together with its successor or permitted assigns, the " **Holder** "), is entitled, subject to the provisions of this Warrant, to purchase from the Company, at the times specified herein, 580,813 fully paid and non-assessable shares of Common Stock of the Company, par value $0.001 per share (the " **Common Stock** "), at a purchase price per share equal to the Exercise Price (as hereinafter defined). The number of shares of Common Stock to be received upon the exercise of this Warrant for the Purchase of Shares of Common Stock (this " **Warrant** ") and the price to be paid for a share of Common Stock are subject to adjustment from time to time as hereinafter set forth.

1. Definitions . The following terms, as used herein, have the following meanings:

" **Affiliate** " means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person; provided that neither the Holder nor any of its Affiliates, on the one hand, nor the Company or any of its subsidiaries, on the other hand, shall be deemed to be Affiliates of one another. For purposes hereof, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have correlative meanings.

" **Board** " means the Company's Board of Directors.

" **Business Day** " means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by applicable law to remain closed.

" **Closing Date** " means the date of issuance of this Warrant to the Holder.

" **Common Stock** " has the meaning set forth in the Preamble.

" **Company** " has the meaning set forth in the Preamble.

" **Company Existing Control Group** " means Mason R. Holland, Jr., Shawn A. Jenkins, The Goldman Sachs Group, Inc. and Oak Investment Partners XII, L.P.

" **Current Market Price Per Common Share** " means, on any determination date, the volume weighted average price per share of Common Stock for the 20 consecutive trading days immediately prior to such date. If, on any determination date, the shares of Common Stock are not listed and traded on a national securities exchange, then the Current Market Price Per Common Share shall be as determined in good faith by the Board by application of a reasonable valuation method consistently applied and taking into consideration all available information material to the value of the Company and its subsidiaries; factors to be considered may include, as applicable, the value of tangible and intangible assets of the Company and its subsidiaries, the present value of future cash flows of the Company and its subsidiaries, the market value of stock or equity interests in similar corporations which can be readily determined through objective means (such as through trading prices on an established securities market or an amount paid in an arm's length private transaction), and other relevant factors such as control premiums or discounts for lack of marketability.

" **Exchange Act** " means the Securities Exchange Act of 1934.

" **Exercise Price** " means $26.50 per Warrant Share, as the same may be adjusted from time to time as provided in this Warrant.

" **Expiration Time** " means 5:00 p.m. New York City time on the date that is 30 months after the Closing Date, or if such day is not a Business Day, then 5:00 p.m. New York City time on the next succeeding Business Day.

" **Holder** " has the meaning set forth in the Preamble.

" **Purchase Agreement** " means the Securities Purchase Agreement dated as of February 24, 2015 between the Company and the Holder.

" **Person** " means any individual, corporation, limited liability company, partnership, joint venture, trust, incorporated or unincorporated association, joint stock company, unincorporated organization, a government or any department, subdivision or agency thereof, or other entity of any kind.

" **Rights Agreement** " means the Second Amended and Restated Investors' Rights Agreement dated as of September 18, 2013, by and between the Company and the Company Existing Control Group, as amended by the First Amendment to the Second Amended and Restated Investors' Rights Agreement, dated as of February 24, 2015, among the Company, the Holder and the Company Existing Control Group.

" **Securities Act** " means the Securities Act of 1933.

" **Warrant** " has the meaning set forth in the Preamble.

“ **Warrant Shares** ” means the shares of Common Stock deliverable upon exercise of this Warrant, as the same may be adjusted from time to time as provided in this Warrant.

2. Exercise of Warrant .

(a) The Holder is entitled to exercise this Warrant in whole or in part at any time, or from time to time, at or prior to the Expiration Time. To exercise this Warrant, the Holder shall (i) deliver to the Company (A) an executed Warrant Exercise Notice substantially in the form attached as Exhibit A to this Warrant and (B) the original executed Warrant together with an executed Warrant Exercise Subscription Form substantially in the form attached as Exhibit B to this Warrant and (ii) pay to Company an amount equal to the aggregate Exercise Price.

(b) At the election of the Holder, the Exercise Price may be paid either by wire transfer of immediately available funds to an account designated by the Company or by certified or official bank check or bank cashier’s check payable to the order of the Company. Unless the Holder requests delivery of the Warrant Shares in a different name than the Holder’s name, the Company shall pay any and all documentary, stamp or similar issue or transfer taxes payable in respect of the issue or delivery of the Warrant Shares.

(c) If the Holder exercises this Warrant in part, this Warrant shall be surrendered by the Holder to the Company and a new Warrant of the same tenor and for the unexercised number of Warrant Shares shall be executed by the Company as promptly as reasonably practicable. The Company shall register the new Warrant in the name of the Holder or in such name or names of its transferee pursuant to Section 5 as may be directed in writing by the Holder and deliver the new Warrant to the Person or Persons entitled to receive the same as promptly as reasonably practicable.

(d) Upon surrender of this Warrant in conformity with the foregoing provisions, the Company shall promptly transfer to the Holder of this Warrant appropriate evidence of ownership of the shares of Common Stock or other securities or property (including any money) to which the Holder is entitled, registered or otherwise placed in, or payable to the order of, the name or names of the Holder or its transferee pursuant to Section 5 as may be directed in writing by the Holder, and shall deliver such evidence of ownership and any other securities or property (including any money) to the Person or Persons entitled to receive the same, together with an amount in cash in lieu of any fraction of a share as provided in Section 4 .

3. Reservation of Shares . The Company hereby agrees that at all times there shall be reserved for issuance upon exercise of this Warrant such number of its authorized but unissued shares of Common Stock or any other securities of the Company from time to time issuable upon exercise of this Warrant as shall be sufficient to permit the exercise in full of this Warrant. All such shares shall be duly authorized and, when issued and paid for upon exercise of the Warrant, shall be newly, duly and validly issued, fully paid and non-assessable, free and clear of all liens and will not be subject to preemptive rights, rights of first refusal, any similar rights of stockholders or any other limitation or restriction, except as provided for in the Purchase Agreement or Rights Agreement, and except as a result of the shares having been issued pursuant to an exemption from registration under the Securities Act.

4. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant, and in lieu of delivery of any such fractional share to which the Holder may be entitled upon any exercise of this Warrant, the Company shall pay to the Holder an amount in cash equal to such fraction multiplied by the Current Market Price Per Common Share on the Business Day immediately preceding the date on which the Holder delivers the Warrant Exercise Notice pursuant to Section 2(a).

5. Transfer or Assignment of Warrant by the Holder.

(a) Each taker and holder of this Warrant, by taking or holding the same, consents and agrees that the registered holder hereof may be treated by the Company and all other Persons dealing with this Warrant as the absolute owner hereof for any purpose and as the Person entitled to exercise the rights represented hereby.

(b) The Holder agrees that this Warrant and the Warrant Shares shall be subject to the same restrictions on sales, transfers and other dispositions as are applicable to the shares of Common Stock acquired by the Holder pursuant to Section 4.9 of the Purchase Agreement; provided that the exception to such restrictions set forth in Section 4.9(i) of the Purchase Agreement shall not apply to this Warrant or the Warrant Shares.

(c) Without limiting Section 5(b), this Warrant shall be subject to the restrictions on transfer set forth in Section 2.12 of the Rights Agreement.

(d) Upon a valid exchange, transfer or assignment of this Warrant and surrender of this Warrant to the Company, together with a duly executed Warrant Assignment Form substantially in the form attached as Exhibit C, the Company shall, as promptly as practicable and without charge, execute and deliver a new Warrant in the name of the assignee or assignees named in such Warrant Assignment Form and, if the Holder's entire interest is not being assigned, in the name of the Holder, and this Warrant shall promptly be canceled.

6. Loss or Destruction of Warrant. Upon receipt by the Company of evidence satisfactory to it (in the exercise of its reasonable discretion) of the loss, theft, destruction or mutilation of this Warrant, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Warrant, if mutilated, the Company shall execute and deliver a new Warrant of like tenor and date.

7. Anti-Dilution Provisions .

(a) *Common Stock Dividends, Subdivisions or Combinations* . If the Company shall at any time after the date hereof (x) declare and pay a dividend or make a distribution on Common Stock payable in Common Stock, (y) subdivide or split the outstanding shares of Common Stock into a greater number of shares or (z) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares, then in each such case:

(i) the number of Warrant Shares issuable upon exercise of this Warrant thereafter shall be proportionately adjusted so that the exercise of this Warrant after such event shall entitle the Holder to receive the aggregate number of shares of Common Stock that such Holder would have been entitled to receive had such Holder exercised this Warrant immediately prior to such event; and

(ii) the Exercise Price thereafter shall be adjusted to equal the product of the Exercise Price in effect immediately prior to such event multiplied by a fraction (A) the numerator of which shall be the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to such event and (B) the denominator of which shall be the number of Warrant Shares issuable upon the exercise of this Warrant immediately following such event.

Any adjustment made pursuant to this Section 7(a) shall become effective immediately after the applicable record date, in the case of a dividend or distribution, or immediately after the applicable effective date, in the case of a subdivision, split, combination or reclassification.

(b) *Consolidation, Merger or Sale of Assets.* In the event of any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock) or any sale or transfer of all or substantially all of the assets of the Company to the Person formed by such consolidation or resulting from such merger or to any other Person that acquires such assets pursuant to any such sale or transfer of all or substantially all of the assets of the Company, as the case may be, then the Holder shall have the right thereafter to exercise this Warrant for the kind and amount of securities, cash and/or other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock for which this Warrant may have been exercised immediately prior to such consolidation, merger, sale or transfer. In determining the kind and amount of securities, cash and/or other property receivable upon such consolidation, merger, sale or transfer, if the holders of Common Stock have the right to elect as to the consideration to be received upon the consummation of such consolidation, merger, sale or transfer, then the consideration that the Holder shall be entitled to receive upon exercise shall be deemed to be the kind and amount of consideration received by the majority of all holders of Common Stock that affirmatively make an election (or of all such holders if none make an election). Adjustments for events subsequent to the effective date of such a consolidation, merger, sale or transfer of assets shall be as nearly equivalent as may be practicable to the adjustments provided for in this Warrant. In any such event, effective provisions shall be made in the certificate of incorporation or other organizational or charter documents of the resulting or surviving corporation, in any contract of sale, merger, conveyance, lease, transfer or otherwise so that the provisions set forth herein for the protection of the rights of the Holder shall thereafter continue to be applicable; and any such resulting or surviving corporation shall expressly assume the obligation to deliver, upon exercise, such shares of stock, other securities, cash and property.

(c) *Certain Determinations.* For purposes of any computation of any adjustment required under this Section 7 :

(i) adjustments shall be made successively whenever any event giving rise to such an adjustment shall occur;

(ii) if any portion of any consideration to be received by the Company in a transaction giving rise to such an adjustment shall be in a form other than cash, the fair market value of such non-cash consideration shall be utilized in such computation. Such fair market value shall be determined by the Board; provided that if the Holder objects to any such determination, such fair market value shall be as determined by an independent appraiser retained by the Holder and reasonably satisfactory to the Company, the expense of which shall be shared equally by the Company and the Holder. The Holder shall be notified promptly of any consideration other than cash to be received by the Company and furnished with a description of the consideration and the fair market value thereof, as determined in accordance with the foregoing provisions;

(iii) such calculations shall be made to the nearest one-tenth of a cent or to the nearest one-hundredth of a share, as the case may be;

(iv) the number of Shares outstanding at any given time shall not include shares owned or held by or for the account of the Company; and

(v) no adjustment in the Exercise Price or the number of Warrant Shares issuable upon exercise of the Warrant, as the case may be, shall be required if the amount of such adjustment would be less than one-tenth of a cent or one-hundredth of a share, as the case may be; provided that any adjustments which by reason of this Section 7(c)(v) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(d) *Certificates as to Adjustments.* Upon the occurrence of any and each adjustment to the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant, the Company shall promptly compute such adjustment in accordance with the terms hereof and furnish to the Holder a certificate setting forth such adjustment and showing in reasonable detail the facts upon which such adjustment is based.

(e) *Notices* . In the event that the Company shall propose at any time to effect any of the events described in Sections 7(a) through (b) that would result in an adjustment to the Exercise Price, the number of Warrant Shares issuable upon exercise of this Warrant or a change in the type of securities or property to be delivered upon exercise of this Warrant, the Company shall send notice to the Holder in the manner set forth in Section 10 . Such notice shall be sent at least 15 days prior to the effective date of any such event and shall specify such effective date. In the event that the Company shall issue a dividend or other distribution, the Company shall send notice to the Holder in the manner set forth in Section 10 . Such notice shall be sent at least ten days prior to the applicable record date and shall specify such record date and the date on which such

dividend or other distribution is to be made. In all cases, such notice shall specify such event in reasonable detail, including the effect on the Exercise Price and the number, kind or class of securities or other property issuable upon exercise of this Warrant.

8. Furnishing of Information. The Company covenants to timely file its Exchange Act reports and furnish such information as required by Section 4.2 of the Purchase Agreement.

9. Rights of the Holder. Prior to any exercise of this Warrant, the Holder shall not, by virtue hereof, be entitled to any rights of a shareholder of the Company, including, without limitation, the right to vote, to receive dividends or other distributions, to exercise any preemptive right or to receive any notice of meetings of shareholders or any notice of any proceedings of the Company except as may be specifically provided for herein.

10. Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section 10 prior to 5:00 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section 10 on a day that is not a Business Day or at or later than 5:00 p.m. (New York City time) on any Business Day, (c) the Business Day following the date of deposit with a nationally recognized overnight courier service, and (d) upon actual receipt by the party to whom such notice is required to be given. Notice via electronic mail must be supplemented by another of the above methods. The addresses, facsimile numbers and email addresses for such notices and communications are as follows, subject to change as the applicable party may hereafter specify for such purpose by notice to the other parties hereto:

To the Company:

Benefitfocus, Inc.
100 Benefitfocus Way
Charleston, SC 29492
Attention: Paris Cavic, General Counsel
Telephone No.: (843) 849-7476
Facsimile No.: (843) 849-6062
E-mail: paris.cavic@benefitfocus.com

With copies to:

Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, NC 27607
Attention: Donald R. Reynolds
Telephone No.: (919) 781-4000
Facsimile No.: (919) 781-4865
E-mail: dreynolds@wyrick.com

To the Holder:

Mercer LLC
1166 Avenue of the Americas
New York, NY 10036
Attention: Rian Miller, General Counsel
Telephone No.: (212) 345-1835
Facsimile No.: (212) 345-4433
E-mail: rian.miller@mercer.com

With copies to:

Mercer LLC
1166 Avenue of the Americas
New York, NY 10036
Attention: Margaret M. O'Brien, Global Chief Counsel - Health & Benefits
Telephone No.: (212) 345-5120
Facsimile No.: (212) 345-5627
E-mail: margaret.o'brien@mercer.com

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017
Attention: Phillip R. Mills
Telephone No.: (212) 450-4000
Facsimile No.: (212) 701-5800
E-mail: phillip.mills@davispolk.com

11. Amendments; Waivers . No provision of this Warrant may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Holder, and in the case of a waiver, by the party against whom the waiver is to be effective. No waiver of any default with respect to any provision, condition or requirement of this Warrant shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

12. Successors and Assigns . This Warrant shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign, delegate or otherwise transfer this Warrant or any rights or obligations hereunder without the prior written consent of the Holder. Any assignment, delegation or other transfer in violation of the foregoing provisions of this Section 12 shall be null and void *ab initio* .

13. Governing Law; Venue; Service of Process; Waiver of Jury Trial . ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT

GIVING EFFECT TO THAT BODY OF LAWS PERTAINING TO CONFLICT OF LAWS. EACH PARTY HEREBY IRREVOCABLY CONSENTS AND SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE STATE OF DELAWARE FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY (INCLUDING WITH RESPECT TO THE ENFORCEMENT HEREOF), AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT MAY NOW OR HEREAFTER HAVE THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, AND ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS WARRANT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY AND THE HOLDER HEREBY IRREVOCABLY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN CONNECTION WITH ANY DISPUTE HEREUNDER OR ANY TRANSACTION CONTEMPLATED HEREBY.

14. Execution . This Warrant may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or email attachment, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or email-attached signature page were an original thereof.

15. Other Definitional and Interpretive Provisions . The words “hereof”, “herein” and “hereunder” and words of like import used in this Warrant shall refer to this Warrant as a whole and not to any particular provision of this Warrant. References to Sections and Exhibits are to Sections and Exhibits of this Warrant unless otherwise specified. All Exhibits annexed hereto or referred to herein are hereby incorporated in and made a part of this Warrant as if set forth in full herein. Any capitalized terms used in any Exhibit but not otherwise defined therein, shall have the meaning as defined in this Warrant. Any singular term in this Warrant shall be deemed to include the plural, and any plural term the singular. Whenever the words “include”, “includes” or “including” are used in this Warrant, they shall be deemed to be followed by the words “without limitation”, whether or not they are in fact followed by those words or words of like import. “Writing”, “written” and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations

promulgated thereunder. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has duly caused this Warrant to be signed by its duly authorized officer and to be dated as of the date first indicated above.

BENEFITFOCUS, INC.

By: /s/ Mason R. Holland, Jr
Name: Mason R. Holland, Jr.
Title: Executive Chairman of the Board

[Signature Page to Warrant]

Acknowledged and Agreed:

MERCER LLC

By: /s/ Julio Portalatin
Name: Julio Portalatin
Title: President and Chief Executive Officer

[Signature Page to Warrant]

Exhibit A

WARRANT EXERCISE NOTICE

(To be delivered prior to exercise of the Warrant
by execution of the Warrant Exercise Subscription Form)

To: Benefitfocus, Inc.

The undersigned hereby notifies you of its intention to exercise the Warrant to purchase shares of Common Stock, par value $0.001 per share, of Benefitfocus, Inc. The undersigned intends to exercise the Warrant to purchase shares (the " **Warrant Shares** ") at $ per Share (the Exercise Price currently in effect pursuant to the Warrant). As indicated below, the undersigned intends to pay the aggregate Exercise Price for the Warrant Shares in by wire transfer of immediately available funds or by certified or official bank or bank cashier's check.

Date: ____

____
(Signature of Owner)

____
(Street Address)

____
(City) (State) (Zip Code)

Payment: ☐ $ wire transfer of immediately available funds

☐ $ certified or official bank or bank cashier's check

Exhibit B

WARRANT EXERCISE SUBSCRIPTION FORM

(To be executed only upon exercise of the Warrant
after delivery of Warrant Exercise Notice)

To: Benefitfocus, Inc.

The undersigned irrevocably exercises the Warrant for the purchase of shares (the " **Warrant Shares** ") of Common Stock, par value $0.001 per share, of Benefitfocus, Inc. (the " **Company** ") at $ per Share (the Exercise Price currently in effect pursuant to the Warrant) and herewith makes payment of $ (such payment being made as specified in the undersigned's previously delivered Warrant Exercise Notice), all on the terms and conditions specified in the within the Warrant, surrenders this Warrant and all right, title and interest therein to the Company and directs that the Warrant Shares deliverable upon the exercise of this Warrant be registered or placed in the name and at the address specified below and delivered thereto.

Date: ______________________________

____
(Signature of Owner)

____
(Street Address)

____
(City) (State) (Zip Code)

Securities and/or check to be issued to: ______________________________

Please insert social security or identifying number: ______________________________

Name: ______________________________

Street Address: ______________________________

City, State and Zip Code: ______________________________

Any unexercised portion of the Warrant evidenced by the within Warrant to be issued to:

Please insert social security or identifying number: ______________________________

Name: ______________________________

Street Address: ______________________________

City, State and Zip Code: ______________________________

Exhibit C

WARRANT ASSIGNMENT FORM

Dated ,

FOR VALUE RECEIVED,

hereby sells, assigns and transfers unto

(the “ **Assignee** ”),

(please type or print in block letters)

(insert address)

its right to purchase up to shares of Common Stock represented by this Warrant and does hereby irrevocably constitute and appoint Attorney, to transfer the same on the books of the Company with full power of substitution in the premises.

Signature ______________________________

Exhibit 10.20

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (the " ***Agreement*** ") is dated as of February 24, 2015, by and among Benefitfocus, Inc., a Delaware corporation (the " ***Company*** "), and Mercer LLC, a Delaware limited liability company (the " ***Investor*** ") and a wholly owned subsidiary of Marsh & McLennan Companies, Inc., a Delaware corporation (" ***Parent*** ").

BACKGROUND

A. The Company and the Investor are executing and delivering this Agreement in reliance upon the exemption from registration afforded by Section 4(2) of the Securities Act of 1933 (the " ***Securities Act*** "), and/or Rule 506 of Regulation D (" ***Regulation D*** ") as promulgated by the United States Securities and Exchange Commission (the " ***SEC*** ") under the Securities Act.

B. The Investor wishes to purchase, and the Company wishes to sell and issue to the Investor, upon the terms and subject to the conditions stated in this Agreement, an aggregate of 2,817,526 shares of the Common Stock (as adjusted by any stock split, dividend or other distribution, recapitalization or similar event, the " ***Shares*** ") and the Warrant (as defined below).

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and the Investor agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions . In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated:

" **Affiliate** " means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person; provided that neither the Investor nor any of its Affiliates, on the one hand, nor the Company or any Subsidiary, on the other hand, shall be deemed to be Affiliates of one another. For purposes hereof, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have correlative meanings.

" **Agreement** " has the meaning set forth in the Preamble.

" **Alliance Agreement** " means the Mercer Exchange Software as a Service Agreement, dated as of April 1, 2013, between the Company and Mercer Health & Benefits LLC, a Delaware limited liability company, and amended through the date hereof, including all exhibits, schedules and annexes thereto, and as amended and/or restated from time to time.

" **Applicable Law** " collectively means, with respect to any Person, any and all domestic or foreign federal, state or local laws (statutory, common or otherwise), codes, rules,

regulations, and governmental, judicial or administrative decrees, orders and decisions that are applicable to such Person, this Agreement, the other Transaction Documents, including the U.S. Gramm-Leach-Bliley Act of 1999, the U.S. Fair Credit Reporting Act of 1970, the Health Insurance Portability and Accountability Act of 1996, the Foreign Corrupt Practices Act of 1977, the U.S. Bank Secrecy Act, orders and guidelines of the Office of Foreign Assets Control and the USA Patriot Act, and any other applicable data protection, privacy, consumer protection or confidentiality laws or regulations (including the rules and regulations of any self-regulatory organization to which such Person or its securities are subject, including all applicable Trading Markets).

" **beneficial owner** ," " **beneficially owns** ," " **beneficial ownership** " and terms of similar import have the meaning set forth in Rule 13d-3 under the Exchange Act (i) assuming the full conversion into, and exchange and exercise for, shares of Common Stock of all Equity Securities beneficially owned by the applicable Person and (ii) determined without regard for the number of days in which such Person has the right to acquire such beneficial ownership; provided that, for purposes of any determination of the beneficial ownership of any securities by the Investor Group, any securities beneficially owned by any members of any Investor 13D Group other than the members of the Investor Group shall not be deemed to be beneficially owned by the Investor Group unless members of the Investor Group have a pecuniary interest in such securities.

" **Board** " has the meaning set forth in Section 2.2 .

" **Board Observer Letter Agreement** " means the letter agreement substantially in the form attached hereto as Exhibit A .

" **Business Day** " means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by Applicable Law to remain closed.

" **Change of Control** " of a party means any of the following transactions: (a) a merger, consolidation or other reorganization, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor entity are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the Persons who beneficially owned that party's outstanding voting securities immediately prior to such transaction; (b) a sale, transfer or other disposition of twenty percent (20%) or more of that party's consolidated assets; or (c) any transaction or series of transactions pursuant to which any Person or any group of Persons (other than the Company Existing Control Group, with respect to the Company) comprising a "group" within the meaning of Rule 13d-5 (b)(1) of the Exchange Act becomes directly or indirectly the beneficial owner of securities possessing more than twenty percent (20%) of the total combined voting power of that party's securities (as measured in terms of the power to vote with respect to the election of the board of directors or other similar governing body) outstanding immediately after the consummation of such transaction or series of transactions, whether such transaction involves a direct issuance from that party or the acquisition of outstanding securities held by one or more of that party's existing stockholders.

" **Closing** " has the meaning set forth in Section 2.2(a) .

“ **Closing Date** ” means the date on which the Closing occurs.

“ **Code** ” means the Internal Revenue Code of 1986.

“ **Common Stock** ” means the common stock of the Company, par value $0.001 per share.

“ **Company** ” has the meaning set forth in the Preamble.

“ **Company Existing Control Group** ” means Mason R. Holland, Jr., Shawn A. Jenkins, The Goldman Sachs Group, Inc. and Oak Investment Partners XII, L.P., and any and all Affiliates of any of them.

“ **Competing Bid** ” shall mean an offer by any member of the Investor Group or any Investor 13D Group to acquire Voting Stock of the Company that, if consummated, would result in a Change of Control of the Company; provided that such offer follows a publicly announced offer by any Person (other than any member of the Investor Group or any Investor 13D Group) that, if consummated, would result in a Change of Control of the Company.

“DGCL” has the meaning set forth in Section 3.1(q) .

“ **Disclosure Materials** ” has the meaning set forth in Section 3.1(h) .

“ **Equity Securities** ” has the meaning set forth in Section 6.1 .

“ **Exceptions Letter** ” has the meaning set forth in the lead-in paragraph to Section 3.1 .

“ **Exchange Act** ” means the Securities Exchange Act of 1934.

“ **Excluded Securities** ” has the meaning set forth in Section 6.5 .

“ **Exercise Notice** ” has the meaning set forth in Section 6.2 .

“ **First Amendment to the Rights Agreement** ” means the First Amendment to the Second Amended and Restated Investors’ Rights Agreement, dated as of the date hereof, among the Company, the Investor and the Company Existing Control Group.

“Fundamental Representations” has the meaning set forth in Section 7.10 .

“ **GAAP** ” has the meaning set forth in Section 3.1(h) .

“ **Governmental Authority** ” means any domestic or foreign federal, state or local governmental, regulatory or administrative authority, department, court, agency or official, including any political subdivision thereof, or any non-governmental self-regulatory organization, agency, commission or authority.

“ **Insolvent** ” has the meaning set forth in Section 3.1(i) .

“ **Intellectual Property** ” means any and all rights, title and interest in and to all intellectual property or similar proprietary rights arising under the Applicable Law of the United States, any other jurisdiction or any treaty regime or international convention throughout the world, including without limitation: (i) patents and patent continuations, divisionals, reexaminations, substitutions and reissues; (ii) trademarks, service marks, corporate names, trade names, service names, brands, trade dress, designs, logos and Internet domain names, and the goodwill associated therewith; (iii) copyrights, works of authorship, moral rights, data and database rights; (iv) trade secrets, know-how, innovations, concepts, research and development, and inventions (whether or not patentable or reduced to practice); and (v) all applications, extensions, renewals or translations and other derivative work of the foregoing in sub-clauses (i) through (iv).

“ **Investor** ” has the meaning set forth in the Preamble.

“ **Investor Controlled Entity** ” shall mean an entity of which the Investor collectively owns or controls, directly or indirectly, not less than a majority of the outstanding voting power entitled to vote in the election of directors of such entity (or, in the event the entity is not a corporation, the governing members, board or other similar body of such entity).

“ **Investor Group** ” means, collectively, Parent and its controlled Affiliates, including the Investor and the Investor Controlled Entities (other than any director, officer or employee of any of the foregoing).

“ **Investor Observer** ” has the meaning set forth in Section 4.4 .

“ **Investor 13D Group** ” means any 13D Group of which any member of the Investor Group is a member, other than any 13D Group whose only members are members of the Investor Group.

“ **Lien** ” means, with respect to any asset, any pledge, lien, collateral assignment, security interest, encumbrance, right of first refusal, preemptive rights, any other third-party right of any kind, mortgage, deed of trust, title retention, conditional sale or other security arrangement, or adverse claim of title.

“ **Material Adverse Effect** ” means (i) a material adverse effect on the legality, validity, or enforceability of any of the Transaction Documents, the Rights Agreement or the Alliance Agreement, (ii) a material adverse effect on the results of operations, assets, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole on a consolidated basis, or (iii) a material adverse effect on the Company’s ability to perform on a timely basis its obligations under any of the Transaction Documents, the Rights Agreement or the Alliance Agreement.

“ **Material Contract** ” has the meaning set forth in Section 3.1(t) .

“ **Material Permits** ” has the meaning set forth in Section 3.1(m) .

“ **Nasdaq** ” has the meaning set forth in Section 3.1(e) .

“ **Non-Voting Convertible Securities** ” means any securities of the Company that are convertible into, exchangeable for or otherwise exercisable to acquire Voting Stock of the Company, including convertible securities, warrants, rights or options to purchase Voting Stock of the Company.

“Organizational Documents” has the meaning set forth in Section 3.1(b) .

“ **Person** ” means any individual, corporation, limited liability company, partnership, joint venture, trust, incorporated or unincorporated association, joint stock company, unincorporated organization, a government or any department, subdivision or agency thereof, or other entity of any kind.

“ **Preferred Stock** ” means the preferred stock of the Company, par value $0.001 per share.

“ **Proceeding** ” means an action, litigation, lawsuit, claim, suit, arbitration, audit, examination, investigation or proceeding (including a partial proceeding, such as a deposition), whether commenced or threatened in writing.

“ **Proposed Registered Transfer** ” has the meaning set forth in Section 6.2 .

“ **Proposed Transfer** ” has the meaning set forth in Section 6.2 .

“ **Proposed Transfer Notice** ” has the meaning set forth in Section 6.2 .

“ **Purchase Price** ” has the meaning set forth in Section 2.1 .

“ **Regulation D** ” has the meaning set forth in the Background.

“ **Rights Agreement** ” means the Second Amended and Restated Investors’ Rights Agreement dated as of September 18, 2013, by and between the Company and the Company Existing Control Group, as amended on the date hereof to make Investor a party thereto.

“ **ROFO** ” has the meaning set forth in Section 6.1 .

“ **ROFO Agreement** ” means the Right of First Offer Agreement dated as of the date hereof among the Company, the Investor and the Company Existing Control Group.

“ **Rule 144** ” means Rule 144 promulgated by the SEC pursuant to the Securities Act, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

“ **SEC** ” has the meaning set forth in the Background.

“ **SEC Reports** ” has the meaning set forth in Section 3.1(h) .

“ **Securities Act** ” has the meaning set forth in the Background.

“ **Shares** ” has the meaning set forth in the Background.

“ **Subsidiary** ” means any entity (i) the securities or other ownership interests of which having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company or (ii) for which the Company directly or indirectly serves as the managing member or general partner.

“ **Tax** ” means (i) any tax, governmental fee or other like assessment or charge of any kind whatsoever (including withholding on amounts paid to or by any Person), together with any interest, penalty, addition to tax or additional amount, and any liability for any of the foregoing as transferee, (ii) in the case of the Company or any of the Subsidiaries, liability for the payment of any amount of the type described in clause (i) as a result of being or having been before the Closing a member of an affiliated, consolidated, combined or unitary group, or a party to any agreement or arrangement, as a result of which liability of the Company or any of the Subsidiaries to a taxing authority is determined or taken into account with reference to the activities of any other Person and (iii) liability of the Company or any of the Subsidiaries for the payment of any amount as a result of being party to any tax sharing agreement.

“ **Termination Date** ” has the meaning set forth in Section 4.4 .

“ **13D Group** ” means any group of Persons that would be required under Section 13(d) of the Exchange Act to file a statement on Schedule 13D or Schedule 13G with the SEC as a “person” within the meaning of Section 13(d)(3) of the Exchange Act if such group beneficially owned Voting Stock representing more than 5% of any class of Voting Stock then outstanding.

“ **Total Current Voting Power** ” shall mean, with respect to any entity, at the time of determination of Total Current Voting Power, the total number of votes which may be cast in the election of members of the board of directors of the corporation if all securities entitled to vote in the election of such directors are present and voted (or, in the event the entity is not a corporation, the governing members, board or other similar body of such entity).

“ **Trading Day** ” means (a) any day on which the Shares are listed or quoted and traded on their primary Trading Market, or (b) if trading ceases to occur on any Trading Market, any Business Day.

“ **Trading Market** ” means the over-the-counter market or any national securities exchange, market or trading or quotation facility on which the Common Stock is then listed or quoted.

“ **Transaction Documents** ” means this Agreement, the Warrant, the First Amendment to the Rights Agreement, the ROFO Agreement and the Board Observer Letter Agreement.

“ **Transfer Agent** ” means Computershare or any successor transfer agent for the Company.

“ **Voting Stock** ” means shares of Common Stock and any other securities of the Company having the ordinary power to vote in the election of members of the Board.

" **Warrant** " means the Warrant for the Purchase of Shares of Common Stock of the Company substantially in the form attached as Exhibit B hereto.

ARTICLE II
PURCHASE AND SALE

2.1 Purchase and Sale of the Shares . Subject to the terms and conditions of this Agreement, the Investor hereby agrees to purchase, and the Company hereby agrees to sell and issue to the Investor, the Shares at a price per share equal to $26.50 in cash, for the aggregate purchase price of $74,664,439.00 in cash (the " ***Purchase Price*** ").

2.2 Closing .

(a) The closing (the " ***Closing*** ") of the purchase and sale of the Shares hereunder shall take place at the offices of Davis Polk & Wardwell LLP, 450 Lexington Avenue, New York, New York, on the date hereof or the following Business Day, or at such other time or place as the Investor and the Company may agree.

(b) At the Closing, the Company shall deliver to the Investor (i) appropriate evidence of the issuance of the Shares in uncertificated form registered in the name of the Investor, (ii) a certificate executed by the secretary of the Company and dated as of the Closing Date, as to the certificate of incorporation, by-laws, foreign qualification, incumbency of the Company's officers and good standing of the Company and the resolutions adopted by the Company's Board of Directors (the " ***Board*** ") authorizing the transactions contemplated by the Transaction Documents, (iii) a certificate executed by an executive officer of the Company certifying that the conditions set forth in Sections 5.1(a) and 5.1 (b) have been satisfied, (iv) the Warrant, duly executed by the Company, and (v) a Board Observer Letter Agreement, duly executed by the Company.

(c) At the Closing, the Investor shall deliver to the Company (i) the Purchase Price to the Company by wire transfer of immediately available funds to an account specified by the Company in writing at least two Business Days prior to the Closing Date, (ii) a certificate executed by an executive officer of the Investor certifying that the conditions set forth in Sections 5.2(a) and 5.2(b) have been satisfied, (iii) the Warrant, duly executed by the Investor, and (iv) a Board Observer Letter Agreement, duly executed by the Investor and the initial Investor Observer.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company . Except as disclosed in the SEC Reports (but excluding the "Risk Factors" section contained in such SEC Reports, and excluding forward-looking statements identifying risks and uncertainties that are not historical facts contained in such SEC Reports) or the exceptions letter delivered by the Company to the Investor concurrently with the execution hereof (the " ***Exceptions Letter*** "), the Company hereby represents and warrants to the Investor as of the date hereof and as of the Closing Date as follows:

(a) Subsidiaries . The Company has no Subsidiaries other than those listed on Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Lien and all the issued and outstanding shares of capital stock or other equity interest of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights. There are no outstanding (i) securities of the Company or any Subsidiary convertible into or exchangeable or exercisable for shares of capital stock or other equity interests of any Subsidiary or (ii) options or other rights to acquire from the Company or any Subsidiary, or other obligation of the Company or any Subsidiary to issue, any capital stock, other equity interests or securities convertible into or exchangeable for capital stock or other equity interests of any Subsidiary. Neither the Company nor any of the Subsidiaries directly or indirectly owns any shares of capital stock or other equity interest in, or any securities convertible into or exchangeable or exercisable for any shares of capital stock or other equity interest in, any Person other than the Subsidiaries. No Subsidiary has any outstanding debt or other non-equity interests the holders of which have the right to vote, or are convertible into or exchangeable or exercisable for capital stock or other equity interests having the right to vote, with the stockholders of such Subsidiary on any matter.

(b) Organization and Qualification . Each of the Company and its Subsidiaries is an entity duly organized, validly existing and in good standing under the Applicable Laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite legal authority to own or lease and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation of any of the provisions of its respective certificate or articles of incorporation or by-laws or other organizational or charter documents (collectively, " ***Organizational Documents*** "). Each of the Company and its Subsidiaries is duly qualified to do business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, has not had and would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has made available to the Investor prior to the date hereof true and complete copies of its certificate of incorporation and by-laws in effect as of the date hereof.

(c) Authorization; Enforcement . The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and no further consent or action is required by the Company, its officers, the Board or its stockholders. The issuance of the Shares and the Warrant do not require the approval of the stockholders of the Company. Each of the Transaction Documents has been (or upon delivery will be) duly executed by the Company and is, or when delivered in accordance with the terms hereof, will constitute, the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other Applicable Laws of general application relating to or affecting the enforcement of creditors rights generally, and (ii) the effect of rules of law governing the availability of specific performance and other equitable remedies.

(d) No Conflicts. The execution, delivery and performance by the Company of the Transaction Documents and the consummation by the Company of the transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's Organizational Documents, (ii) materially conflict with, or constitute a material default (or an event that with notice or lapse of time or both would become a material default) under, or give to others any material right of consent, termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of any material right or obligation of the Company or any Subsidiary under, or give rise to a loss of any material benefit to which the Company or any Subsidiary is entitled under, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) result in a violation of any Applicable Law.

(e) Filings, Consents and Approvals. The Company is not required to obtain any approval, consent, waiver, authorization or order of, give notice to, make any filing or registration with, any Governmental Authority or other Person, or observe any statutory waiting period relating thereto, in connection with the execution, delivery or performance by the Company of the Transaction Documents or the consummation of the transactions contemplated hereby or thereby, other than (i) compliance with any applicable requirements of the HSR Act, (ii) any filings required to comply with the Company's registration obligations under the Rights Agreement, (iii) the application to the Nasdaq Global Select Market ("***Nasdaq***") for the listing of the Shares for trading thereon in the time and manner required thereby and (iv) filings required under applicable U.S. federal and state securities laws.

(f) The Shares. The Shares have been duly authorized and reserved for issuance and, when issued and paid for in accordance with the Transaction Documents, will be newly, duly and validly issued, fully paid and nonassessable, free and clear of all Liens and will not be subject to preemptive rights, rights of first refusal, any similar rights of stockholders or any other limitation or restriction, except as provided for herein or in the Rights Agreement, and except as a result of the Shares having been issued pursuant to an exemption from registration under the Securities Act. The shares of Common Stock issuable pursuant to the Warrant have been duly authorized and reserved for issuance and, when issued and paid for upon exercise of the Warrant, will be newly, duly and validly issued, fully paid and nonassessable, free and clear of all Liens and will not be subject to preemptive rights, rights of first refusal, any similar rights of stockholders or any other limitation or restriction, except as provided for herein or in the Rights Agreement, and except as a result of such shares having been issued pursuant to an exemption from registration under the Securities Act.

(g) Capitalization. As of February 23, 2015, the aggregate number of shares and type of all authorized, issued and outstanding classes of capital stock, options and other securities of the Company (whether or not presently convertible into or exercisable or exchangeable for shares of capital stock of the Company) consists of (i) 50,000,000 authorized shares of Common Stock, with 25,642,334 shares of Common Stock outstanding; (ii) 5,000,000 shares of Preferred Stock, none of which are outstanding; and (iii) 5,036,456 shares of Common

Stock reserved for issuance upon the exercise of employee stock options and/or restricted stock units. Since February 23, 2015, the Company has not issued or granted, as applicable, any capital stock, options or other securities of the Company (whether or not presently convertible into or exercisable or exchangeable for shares of capital stock of the Company). All outstanding shares of capital stock have been duly authorized, validly issued, fully paid and nonassessable and have been issued in compliance with all applicable securities laws and regulations, the Company's Organizational Documents and all stockholders' agreements now and at the relevant time of issuance in effect. Except as disclosed in the first sentence of this Section 3.1(g) , there are no outstanding options, warrants, rights to subscribe to, calls, phantom stock rights or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or any agreement giving any Person any right to subscribe for or acquire, or sell to the Company, or requiring the Company to repurchase or redeem from any Person, any shares of Preferred Stock, Common Stock or any other capital stock or other equity interests of the Company, or securities or rights convertible or exchangeable into shares of Preferred Stock, Common Stock or any other capital stock or other equity interests of the Company. The Company has no outstanding debt or other non-equity interests the holders of which have the right to vote, or which are convertible into or exchangeable or exercisable for capital stock or other equity interests having the right to vote, with the stockholders of the Company on any matter. There are no anti-dilution or price adjustment provisions contained in any security issued by the Company (or in any agreement providing rights to security holders) and the issuance and sale of the Shares will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Investor) and will not result in a right of any holder of securities to adjust the exercise, conversion, exchange or reset price under such securities. To the knowledge of the Company, except as disclosed on Schedules 13D and Schedules 13G on file with the SEC and except pursuant to this Agreement, no Person or group of related Persons beneficially owns or has the right to acquire, by agreement with or by obligation binding upon the Company, beneficial ownership of in excess of five percent (5%) of the outstanding Common Stock.

(h) SEC Reports; Financial Statements . The Company has timely filed all reports required to be filed by it under the Securities Act and the Exchange Act. Such reports required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) of the Exchange Act, together with any materials filed or furnished by the Company under the Securities Act and the Exchange Act, whether or not any such reports were required, being collectively referred to herein as the " ***SEC Reports*** " and, together with the Exceptions Letter, the " ***Disclosure Materials*** ". As of their respective filing or effective dates, as applicable, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed by the Company or declared effective, as applicable, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company has made available to the Investor prior to the date hereof the current drafts as of the date hereof of the Company's press release announcing its earnings, and the Company's Annual Report on Form 10-K, in each case, for the fiscal year ended December 31, 2014, and neither such press release nor such Form 10-K will, when issued or filed, as applicable, after the date hereof, differ in any material respect from the last draft thereof made available to the Investor prior to the execution hereof. The financial statements of the Company included in the SEC Reports comply

in all material respects with applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of the filing of such SEC Reports. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (" ***GAAP*** "), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP for audited financial statements, and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries taken as a whole as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) No Change . Except as otherwise disclosed in the SEC Reports, since December 31, 2013, (A) there has been no event, occurrence or development that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect, (B) the Company and the Subsidiaries have conducted their respective businesses in the ordinary course consistent with past practice, and neither the Company nor any of the Subsidiaries have incurred any liabilities (contingent or otherwise) other than those arising from operations in the ordinary course of business consistent with past practice, and (C) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders, or purchased, redeemed, or made any agreements to purchase or redeem any shares of its capital stock. The Company is not currently negotiating with any Person other than the Investor regarding any issuance of shares of capital stock of the Company to such Person, and the Company has no current intent to do so. Neither the Company nor any of the Subsidiaries has taken any steps to seek protection pursuant to any bankruptcy law nor does the Company believe that its or the Subsidiaries' creditors intend to initiate involuntary bankruptcy Proceedings or have any knowledge of any fact which would reasonably lead any such creditor to do so. Neither the Company nor any of the Subsidiaries is Insolvent (as hereinafter defined), and will not be Insolvent after giving effect to the transactions contemplated hereby to occur at the applicable Closing. For purposes of this Section 3.1(i) , " ***Insolvent*** " means (i) the present fair saleable value of the applicable Person's assets is less than the amount required to pay such Person's total indebtedness, (ii) the applicable Person is unable to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured or (iii) the applicable Person has unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted.

(j) Litigation . There is not, and since January 1, 2011 has not been, any material Proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary or any of its properties. Neither the Company nor any Subsidiary is, or since January 1, 2011 has been, a party or subject to any material order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no material Proceeding by the Company or any Subsidiary currently pending or which the Company or any Subsidiary intends to initiate.

(k) Key Employees . There are no currently effective employment contracts, offer letters containing economic terms, consulting agreements, deferred compensation arrangements, bonus plans, incentive plans, profit sharing plans, retirement agreements or other employee compensation plans or agreements containing terms and conditions that would result in

the material payment to any employee or former employee of the Company or any of its Subsidiaries of any material money or other property or the acceleration, vesting or provision of any other material rights or benefits to any employee or former employee of the Company or any of its Subsidiaries by virtue of the issuance of the Shares pursuant to this Agreement or the other transactions contemplated or permitted by the Transaction Documents (either alone or upon the occurrence of any other event). As of the date hereof, no key employee of the Company or any of the Subsidiaries has given notice, nor is the Company aware, that any such key employee intends to terminate his or her employment with the Company or any of the Subsidiaries.

(l) Stockholders' Agreements . Except as required pursuant to the Rights Agreement, the Company is presently not under any obligation, and has not granted any rights, to register any of the Company's presently outstanding securities or any of its securities that may hereafter be issued that have not expired or been satisfied. Except for the Rights Agreement and the Second Amended and Restated Voting Agreement, dated September 23, 2013, by and between the Company and the Company Existing Control Group, there are no stockholders agreements, voting agreements, right of first offer or other similar agreements or understandings with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(m) Compliance with Laws; Permits . The Company and each of its Subsidiaries is, and since January 1, 2011 has been, in material compliance with all Applicable Law. The Company and its Subsidiaries possess all material certificates, authorizations and permits issued by the appropriate Governmental Authority necessary to conduct their respective businesses as described in the SEC Reports (" ***Material Permits*** "), neither the Company nor any of the Subsidiaries is in violation of any of the Material Permits and since January 1, 2013, neither the Company nor any Subsidiary has received any notice from any Governmental Authority relating to any material violation of Applicable Law or the revocation or modification of any Material Permit.

(n) Offering Valid . Assuming the accuracy of the representations and warranties of the Investor contained in Section 3.2 hereof, the offer, sale and issuance of the Shares will be exempt from the registration requirements of the Securities Act, and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws.

(o) Private Placement . Neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with the offer or sale of the Shares. Neither the Company nor any of its Affiliates nor, any Person acting on the Company's behalf has, directly or indirectly, at any time within the past six months, made any offer or sale of any security or solicitation of any offer to buy any security under circumstances that would (i) eliminate the availability of the exemption from registration under Regulation D in connection with the offer and sale by the Company of the Shares as contemplated hereby or (ii) cause the offering of the Shares pursuant to the Transaction Documents to be integrated with prior offerings by the Company for purposes of any Applicable Law or stockholder approval provisions, including under the rules and regulations of any Trading Market in a manner which would require any stockholder approval.

(p) Placement Agent’s Fees . The Company has not employed any broker, investment banker, finder or other Person in a similar capacity and has not incurred any liability for any financial advisory fees, brokerage fees, commissions or finder’s fees, and no broker, investment banker, finder or other Person in a similar capacity has acted, directly or indirectly, for the Company or any of the Subsidiaries, in connection with this Agreement or the transactions contemplated hereby. The Company shall pay, and hold the Investor harmless against, any liability, loss or expense (including reasonable attorney’s fees and out-of-pocket expenses) arising in connection with any claim for such fees arising out of the transactions contemplated by the Transaction Documents.

(q) Application of Takeover Protections . The Company has no “poison pill” or similar stockholder rights plan or agreement in effect. Assuming that the Investor’s representations and warranties in Section 3.2(i) are true as of immediately prior to the execution and delivery of this Agreement, the Company has taken all actions necessary to exempt the Investor Group, the Transaction Documents and the transactions contemplated or permitted hereby and thereby (including, for the avoidance of doubt, the acquisition of any additional shares of Voting Stock to the extent permitted by Section 4.8) from the restrictions on business combinations of Section 203 of the Delaware General Corporation Law (the “ ***DGCL*** ”); provided , however , that the Company has not waived any such provisions that would apply to the extent that the Investor and the Investor Group acquire beneficial ownership of more than 17.5% of the Company’s shares of Common Stock then outstanding or issuable pursuant to the Warrant. Except for Section 203 of the DGCL, there is no control share acquisition, business combination or other anti-takeover provision under the Organizational Documents of the Company or any of the Subsidiaries or the Applicable Laws of their respective states of incorporation or otherwise, that is or could become applicable to the Investor Group as a result of the transactions contemplated or permitted by the Transaction Documents.

(r) Intellectual Property . Section 3.1(r) of the Exceptions Letter sets forth a true and complete list of all Intellectual Property owned by the Company or the Subsidiaries that has been registered, issued or is otherwise subject to a pending application, indicating for each item the registration or application umber, the applicable filing jurisdiction, the recorded owner and the date of application and registration or issuance. The Company or one of the Subsidiaries owns all rights, title and interest in, or has legally obtained and maintained all necessary rights and licenses to use for all purposes currently required by the Company and the Subsidiaries, all Intellectual Property used or held for use in, or otherwise necessary for, the conduct of the business of the Company and the Subsidiaries. All current and former employees and independent contractors of the Company and the Subsidiaries involved in the development of material Company Intellectual Property and all other key employees and senior executives have executed an invention assignment or other work made for hire agreement substantially in the form disclosed to Investor prior to the date hereof and to the extent that any such Intellectual Property has been developed or created by a third party (including any current or former employee or independent contractor of the Company or any Subsidiary) for the Company or any of the Subsidiaries, the Company or one of the Subsidiaries, as the case may be, has a written agreement with such third party with respect thereto, and the Company or one of the Subsidiaries thereby has obtained sufficient ownership of such Intellectual Property to conduct its business as currently conducted. The Company or a Subsidiary solely and exclusively owns all Intellectual Property owned or purported to be owned by the Company or the Subsidiaries, and in each case owns such

Intellectual Property free and clear of all Liens. To the knowledge of the Company, all Intellectual Property owned by or exclusively licensed to the Company or any of the Subsidiaries is valid and enforceable and there is, and since January 1, 2013 has been, no existing infringement by another Person of any of the Intellectual Property owned by or exclusively licensed to the Company or any of the Subsidiaries. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the Company and each Subsidiary is in compliance with all license contracts to which the Company or any such Subsidiary is a party or otherwise bound. There are no infringement or misappropriation Proceedings pending or, to the knowledge of the Company, threatened against the Company or any of the Subsidiaries with respect to the conduct of their respective businesses (including the provision of any products or services of the Company or any of the Subsidiaries). Neither the Company nor any of the Subsidiaries, nor the conduct of their respective businesses (including the provision of any products or services of the Company or any of the Subsidiaries), has infringed, misappropriated or otherwise violated any Intellectual Property of any third party in any material respect. The Company and each Subsidiary has taken any and all actions reasonably necessary to maintain, enforce and protect their rights in any and all Intellectual Property owned or licensed to the Company or any of the Subsidiaries, including by taking reasonable measures to protect the confidentiality of proprietary or confidential information (including trade secrets and any source code related to the software owned by or licensed to the Company or any of the Subsidiaries). The Company and the Subsidiaries maintain and enforce policies and procedures regarding data security, website and internet security, privacy and the use of data that are commercially reasonable, and, in any event, the Company and each Subsidiary is in compliance with the their obligations under Applicable Law and contractual obligations with respect to such matters. There has been no material breach or violation of any such website, database or security policy or any unauthorized access to, or use of, any data used in the businesses of the Company, the Subsidiaries or of any third party's proprietary or confidential information. To the knowledge of the Company, there are no viruses, worms, Trojan horses, self-help code or similar programs which would restrict the proper use or access to any material software used by the Company or the Subsidiaries. All material databases, hardware, and software currently used by the Company and the Subsidiaries perform in substantial compliance with applicable specifications and the Company has no knowledge of any operating problems which has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect in the use thereof. Neither the Company nor any of the Subsidiaries has modified, conveyed or distributed any software owned by any of them in a manner that obligates the Company or any of the Subsidiaries to (i) make available or distribute such software in source code form, (ii) license such software for the purpose of making derivative works or under terms that allow reverse engineering, reverse assembly or disassembly of any kind or (iii) redistribute such software at no charge. No source code of the Company or any of its Subsidiaries has been released to any customer or other third party pursuant to any escrow agreement or similar arrangement.

(s) No Undisclosed Liabilities . There are no liabilities of the Company or any of the Subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, other than (i) liabilities provided for in the consolidated balance sheet of the Company and the Subsidiaries as of September 30, 2014 included in the SEC Reports or disclosed in the notes thereto, (ii) liabilities that have arisen since September 30, 2014 in the ordinary course of business, (iii) liabilities incurred in connection with the Transaction Documents and (iv) liabilities that are not, individually or in the aggregate, material to the Company and the Subsidiaries, taken as a whole.

(t) Material Contracts . (i) Each Material Contract is a valid, binding and legally enforceable obligation of the Company or one of the Subsidiaries, as the case may be, and, to the knowledge of the Company, of the other parties thereto, (ii) each Material Contract is in full force and effect, and (iii) none of the Company or any of the Subsidiaries is (with or without notice or lapse of time, or both) in material breach or default under any Material Contract and, to the knowledge of the Company, no other party to any Material Contract is (with or without notice or lapse of time, or both) in material breach or default thereunder. None of the Company or the Subsidiaries is party to any agreement that would, after giving effect to the transactions contemplated by the Transaction Documents, restrict in any respect (including by way of exclusivity obligation) the ability of the Investor or its Affiliates to compete in any business or with any Person or in any geographical area. " ***Material Contract*** " means, any agreement the Company or any of the Subsidiaries is a party to or bound by that (w) would be required to be filed by the Company as a "Material Contract" pursuant to Item 601(b)(10) of Regulation S-K under the Securities Act, (x) provided or provides for aggregate payments from or receipt by the Company or any of the Subsidiaries of more than $2,000,000 during the most recently completed fiscal year or over the remaining term of such Contract, (y) constitutes a joint venture or partnership or similar arrangement that is material to the business of the Company and the Subsidiaries, taken as a whole, or (z) includes provisions pursuant to which (A) the Company or any of the Subsidiaries has granted a license to, or covenant not to be sued under, any material Intellectual Property owned by the Company or any of the Subsidiaries, except for non-exclusive licenses granted to customers in the ordinary course of business consistent with past practice, or (B) the Company or any of the Subsidiaries has been granted a license to, or covenant not to be sued under, any material Intellectual Property owned by a third party (other than licenses for any commercial off-the-shelf software that is generally available on non-discriminatory pricing terms).

(u) Tax Matters . (i) All material Tax returns, statements, reports and forms (including estimated Tax or information returns and reports) required to be filed with any taxing authority by or on behalf of the Company or any Subsidiary, have been filed when due in accordance with all Applicable Laws; (ii) as of the time of filing, such returns were true and complete in all material respects; (iii) all Taxes shown as due and payable on such returns that have been filed have been timely paid, or withheld and remitted to the appropriate taxing authority, except for Taxes that are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP have been established in the most recent financial statements contained in the SEC Reports. There is no audit or examination of any such return presently in progress, nor is there any Proceeding pending or, to the knowledge of the Company, threatened against or with respect to the Company or any of the Subsidiaries in respect of any Tax or Tax asset.

(v) Internal Accounting and Disclosure Controls . The Company maintains a system of internal control over financial reporting (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act) sufficient to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external purposes in accordance with GAAP and that (a) transactions are executed in accordance with management's general or specific authorizations, (b) transactions are recorded

as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (c) access to assets is permitted only in accordance with management's general or specific authorization, and (d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) are reasonably designed to ensure that all material information required to be disclosed by the Company in the reports it files or furnishes under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's management has completed an assessment of the effectiveness of the Company's internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal year ended December 31, 2014, and has concluded that such internal controls were effective. The Company has disclosed, based on its most recent evaluation of the Company's internal control over financial reporting prior to the date hereof, to the Company's auditors and audit committee (i) any significant deficiencies and material weaknesses in the design or operation of the Company's internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. Neither the Company nor, to the knowledge of the Company, the Company's independent auditors, has identified or been made aware of any significant deficiency or material weakness, in each case which has not been subsequently remediated, in the system of internal control over financial reporting utilized by the Company and the Subsidiaries or any fraud that involves the Company's management or other employees who have a role in the preparation of financial statements with financial reporting oversight or the internal control over financial reporting utilized by the Company. The chief executive officer and chief financial officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures and, to the extent required by Applicable Laws, presented in any applicable SEC Report that is an Annual or Quarterly Report on Form 10-K or Form 10-Q, or any amendment thereto, its conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by such report or amendment based on such evaluation (and as of the most recent evaluation, such disclosure controls and procedures were effective). Since the date of the most recent evaluation of such disclosure controls and procedures and internal controls, there have been no significant changes in such controls or in other factors that could significantly affect disclosure controls and procedures or internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

(w) Listing and Maintenance Requirements . The Common Stock is registered pursuant to Section 12(b) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the SEC is contemplating terminating such registration. The Company is in material compliance with the listing and maintenance requirements and any other applicable rules and regulations of Nasdaq.

3.2 Representations, Warranties and Covenants of the Investor. The Investor hereby represents and warrants to the Company as of the date hereof and as of the Closing Date as follows:

(a) Organization; Authority. The Investor is an entity duly organized, validly existing and in good standing under the Applicable Laws of the jurisdiction of its organization, with the requisite corporate, partnership or other entity power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations thereunder. The purchase by the Investor of the Shares hereunder has been duly authorized by all necessary corporate, partnership or other entity action on the part of the Investor. This Agreement has been duly executed and delivered by the Investor and constitutes the valid and binding obligation of the Investor enforceable against it in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other Applicable Laws of general application relating to or affecting the enforcement of creditors rights generally, and (ii) the effect of rules of law governing the availability of specific performance and other equitable remedies. The Investor is not required to obtain any approval, consent, waiver, authorization or order of, give notice to, or make any filing or registration with, any Governmental Authority or other Person, or observe any statutory waiting period relating thereto, in connection with the execution, delivery and performance by the Investor of the Transaction Documents or the consummation of the transactions contemplated hereby and thereby, other than (i) compliance with any applicable requirements of the HSR Act and (ii) filings required under applicable U.S. federal and state securities laws.

(b) No Public Sale or Distribution. The Investor is acquiring the Common Stock not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered under the Securities Act or under an exemption from such registration and in compliance with applicable federal and state securities laws, and the Investor does not have a present arrangement to effect any distribution of the Shares to or through any person or entity.

(c) Investor Status. At the time the Investor was offered the Shares, it was, and at the date hereof it is, an “accredited investor” as defined in Rule 501(a) under the Securities Act or a “qualified institutional buyer” as defined in Rule 144A(a) under the Securities Act.

(d) Experience of the Investor. The Investor, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Shares, and has so evaluated the merits and risks of such investment. The Investor understands that it must bear the economic risk of this investment in the Shares, and is able to bear such risk and is able to afford a complete loss of such investment.

(e) Access to Information. The Investor acknowledges that it has had access to the Disclosure Materials and certain information about the Company and the Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment. No information, inquiry, or investigation conducted by or on behalf of the Investor or its representatives or counsel before, on or after the date hereof shall modify, amend or affect the Investor’s right to rely on the truth, accuracy and completeness of the Disclosure Materials and the Company’s representations and warranties contained in the Transaction Documents.

(f) Restricted Shares . The Investor understands that the Shares are characterized as “restricted shares” under the U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances.

(g) Placement Agent’s Fees . The Investor has not employed any broker, investment banker, finder or other Person in a similar capacity or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder’s fees, and no broker, investment banker, finder or other Person in a similar capacity has acted, directly or indirectly, for the Investor in connection with this Agreement or the transactions contemplated hereby. The Investor shall pay, and hold the Company harmless against, any liability, loss or expense (including reasonable attorney’s fees and out-of-pocket expenses) arising in connection with any claim for such fees arising out of the purchase of the Shares pursuant to this Agreement.

(h) Litigation . There is no Proceeding pending or, to the Investor’s knowledge, threatened against the Investor or any subsidiary thereof or any of its properties which in any manner challenge or seek to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement.

(i) No Ownership of Company Shares . As of the date of this Agreement, neither the Investor, nor any other member of the Investor Group or any Investor 13D Group, beneficially owns any shares of Common Stock, or any other equity securities of the Company, or any options, warrants or other rights to acquire equity securities of the Company or any other securities convertible into equity securities of the Company. Neither the Investor, nor any other member of the Investor Group or any Investor 13D Group, has purchased, sold, transferred, made any short sale of, granted any option for the purchase of, or entered into any hedging or similar transaction with the same economic effect as a sale of, any equity securities or any options, warrants or other rights to acquire equity securities of the Company.

ARTICLE IV
OTHER AGREEMENTS OF THE PARTIES

4.1 [Reserved].

4.2 Furnishing of Information . The Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. Upon the request of the Investor, the Company shall deliver to the Investor a written certification of a duly authorized officer as to whether it has complied with the preceding sentence. As long as the Investor owns Shares or any other shares of Common Stock, if the Company is not required to file reports pursuant to the Exchange Act, it will prepare and furnish to the Investor and make publicly available in accordance with Rule 144(c) such information as is required for the Investor to sell the Shares or any other shares of Common Stock under Rule 144. The Company further covenants that it will take such further action as the Investor may reasonably request, all to the extent necessary from time to time to enable such Person to sell such Shares and any other shares of Common Stock without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

4.3 Integration . The Company shall not, and shall use its commercially reasonably efforts to ensure that no Affiliate thereof shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the shares of Common Stock under the Transaction Documents in a manner that would require the registration under the Securities Act of the sale of the shares to the Investor under the Transaction Documents or that would be integrated with the offer or sale of the shares such that approval of the stockholders of the Company would be required pursuant to the rules and regulations of any Trading Market.

4.4 Board Observation . From the Closing Date until the earlier of (a) the expiration or termination of the Alliance Agreement in accordance with its terms and (b) the first date on which the Investor Group beneficially owns less than (i) 75% of the Shares or (ii) 5% of the outstanding Common Stock, in each case in this clause (b), for a period of at least 45 consecutive days (the earlier of such dates in (a) or (b), the " ***Termination Date*** "), the Company covenants and agrees that the Investor will have the right to designate (w) the Chief Executive Officer of the Investor (it being acknowledged and agreed that such individual, even if he or she is not the Investor Observer at any time, shall be entitled to attend all meetings of the Board and its committees and receive all Board and committee materials as and to the same extent as the Investor Observer at such time), (x) the Chief Financial Officer of the Investor, (y) the Senior Partner Global Marketplace Leader (or equivalent position) of the Investor, or (z) any senior Investor Group executive with appropriate knowledge of the Investor Group's relationship with the Company under the Alliance Agreement who is, in the case of this clause (z), reasonably acceptable to the Company, as an observer at all meetings of the Board and its committees (the " ***Investor Observer*** "), who will initially be Sharon Cunninghis. The Company agrees that the Investor Observer will receive the same notice of meetings or written consents of the Board and its committees as if such designee were a member thereof and the same written materials provided to members of the Board and its committees in connection with meetings of the Board and its committees or written consents of the Board and its committees at the same time such materials are distributed to members thereof, and the Company agrees that the Investor Observer may share all such information and materials with the Investor. The Investor agrees that the Investor Observer may be excluded from such portions of any Board or committee meeting and that such materials may be withheld from the Investor Observer, in each case, as and solely to the extent the Board reasonably determines, based on the advice of outside counsel, is necessary (i) to avoid any conflict of interest with respect to any potential transaction between the Company and the Investor Group or otherwise that is to be discussed or addressed in such materials, if and to the extent that such conflict would have disqualified the Investor Observer from attending such meeting or receiving such materials had the Investor Observer been a director of the Company at the relevant time, (ii) if such portion of the meeting or materials does or will involve the disclosure of any confidential customer lists, pricing, pricing strategy or sales or marketing plans of the Company or any of the Subsidiaries, or (iii) to preserve the Company's attorney-client privilege; provided that, before the Company may exclude the Investor Observer from any portion of any Board or committee meeting or withhold from the Investor Observer any Board or committee materials pursuant to the foregoing provisions of this sentence, the Company shall notify the Investor of its determination to do so, and consult with the Investor to minimize or eliminate the need for such exclusion or withholding. The Investor agrees

not to, and agrees to instruct the Investor Observer not to, share any competitively sensitive information or materials received from the Company or any of the Subsidiaries with any party within the Investor or entity within its corporate organization that should not have that information under applicable anti-trust or similar competition laws. The Investor agrees to cause (A) the initial Investor Observer to execute a Board Observer Letter Agreement at or prior to the Closing and (B) any subsequent Investor Observer to execute a Board Observer Letter Agreement as a condition to the Company's obligations hereunder to permit such Investor Observer to attend Board and committee meetings and provide such Investor Observer Board and committee materials. The Investor agrees that it will be responsible for the Investor Observer's costs and expenses in attending Board and committee meetings.

4.5 Listing of Common Stock . The Company hereby agrees to use reasonable best efforts to maintain the listing of the Common Stock on Nasdaq or another national securities exchange. The Company further agrees, if the Company applies to have the Common Stock traded on any other Trading Market, it will include in such application the Shares and any other shares of Common Stock acquired by the Investor in accordance with, and as permitted by, this Agreement, and will take such other action as is necessary or desirable in the reasonable opinion of the Investor to cause the Shares and any other such shares to be listed on such other Trading Market as promptly as possible. The Company will comply in all material respects with the Company's reporting, filing and other obligations under the by-laws or rules of the applicable Trading Market.

4.6 No Impediment to Permitted Accumulation; Anti-Takeover Provisions .

(a) The Company agrees that neither it nor any of the Subsidiaries shall (i) adopt any "poison pill" or similar stockholder rights plan or agreement or any control share acquisition, business combination or other anti-takeover provision under the Organizational Documents of the Company or any of the Subsidiaries, unless such plan, agreement or provision expressly permits the acquisition and ownership by the Investor Group of the Shares and any additional shares of Voting Stock in accordance with, and as permitted by, this Agreement; and (ii) enter into any agreement containing any provision pursuant to which the acquisition and ownership by the Investor Group of the Shares and any additional shares of Voting Stock in accordance with, and as permitted by, this Agreement would require any consent or other action by any Person, constitute a default, whether with or without notice or lapse of time or both, or give rise to any right of termination, cancellation or acceleration of any right or obligation of the Company or any of the Subsidiaries, or to the loss of any benefit to which the Company or any of the Subsidiaries would otherwise be entitled, under such agreement.

(b) If any "poison pill" or similar stockholder rights plan or agreement or any control share acquisition, business combination or other anti-takeover provision under the Organizational Documents of the Company or any of the Subsidiaries or the Applicable Laws of their respective states of incorporation or otherwise shall become applicable to any member of the Investor Group, the Company shall grant such approvals and take such actions as are necessary and within its control so that the transactions contemplated or permitted by the Transaction Documents and the Rights Agreement may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to minimize the effects of any such statute or regulation on such transactions; provided that the Company shall not be required to grant such approvals and/or take such actions to the extent that they would permit the Investor and/or the

Investor Group to acquire beneficial ownership of more than 17.5% of the Company's shares of Common Stock then outstanding or issuable pursuant to the Warrant; provided, however, that the Company shall not grant any approvals and/or take any actions under any "poison pill" or similar stockholder rights plan or agreement, or any such control share acquisition, business combination or other anti-takeover provision, in either case so as to permit any other Person or 13D Group to acquire beneficial ownership of more than 17.5% of the Company's shares of Common Stock then outstanding or issuable pursuant to the Warrant, unless the Company grants such approvals and/or takes such actions for the benefit of the Investor and the Investor Group at substantially the same time as, and on terms that are no less favorable to the Investor and the Investor Group than, such approvals and/or actions granted and/or taken for the benefit of such other Person or 13D Group.

4.7 Notice of Transactions. Notwithstanding anything to the contrary herein, including Section 4.8(a), the Company agrees that until the Termination Date:

(a) If the Company determines to explore a possible process for a sale transaction that would, if consummated, constitute a Change of Control of the Company, the Company shall notify the Investor of such process and allow the Investor to participate therein on terms and conditions at least as favorable to the Investor as the most favorable terms and conditions offered to any third party participating therein.

(b) The Company shall not enter into any agreement providing for a Change of Control of the Company, unless the Company notifies the Investor in writing at least five Business Days before taking such action of its intention to do so (it being understood and agreed that any amendment to the financial or other material terms of the proposed Change of Control shall require a new written notice from the Company and the observation of a new five Business Day period under this Section, and that if the Investor makes an offer or proposal within any such five Business Day period, the Board shall consider such offer or proposal in good faith).

4.8 Standstill.

(a) The Investor agrees that until the Termination Date, none of the Investor, Parent or any of its other controlled Affiliates, shall directly or indirectly:

(i) except at the specific written request of the Company or pursuant to a Competing Bid, propose to enter into, directly or indirectly, any merger or business combination involving the Company or any of the Subsidiaries;

(ii) otherwise act alone to publicly seek, or act in concert with others to seek, to control the management, Board or policies of the Company; provided that the actions permitted by clause (i) of this Section 4.8(a) and the actions of the Investor Observer in connection with serving as such shall be deemed to not violate this clause (ii);

(iii) except as permitted by clause (i) of this Section 4.8(a), acquire additional shares of Voting Stock without the consent of the Board if the effect of such acquisition would be to increase the percentage of Total Current Voting Power of the Company represented by all Voting Stock beneficially owned by the Investor Group, including any Voting Stock issuable upon the exercise of any Non-Voting Convertible Shares, to more than 17.5% of the sum of (A) the Company's shares of Common Stock then outstanding, and (B) any shares then issuable pursuant to the Warrant;

(iv) solicit or participate in the solicitation of proxies with respect to any Voting Stock, or seek to advise or influence any person with respect to the voting of any Voting Stock (other than as otherwise provided or contemplated by this Agreement);

(v) deposit any Voting Stock in a voting trust or, except as otherwise provided or contemplated herein, subject any Voting Stock to any arrangement or agreement with any third party with respect to the voting of such Voting Stock;

(vi) join a 13D Group (other than a group comprising solely of the Investor and its Affiliates) for the purpose of acquiring, holding, voting or disposing of Voting Stock or Non-Voting Convertible Shares;

(vii) except at the specific written request of the Company or pursuant to a Competing Bid, take any action which would reasonably be expected to require the Company to make a public announcement regarding the possibility of a business combination or merger involving the Company or any of its Subsidiaries;

(viii) publicly disclose any intention, plan or arrangement inconsistent with the foregoing;

(ix) knowingly advise, assist or encourage any other Persons in connection with any of the foregoing; or

(x) publicly request that the Company (or its respective directors, officers, affiliates, employees or agents), directly or indirectly, amend or waive any provision of this Section 4.8(a), unless and until the Person seeking such amendment or waiver has received the prior written invitation or approval of the Company.

Notwithstanding anything to the contrary in this Agreement, (i) the prohibitions in this Article IV shall not affect the Investor's ability to hold the Shares, (ii) the prohibitions in this Section 4.8 shall not prevent the Investor from making any confidential offer or proposal to the Board for a potential transaction (including a Change of Control transaction), and (iii) if (w) a Change of Control of the Company has occurred, (x) the Company has entered into an agreement providing for a Change of Control of the Company, (y) a third party has made a public offer or proposal (including a tender or exchange offer) or publicly announced an intention to make any such offer or proposal that would, if consummated, result in a Change of Control of the Company, or (z) any Person or 13D Group (other than (A) the Company Existing Control Group, or (B) any Person or 13D Group that files a statement on Schedule 13G with the SEC and indicates on the cover page thereof that such Schedule 13G is being filed pursuant to Rule 13d-1(b) under the Exchange Act) has acquired beneficial ownership of Voting Stock representing 15% or more of the Total Current Voting Power of the Company represented by all Voting Stock, then, in each case in this clause (iii), the prohibitions in this Section 4.8 shall immediately terminate without further force or effect and the Investor shall be released from compliance therewith.

(b) In the event that the Company becomes aware that the Investor Group's beneficial ownership exceeds the ownership limitations under Section 4.8(a), the Company will

promptly provide written notice to the Investor. Following delivery of such notice, at the option of the Company, the Investor must either (i) sell shares of Common Stock to the Company, as soon as reasonably practicable after it receives notice thereof from the Company, at the closing price of the Common Stock on a Trading Market on the day prior to the date on which the Investor receives such notice, or (ii) sell such shares to a third party as soon as reasonably practicable after receiving such notice (which sale shall not be restricted by Section 4.9), in each case to cause the Investor Group's beneficial ownership not to exceed such ownership limitations. If the Investor violates the provisions of clause (ii) of Section 4.8(a) , the sole and exclusive remedy of the Company shall be to require (including through an action seeking specific performance under Section 7.13) the Investor to sell such shares of Common Stock that exceed the ownership limitations pursuant to the preceding sentence either to the Company or a third party, together with reasonable attorney's fees and expenses incurred directly by the Company in connection with enforcing its rights under this Section 4.8(b) .

4.9 Lock-Up . From the Closing Date until the earlier of (a) the Termination Date and (b) December 31, 2017, the Investor hereby agrees not to sell, transfer or otherwise dispose of, directly or indirectly, any Shares or other shares of Common Stock or enter into any swap or other arrangement that transfers to another Person any of the economic consequences of ownership thereof, except (i) to the Company, (ii) in response to a tender or exchange offer for the Common Stock (other than a tender or exchange offer by the Investor or any other member of the Investor Group or any Investor 13D Group), (iii) as part of a merger or other transaction in which all outstanding shares of Common Stock of the Company are converted into or exchanged for other consideration and is approved by the stockholders of the Company, (iv) transfers to Affiliates of the Investor in accordance with the terms of this Agreement, provided that such Affiliate agrees to be bound by the terms of this Agreement, or (v) with prior Board approval.

4.10 Press Releases . No later than the Trading Day immediately following the execution of this Agreement, the Company will issue a mutually acceptable press release disclosing the transactions contemplated by the Agreement and the Alliance Agreement. The Company and the Investor shall consult with each other in issuing any subsequent press releases with respect to the transactions contemplated hereby, and the Company and the Investor shall not issue any such press release or otherwise make any such public statement without the prior consent of the other party, which consent shall not be unreasonably withheld, conditioned or delayed, except if such disclosure is required by Applicable Law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication.

4.11 Information Rights . The Company will furnish, or cause to be furnished, to the Investor such additional information regarding the Investor's investment in the Company as the Investor may reasonably request, including such information as is necessary or appropriate to permit the Investor Group to comply on a timely basis with their financial reporting obligations in respect of the Investor's investment in the Company.

4.12 Regulatory Filings . If any direct or indirect acquisition of Company securities by the Investor that is permitted or contemplated by the Transaction Documents after the date hereof requires any antitrust or other regulatory filings under Applicable Law, then the Investor and the Company agree to make any such required filings and to cooperate with each other in making any such filings and obtaining and maintaining any related regulatory approvals, consents,

authorizations and the expiration or termination of any statutory waiting periods relating thereto, including providing one another any information reasonably required from each other with respect thereto, in each case as promptly as practicable.

ARTICLE V
CONDITIONS PRECEDENT

5.1 Conditions Precedent to the Obligations of the Investor . The obligation of the Investor to consummate the Closing is subject to the satisfaction or waiver by the Investor of each of the following conditions:

(a) Representations and Warranties . The representations and warranties of the Company contained herein shall be true and correct in all material respects (other than those representations and warranties that are qualified by materiality or Material Adverse Effect qualifiers, which shall be true and correct in all respects, and the representations and warranties set forth in Section 3.1(g) (Capitalization), which shall be true and correct in all but *de minimis* respects) as of the date hereof and as of the Closing Date.

(b) Performance . The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by it at or prior to the Closing.

(c) Other Documents . The Investor shall have received each of the deliverables, documents and instruments set forth in Section 2.2 (b) .

(d) Regulatory Approvals . Any material approval, consent, waiver, authorization or order of any Governmental Authority or other Person required to consummate the transactions contemplated by this Agreement and the other Transaction Documents shall have been obtained and remain in full force and effect, and all statutory waiting periods relating to such approvals, authorizations and consents shall have expired or been terminated.

(e) Qualification Under State Securities Laws . All registrations, qualifications, permits and approvals, if any, required to be obtained prior to the Closing under applicable state securities laws shall have been obtained for the lawful execution, delivery and performance of this Agreement and the other Transaction Documents, including the offer and sale of the Shares.

(f) No Litigation . No Proceeding shall be pending or, to the knowledge of the Investor, threatened that questions the validity of this Agreement or the other Transaction Documents or the right of the Company or the Investor to enter into such agreements or to consummate the transactions contemplated hereby and thereby.

(g) No Violation . No Applicable Law shall have been enacted, entered or deemed applicable by any Governmental Authority which would prohibit or make the transactions contemplated by this Agreement or the other Transaction Documents illegal.

(h) Nasdaq Notification . The Company shall have notified Nasdaq of the issuance of the Shares.

(i) Alliance Agreement . The Alliance Agreement shall remain in full force and effect.

5.2 Conditions Precedent to the Obligations of the Company . The obligation of the Company to consummate the Closing is subject to the satisfaction or waiver by the Company of each of the following conditions:

(a) Representations and Warranties . The representations and warranties of the Investor contained herein shall be true and correct in all material respects as of the date hereof and as of the Closing Date.

(b) Performance . The Investor shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required the Transaction Documents to be performed, satisfied or complied with by the Investor at or prior to the Closing.

(c) Other Documents . The Company shall have received each of the deliverables, documents and instruments set forth in Section 2.2 (c) .

(d) Regulatory Approvals . Any material approval, consent, waiver, authorization or order of any Governmental Authority or other Person required to consummate the transactions contemplated by this Agreement and the other Transaction Documents shall have been obtained and remain in full force and effect, and all statutory waiting periods relating to such approvals, authorizations and consents shall have expired or been terminated.

(e) Qualification Under State Securities Laws . All registrations, qualifications, permits and approvals, if any, required to be obtained prior to the Closing under applicable state securities laws shall have been obtained for the lawful execution, delivery and performance of this Agreement and the other Transaction Documents, including the offer and sale of the Shares.

(f) No Litigation . No Proceeding shall be pending or, to the knowledge of the Company, threatened that questions the validity of this Agreement or the other Transaction Documents or the right of the Company or the Investor to enter into such agreements or to consummate the transactions contemplated hereby and thereby.

(g) No Violation . No Applicable Law shall have been enacted, entered or deemed applicable by any Governmental Authority which would prohibit or make the transactions contemplated by this Agreement or the other Transaction Documents illegal.

ARTICLE VI
RIGHT OF FIRST OFFER

6.1 Subsequent Offerings . Subject to the provisions of Section 4.8(a) , the Investor will have the right of first offer (the “ ***ROFO*** ”) to purchase any and all shares of capital stock or other equity securities, or options, warrants or other securities directly or indirectly convertible into or exchangeable or exercisable for shares of capital stock or other equity securities (“ ***Equity Securities*** ”), that the Company proposes to offer, other than the securities excluded by Section 6.5 hereof.

6.2 ROFO Over Proposed Registered Transfers . In connection with any proposed sale, offer to sell, disposition of or any other like transfer of any Equity Securities by the Company by means of an underwritten public offering pursuant to an effective registration statement under the Securities Act (a " ***Proposed Registered Transfer*** "), the Company must deliver written notice to the Investor setting forth the terms and conditions of such Proposed Registered Transfer (the " ***Proposed Transfer Notice*** ") not later than ten (10) Business Days prior to the earlier of (i) the entry into a definitive agreement providing for such Proposed Registered Transfer and (ii) the consummation of such Proposed Registered Transfer. Such Proposed Transfer Notice shall offer the Investor the right to purchase any or all of the Equity Securities proposed to be sold, offered for sale, disposed of or otherwise transferred in such Proposed Registered Transfer at the price per share of Common Stock in cash set forth in the Proposed Transfer Notice, or in the case of Equity Securities other than Common Stock, the amount therefor implied by such price per share of Common Stock, as set forth in the Proposed Transfer Notice. To exercise its Right of First Offer under this Section 6.2 , the Investor must deliver written notice that the Investor intends to exercise its Right of First Offer as to such Proposed Registered Transfer (the " ***Exercise Notice*** ") to the Company within ten (10) Business Days after delivery of the Proposed Transfer Notice, which shall specify the number and class or series of Equity Securities with respect to which the Investor desires to exercise its Right of First Offer; provided , however , that the Investor shall use its commercially reasonable efforts to, as soon as practicable after delivery of the Proposed Transfer Notice, either deliver an Exercise Notice or notify the Company in writing that it waives its right to deliver an Exercise Notice. If the total number of Equity Securities that the Investor has agreed to purchase in the Exercise Notice is less than the total number of Equity Securities set forth in the Proposed Transfer Notice (or if the Investor does not timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice), then the Company shall be free to sell any Equity Securities that the Investor has declined to purchase (or, if the Investor does not timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice, all Equity Securities set forth in the applicable Proposed Transfer Notice) at a price in cash not less than the price set forth in the Proposed Transfer Notice by means of an underwritten public offering of such securities pursuant to an effective registration statement under the Securities Act and on such other terms and conditions as the Company sees fit, it being understood and agreed that (A) any other or future Proposed Registered Transfer or proposed sale, offer to sell, disposition of or any other like transfer of any Equity Securities by the Company covered by Section 6.3 (each, a " ***Proposed Transfer*** ") made or permitted to be made by the Company shall remain subject to this Article VI ; (B) such public offering shall be consummated within thirty (30) days after the Investor declines to purchase the total number of Equity Securities set forth in the Proposed Transfer Notice (or fails to timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice), and if such offering is not consummated within such thirty (30) day period, such Proposed Registered Transfer shall again become subject to the Right of First Offer on the terms set forth herein; and (C) the Company agrees not to propose to make any Proposed Transfer unless it has the *bona fide* intention to sell the applicable Equity Securities at the time of such proposal. Such 30-day period shall be automatically extended in the event that the proposed issuance is delayed due to regulatory review until five days after the completion of such review.

6.3 ROFO Over Proposed Unregistered Transfers .

(a) If the Company proposes to engage in any transaction involving the direct or indirect sale or issuance of any Equity Securities other than a transaction covered by Section 6.2 ,

it shall give the Investor written notice of its intention, describing the Equity Securities, the price and the terms and conditions upon which the Company proposes to sell or issue the same. The Investor shall have ten (10) Business Days from the giving of such notice to elect to purchase all or any portion of the Equity Securities proposed to be sold or issued for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of such Equity Securities to be purchased.

(b) If the Investor fails to exercise its ROFO with respect to any portion of the Equity Securities offered to the Investor pursuant to Section 6.3(a), the Company shall have thirty (30) days thereafter to sell such portion of such Equity Securities at a price and upon terms and conditions no more favorable to the purchasers thereof than specified in the Company's notice to the Investor pursuant to Section 6.3(a) hereof. If the Company has not sold such Equity Securities within such thirty (30) days, the Company shall not thereafter issue or sell any Equity Securities, without first again complying with this Article VI. Such 30-day period shall be automatically extended in the event that the proposed issuance is delayed due to regulatory review until five days after the completion of such review.

6.4 Transfer of ROFO. The ROFO of the Investor under this Article VI may be transferred to any Affiliate of the Investor; provided that such Affiliate agrees in writing to be subject to the terms and conditions of this Agreement applicable to the Investor.

6.5 Excluded Securities. The ROFO shall have no application to any of the following issuances of Equity Securities (collectively, the "***Excluded Securities***"):

(a) to employees, directors or consultants pursuant to equity incentive plans maintained by the Company and registered with the SEC on Form S-8; or

(b) solely as consideration for bona fide, arm's length business or asset acquisitions, mergers, or similar transactions, and not for financing purposes;

provided that, for the avoidance of doubt, subject to Section 4.8(a), nothing in this Agreement shall prevent the Investor from purchasing additional shares of Voting Stock to offset any dilution resulting from any of the transactions listed in (a) through (b) above.

6.6 Stockholder Approval. Nothing in contained in this Article VI shall require the Company to issue any Equity Securities to the Investor if such issuance would require the Company to obtain stockholder approval of the issuance pursuant to the rules of any Trading Market or under Applicable Law.

6.7 Period. The foregoing provisions of this Article VI shall expire upon (a) the Termination Date, (b) any breach by the Investor or its Affiliates of Section 4.8, as amended, or (c) if the Investor delivers an Exercise Notice, the Investor failing to acquire the Equity Securities that are the subject of such Exercise Notice on the terms and conditions set forth in the Exercise Notice within the time frame set forth in this Article VI; provided that, notwithstanding the foregoing, (i) this Article VI shall not terminate pursuant to Section 6.7(b) or (c) unless the Company has provided the Investor with reasonably detailed written notice of the basis for such proposed termination and the Investor has not cured the basis for such proposed termination within fifteen (15) calendar days after receipt of such notice; and (ii) this Article VI shall not terminate

pursuant to Section 6.7(c) if the Investor fails to acquire the Equity Securities that are the subject of such Exercise Notice on the terms and conditions set forth in the Exercise Notice within the relevant time frame due to the failure to receive any regulatory approval required for such acquisition or any action or omission of the Company or any Person other than the Investor and its Affiliates. In addition, if Section 4.8 is terminated or suspended pursuant to its terms or otherwise, any obligation of the Company to comply with this Article VI shall terminate with respect to any Equity Securities to the extent that, and for so long as, immediately prior to such termination or suspension, the Investor would have been prohibited from acquiring as a result of Section 4.8 , as amended.

ARTICLE VII
MISCELLANEOUS

7.1 Termination . This Agreement may be terminated by the Company or the Investor, by written notice to the other, if the Closing has not been consummated by the third Business Day following the date of this Agreement; provided that no such termination will affect the right of any party to sue for any breach by the other party (or parties). This Section 7.1 and the following provisions of Article VII (other than Section 7.13 (Remedies)) shall survive any termination hereof pursuant to Section 7.1 .

7.2 Fees and Expenses . The Company shall pay all Transfer Agent fees, stamp taxes and other taxes and duties levied in connection with the sale and issuance of the Shares pursuant by the Company to the Investor. All other fees and expenses shall be paid by the party incurring them.

7.3 Entire Agreement . The Transaction Documents, the Rights Agreement and the non-disclosure agreement dated as of March 16, 2011 between Benefitfocus.com, Inc. and Mercer Health & Benefits LLC, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

7.4 Notices . Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section 7.4 prior to 5:00 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section 7.4 on a day that is not a Business Day or at or later than 5:00 p.m. (New York City time) on any Business Day, (c) the Business Day following the date of deposit with a nationally recognized overnight courier service, and (d) upon actual receipt by the party to whom such notice is required to be given. Notice via electronic mail must be supplemented by another of the above methods. The addresses, facsimile numbers and email addresses for such notices and communications are as follows, subject to change as the applicable party may hereafter specify for such purpose by notice to the other parties hereto:

To the Company:

Benefitfocus, Inc.
100 Benefitfocus Way
Charleston, SC 29492
Attention: Paris Cavic, General Counsel
Telephone No.: (843) 849-7476
Facsimile No.: (843) 849-6062
E-mail: paris.cavic@benefitfocus.com

With copies to:

Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, NC 27607
Attention: Donald R. Reynolds
Telephone No.: (919) 781-4000
Facsimile No.: (919) 781-4865
E-mail: dreynolds@wyrick.com

To the Investor:

Mercer LLC
1166 Avenue of the Americas
New York, NY 10036
Attention: Rian Miller, General Counsel
Telephone No.: (212) 345-1835
Facsimile No.: (212) 345-4433
E-mail: rian.miller@mercer.com

With copies to:

Mercer LLC
1166 Avenue of the Americas
New York, NY 10036
Attention: Margaret M. O'Brien, Global Chief Counsel - Health & Benefits
Telephone No.: (212) 345-5120
Facsimile No.: (212) 345-5627
E-mail: margaret.o'brien@mercer.com

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017
Attention: Phillip R. Mills
Telephone No.: (212) 450-4000
Facsimile No.: (212) 701-5800
E-mail: phillip.mills@davispolk.com

7.5 Amendments; Waivers . No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Investor, and in the case of a waiver, by the party against whom the waiver is to be effective. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

7.6 Construction . The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

7.7 Successors and Assigns . This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign, delegate or otherwise transfer this Agreement or any rights or obligations hereunder without the prior written consent of the Investor. The Investor may assign its rights under this Agreement to any Affiliate of the Investor, provided (i) the Investor agrees in writing with the transferee or assignee to assign such rights and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (ii) the Company is furnished with written notice of the name and address of such transferee or assignee and (iii) at or before the time the Company receives the written notice contemplated by clause (ii) of this sentence the transferee or assignee agrees in writing to be bound by all of the provisions contained herein. Any assignment, delegation or other transfer in violation of the foregoing provisions of this Section 7.7 shall be null and void *ab initio* .

7.8 No Third-Party Beneficiaries . This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

7.9 Governing Law; Venue; Service of Process; Waiver of Jury Trial . ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT GIVING EFFECT TO THAT BODY OF LAWS PERTAINING TO CONFLICT OF LAWS. EACH PARTY HEREBY IRREVOCABLY CONSENTS AND SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE STATE OF DELAWARE FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY (INCLUDING WITH RESPECT TO THE ENFORCEMENT OF ANY OF THE TRANSACTION DOCUMENTS), AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT MAY NOW OR HEREAFTER HAVE THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, AND ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT ANY SUCH SUIT, ACTION OR

PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY AND INVESTOR HEREBY IRREVOCABLY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN CONNECTION WITH ANY DISPUTE HEREUNDER OR ANY TRANSACTION CONTEMPLATED HEREBY.

7.10 Survival . The representations and warranties contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall survive the Closing until the eighteen (18) month anniversary of the Closing Date; provided that the representations and warranties set forth in Sections 3.1(b) (Organization and Qualification), 3.1(c) (Authorization; Enforcement), 3.1(f) (The Shares), 3.1(g) (Capitalization), 3.1(p) (Placement Agent's Fees), 3.1(q) (Application of Takeover Provisions) (the foregoing, collectively, the "***Fundamental Representations***"), 3.2(a) (Organization; Authority) and 3.2(g) (Placement Agent's Fees) shall survive until the third anniversary of the Closing Date. The covenants and agreements of the parties hereto contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall survive the Closing indefinitely or for the shorter period explicitly specified therein, except that for such covenants and agreements that survive for such shorter period, breaches thereof shall survive indefinitely or until the latest date permitted by law. Notwithstanding the preceding provisions of this Section 7.10 , any breach of representation, warranty, covenant or agreement in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the preceding sentences, if notice of the inaccuracy or breach thereof giving rise to such right of indemnity shall have been given to the party against whom such indemnity may be sought prior to such time.

7.11 Execution . This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or email attachment, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or email-attached signature page were an original thereof.

7.12 Severability . If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

7.13 Remedies. In addition to being entitled to exercise all rights provided herein or granted by Applicable Law, including recovery of damages, the Investor and the Company will be entitled to seek specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation (other than in connection with any action for temporary restraining order) the defense that a remedy at law would be adequate.

7.14 Adjustments in Share Numbers and Prices. In the event of any stock split, subdivision, dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly shares of Common Stock), combination or other similar recapitalization or event occurring after the date hereof and prior to the Closing, each reference in any Transaction Document to a number of shares or a price per share shall be amended to appropriately account for such event.

7.15 Other Definitional and Interpretive Provisions. The words "hereof", "herein" and "hereunder" and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein, shall have the meaning as defined in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation", whether or not they are in fact followed by those words or words of like import. "Writing", "written" and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof; provided that with respect to any agreement or contract listed on any Schedules hereto, all such amendments, modifications or supplements must also be listed in the appropriate Schedule. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

COMPANY:

BENEFITFOCUS, INC.

By: /s/ Mason R. Holland, Jr.
Name: Mason R. Holland, Jr.
Title: Executive Chairman of the Board

Signature Page to Securities Purchase Agreement

INVESTOR:

MERCER LLC

By: /s/ Julio Portalatin
Name: Julio Portalatin
Title: President and Chief Executive Officer

Signature Page to Securities Purchase Agreement

Exhibit A

February , 2015

Benefitfocus, Inc.
100 Benefitfocus Way
Charleston, South Carolina 29492
Attention: General Counsel

Re: Board Observer Rights and Obligations

Dear Sir:

This letter will confirm the understanding among Mercer LLC, a Delaware limited liability company (the "Investor") the undersigned (the "Investor Observer") and Benefitfocus, Inc., a Delaware corporation (the "Company"), regarding my service as an observer to the Board of Directors of the Company (the "Board").

On the date hereof, the Investor purchased 2,817,526 shares of the common stock, $0.001 par value, of the Company pursuant to the terms of a Securities Purchase Agreement, dated as of February 24, 2015 (the "Agreement"). I understand that Investor has designated me to serve as the Investor Observer pursuant to Section 4.4 of the Agreement. In connection with such service:

1. I understand that I shall be invited to attend every meeting of the Board and its committees in a non-voting observer capacity. I understand that I shall be given, when given to directors of the Company, all notices of meetings or written consents of the Board and its committees, the same written materials provided to members of the Board and its committees in connection with meetings of the Board and its committees or written consents of the Board and its committees, all of which shall be "Confidential Information" for the purposes of this letter and the attached Non-Disclosure Agreement dated , by and between Benefitfocus.com, Inc. and Mercer Health & Benefits LLC, and, by virtue of its signature hereto, the Investor, as it may be amended from time to time ("NDA"). I agree to be bound by the terms of the NDA as a "Representative" thereunder, for the benefit of the Company, which NDA is hereby incorporated by reference. I hereby agree to hold in confidence and trust all information so provided in accordance with the terms of the NDA, it being understood and agreed that I may provide all such information to

Investor. I understand and agree that, at the request of the Chairman of the Board or the President or General Counsel of the Company, I may be excluded from such portions of any Board or committee meeting and that such materials may be withheld from me, in each case, as and solely to the extent the Board reasonably determines, based on the advice of outside counsel, is necessary (i) to avoid any conflict of interest with respect to any potential transaction between the Company and the Investor Group or otherwise that is to be discussed or addressed in such materials, if and to the extent that such conflict would have disqualified me from attending such meeting or receiving such materials had I been a director of the Company at the relevant time, (ii) if such portion of the meeting or materials does or will involve the disclosure of any confidential customer lists, pricing, pricing strategy or sales or marketing plans of the Company or any of the Subsidiaries (as such term is defined in the Purchase Agreement), or (iii) to preserve the Company's attorney-client privilege; provided that, before the Company may exclude me from any portion of any Board or committee meeting or withhold from me any Board or committee materials pursuant to the foregoing provisions of this sentence, the Company shall notify the Investor of its determination to do so, and consult with the Investor to minimize or eliminate the need for such exclusion or withholding. I will not share any competitively sensitive information or materials received from the Company or any of the Subsidiaries with any party within the Investor or entity within its corporate organization that should not have that information under applicable anti-trust or similar competition laws. I understand that a failure by the Company to give notice to me of a meeting of its Board or any of it committees shall in no way affect the validity of the notice of such meeting for corporate law purposes.

2. I understand that my position as the Investor Observer shall terminate upon the earlier to occur of (i) the Termination Date (as defined in the Agreement), (ii) designation by Investor of someone other than me to serve as the Investor Observer, (iii) termination by Investor of my designation as the Investor Observer, (iv) my resignation as the Investor Observer or (v) termination of my employment with Investor and its affiliates. Investor or I will notify you in writing promptly in the event that I have resigned my position as the Investor Observer or my designation as the Investor Observer or my employment with Investor and its affiliates while serving as the Investor Observer is terminated by Investor.

[Signature Pages Follow]

I understand that, upon my signature, this letter agreement shall become a binding agreement between me and the Company on and as of the date hereof.

Very truly yours,

____
Investor Observer’s Signature

____
Investor Observer’s Name

____
Investor Observer’s Title with Investor

COMPANY:

BENEFITFOCUS, INC.

By: ____________________________________

Name: ____________________________________

Title: ____________________________________

The undersigned Investor hereby acknowledges and agrees to this letter and, by virtue of its signature below, confirms that it agrees to be a party to and be bound by the terms of the NDA.

INVESTOR:

MERCER LLC

By: ____________________________________

Name: ____________________________________

Title: ____________________________________

[Signature Page to Board Observer Letter Agreement]

Exhibit 10.21

RIGHT OF FIRST OFFER AGREEMENT

THIS RIGHT OF FIRST OFFER AGREEMENT (the " **Agreement** ") is made as of the 24th day of February 2015 by and among Benefitfocus, Inc., a Delaware corporation (the " **Company** "), Mercer LLC, a Delaware limited liability company (" **Mercer** "), GS Capital Partners VI Parallel, L.P., a Delaware limited partnership (" **GS Parallel** "), GS Capital Partners VI GmbH & Co. KG, a German limited partnership (" **GS GmbH** "), GS Capital Partners VI Fund, L.P., a Delaware limited partnership (" **GS Main** "), GS Capital Partners VI Offshore Fund, L.P., a Cayman Islands limited partnership (" **GS Offshore** ", and each of GS Parallel, GS GmbH, GS Main and GS Offshore, a " **GS Fund** "), Oak Investment Partners XII, Limited Partnership, a Delaware limited partnership (the " **Oak Fund** "), and the Key Holders listed on Schedule B.

WHEREAS, each Investor and Key Holder is the legal owner of the number of shares of Capital Stock, or of options to purchase Common Stock, set forth opposite the name of such Investor on Schedule A or the name of such Key Holder on Schedule B, as applicable;

WHEREAS, on the date hereof, the Company and Mercer are entering into a Securities Purchase Agreement (the " **Securities Purchase Agreement** "), pursuant to which the Company has agreed to issue and sell, and Mercer has agreed to purchase, on the terms and subject to the conditions set forth therein, the number of shares of Common Stock set forth therein; and

WHEREAS, in connection with the transactions contemplated by the Securities Purchase Agreement, the parties hereto desire to enter into this Agreement with respect to the matters set forth herein.

NOW, THEREFORE, the Company, Mercer, the Key Holders and the Investors agree as follows:

ARTICLE 1
DEFINITIONS

" **Affiliate** " means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. For the purpose of this definition, the term " **control** " (including, with correlative meanings, the terms " **controlling** ", " **controlled by** " and " **under common control with** "), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. For the avoidance of doubt, (i) any account or any fund that is managed or advised by an Affiliate of a Person shall be an Affiliate of such Person and (ii) accounts or funds that are managed or advised by the same Person or by Persons who are Affiliates shall be Affiliates of each other. Notwithstanding the foregoing, an operating company (or any of its subsidiaries) that is controlled by a fund or account managed or advised by a Person, or Affiliates of such Person, shall not be deemed an Affiliate of such Person.

“ **Alliance Agreement** ” means the Mercer Exchange Software as a Service Agreement, dated as of April 1, 2013, between the Company and Mercer Health & Benefits LLC, a Delaware limited liability company, and amended through the date hereof, including all exhibits, schedules and annexes thereto, and as amended and/or restated from time to time.

“ **beneficial owner** ,” “ **beneficially owns** ,” “ **beneficial ownership** ” and terms of similar import have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended, (i) assuming the full conversion into, and exchange and exercise for, shares of Common Stock of all shares of Capital Stock beneficially owned by the applicable Person and (ii) determined without regard for the number of days in which such Person has the right to acquire such beneficial ownership.

“ **Business Day** ” means any day other than a Saturday, Sunday or any other day on which commercial banks in The City of New York are authorized or required by applicable law to remain closed.

“ **Capital Stock** ” means (a) shares of Common Stock, (b) shares of any other class or series of capital stock of the Company, (c) options, warrants or other securities of the Company directly or indirectly exercisable or exchangeable for, or convertible into, shares of Common Stock or any other class or series of capital stock of the Company and (d) shares of Common Stock or any other class or series of capital stock of the Company issued or issuable upon exercise, exchange or conversion, as applicable, of options, warrants or other securities of the Company, in each case now owned or subsequently acquired by any Key Holder, any Investor, or their respective successors or permitted transferees or assigns.

“ **Common Stock** ” means shares of common stock of the Company, par value $0.001 per share.

“ **Exercise Notice** ” means written notice from Mercer notifying the applicable Key Holders or Investors that Mercer intends to exercise its Right of First Offer as to any or all of the Transfer Stock with respect to any Proposed Transfer.

“ **Investors** ” means the Persons named on Schedule A hereto, each Person to whom the rights of an Investor are assigned pursuant to Section 3.01 and each Person who hereafter becomes a signatory to this Agreement pursuant to Section 3.02.

“ **Key Holders** ” means the persons named on Schedule B hereto, each Person to whom the rights of a Key Holder are assigned pursuant to Section 3.01 and each Person who hereafter becomes a signatory to this Agreement pursuant to Section 3.02.

“ **Person** ” means an individual, corporation, limited liability company, partnership, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

" **Proposed Registered Transfer** " means any sale, offer to sell, disposition of or any other like transfer of any Transfer Stock of any of the Key Holders or Investors proposed to be made by means of (a) an underwritten public offering of such securities pursuant to an effective registration statement under the Securities Act, (b) with respect to Investors, but not Key Holders, a sale or other disposition of any Transfer Stock in compliance with the requirements of Rule 144 or (c) a block trade to a market maker or broker.

" **Proposed Transfer** " means any Proposed Registered Transfer or Proposed Unregistered Transfer.

" **Proposed Transfer Notice** " means written notice from a Key Holder or Investor setting forth the terms and conditions of a Proposed Transfer (including, in the case of any Proposed Registered Transfer, the proposed plan of distribution therefor, and, in the case of any Proposed Unregistered Transfer, the identity of the proposed purchaser, if there is a proposed purchaser at the time of delivery of such notice).

" **Proposed Unregistered Transfer** " means any assignment, sale, offer to sell, pledge, mortgage, hypothecation, disposition of or any other like transfer of any Transfer Stock (or any interest therein) of any of the Key Holders or the Investors that is proposed to be made and is not a Proposed Registered Transfer.

" **Right of First Offer** " means the right, but not an obligation, of Mercer (or any Person to whom it is permitted to assign its rights hereunder pursuant to Section 5.08) to purchase any or all of the Transfer Stock with respect to a Proposed Transfer, on the terms and conditions specified in the Proposed Transfer Notice.

" **Rule 144** " means Rule 144 under the Securities Act, as such Rule 144 may be amended (or any successor provision thereto).

" **Securities Act** " means the Securities Act of 1933, as amended.

" **Transfer Stock** " means shares of Capital Stock owned by any Key Holder or any Investor, or their respective successors or permitted transferees or assigns to the extent such successors or permitted transferees or assigns are required under the terms of this Agreement to become a party hereto, whether now owned or subsequently acquired by any such Person, or issued with respect to, or upon conversion or exchange of, such shares of Capital Stock (including, without limitation, in connection with any stock split, stock dividend, recapitalization, reorganization, or the like).

ARTICLE 2
RIGHTS OF FIRST OFFER

Section 2.01. *Rights of First Offer* . On the terms and conditions set forth in this Agreement, except as set forth in Section 3.01, each Key Holder and Investor hereby unconditionally and irrevocably grants to Mercer a Right of First Offer to purchase all or any portion of Transfer Stock that such Key Holder or Investor may propose to transfer in a Proposed Transfer at the same price and on the same terms and conditions as those contained in the Proposed Transfer Notice.

Section 2.02. *Right of First Offer Over Proposed Registered Transfers* . Subject to Section 3.01, each Key Holder or Investor proposing to make a Proposed Registered Transfer must deliver a Proposed Transfer Notice to Mercer not later than ten (10) Business Days prior to the earlier of (a) the entry into a definitive agreement providing for such Proposed Registered Transfer and (b) the consummation of such Proposed Registered Transfer. Such Proposed Transfer Notice shall offer Mercer the right to purchase any or all of fifty percent (50%) of the total number of shares of each class or series of Transfer Stock proposed to be sold, offered for sale, disposed of or otherwise transferred in such Proposed Registered Transfer at the price per share of Common Stock in cash set forth in the Proposed Transfer Notice or in the case of Transfer Stock other than Common Stock, the amount per share implied by such price per share of Common Stock, as set forth in the Proposed Transfer Notice. To exercise its Right of First Offer under this Section 2.02, Mercer must deliver an Exercise Notice to the applicable Key Holder or Investor within ten (10) Business Days after delivery of the Proposed Transfer Notice, which shall specify the number of shares of each class or series of Transfer Stock with respect to which Mercer desires to exercise its Right of First Offer; *provided, however* , that Mercer shall use its commercially reasonable efforts to, as soon as practicable after delivery of the Proposed Transfer Notice, either deliver an Exercise Notice or notify the applicable Key Holder or Investor in writing that it waives its right to deliver an Exercise Notice. If the total number of shares of Transfer Stock that Mercer has agreed to purchase in the Exercise Notice is less than the total number of shares of Transfer Stock set forth in the Proposed Transfer Notice (or if Mercer does not timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice), then the applicable Key Holder or Investor shall be free to sell any shares of Transfer Stock that Mercer has declined to purchase (or, if Mercer does not timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice, all shares of Transfer Stock set forth in the applicable Proposed Transfer Notice) at a price in cash not less than the price set forth in the Proposed Transfer Notice by means of (x) an underwritten public offering of such securities pursuant to an effective registration statement under the Securities Act, (y) a sale or disposition in compliance with the requirements of Rule 144 or (z) a block trade, in each case, on such terms and conditions as the applicable Key Holder or Investor sees fit, it being understood and agreed that (i) any other or future Proposed Transfer made or permitted to be made by the Key Holder or Investor shall remain subject to the terms and conditions of this Agreement, including this Article 2; (ii) such public offering, sale pursuant to Rule 144 or block trade shall be consummated within thirty (30) calendar days after Mercer declines to purchase the total number of shares of Transfer Stock set forth in the Proposed Transfer Notice (or fails to timely deliver an Exercise Notice or delivers a waiver of its right to deliver an Exercise Notice), and if such offering is not consummated within such thirty (30) calendar day period, such Proposed Registered Transfer shall again become subject to the Right of First Offer on the terms set forth herein; and (iii) each of the Key Holders and Investors agrees not to propose to make any Proposed Transfer unless the seller has the *bona fide* intention to sell the applicable shares of Transfer Stock at the time of such proposal.

Section 2.03. *Right of First Offer Over Proposed Unregistered Transfers* . Subject to Section 3.01, each Key Holder or Investor proposing to make a Proposed Unregistered Transfer must deliver a Proposed Transfer Notice to Mercer not later than ten (10) Business Days prior to the earlier of (x) the entry into a definitive agreement providing for such Proposed Unregistered Transfer and (y) the consummation of such Proposed Unregistered Transfer. Such Proposed Transfer Notice shall (a) offer Mercer the right to purchase any or all of the total number of shares of each class or series of Transfer Stock (or any interest therein) proposed to be assigned, sold, offered for sale, pledged, mortgaged, hypothecated, encumbered, disposed of or otherwise transferred in such Proposed Unregistered Transfer, and (b) contain the other material terms and conditions (including the price in cash) of the Proposed Unregistered Transfer. To exercise its Right of First Offer under this Section 2.03, Mercer must deliver an Exercise Notice to the applicable Key Holder or Investor within ten (10) Business Days after delivery of the Proposed Transfer Notice, which shall specify the number of shares of each class or series of Transfer Stock with respect to which Mercer desires to exercise its Right of First Offer. If the total number of shares of Transfer Stock that Mercer has agreed to purchase in the Exercise Notice is less than the total number of shares of Transfer Stock set forth in the Proposed Transfer Notice (or if Mercer does not timely deliver an Exercise Notice), then the applicable Key Holder or Investor shall be free to sell any shares of Transfer Stock that Mercer has declined to purchase (or, if Mercer does not timely deliver an Exercise Notice, all shares of Transfer Stock set forth in the applicable Proposed Transfer Notice) at a price in cash not less than the price set forth in the Proposed Transfer Notice and otherwise on terms and conditions not materially more favorable to the purchasers thereof than the terms and conditions set forth in the Proposed Transfer Notice, it being understood and agreed that (i) any other or future Proposed Transfer made or permitted to be made by the applicable Key Holder or Investor shall remain subject to the terms and conditions of this Agreement, including this Article 2; (ii) such sale shall be consummated within sixty (60) calendar days after Mercer declines to purchase the total number of shares of Transfer Stock set forth in the Proposed Transfer Notice (or fails to timely deliver an Exercise Notice) (*provided* that such sixty (60) calendar day period shall be automatically extended in the event that the proposed sale is delayed due to regulatory review, until five (5) calendar days after the completion of such review, but in no event later than one hundred twenty (120) calendar days after Mercer has declined to purchase the total number of shares of Transfer Stock set forth in the Proposed Transfer Notice (or has failed to timely deliver an Exercise Notice)), and if such sale is not consummated within such sixty (60) or one hundred twenty (120) calendar day period, as applicable, such Proposed Unregistered Transfer shall again become subject to the Right of First Offer on the terms set forth herein; and (iii) each of the Key Holders and Investors agrees not to propose to make any Proposed Transfer unless the seller has the *bona fide* intention to sell the applicable shares of Transfer Stock at the time of such proposal.

Section 2.04. *Consideration; Closing* . (a) If Mercer timely delivers an Exercise Notice, it shall be irrevocably bound to purchase the shares set forth in the Proposed Transfer Notice on the terms and subject to the conditions set forth herein and therein. The closing of the purchase of Transfer Stock by Mercer shall take place, and all

payments from Mercer shall have been delivered to the applicable Key Holder or Investor, as the case may be, (i) no later than thirty (30) calendar days after the delivery of the Exercise Notice with respect to the Proposed Transfer that is a Proposed Registered Transfer or (ii) no later than sixty (60) calendar days after delivery of the Exercise Notice with respect to the Proposed Transfer that is a Proposed Unregistered Transfer (*provided* that such sixty (60) calendar day period shall be automatically extended in the event that the proposed purchase is delayed due to regulatory review, until five (5) calendar days after the completion of such review, but in no event later than one hundred twenty (120) calendar days after delivery of the Exercise Notice with respect to the Proposed Transfer).

(b) Notwithstanding anything to the contrary herein, in connection with any sale by any Investor or Key Holder to Mercer pursuant to this Agreement, such Investor or Key Holder shall be required to provide customary representations, warranties and indemnities to Mercer only concerning such Investor’s or Key Holder’s power and authority to enter into the sale agreement, its title to the shares of Common Stock sold in such sale, the absence of any material consents required in connection with such sale, the absence of any contravention of law in connection with such sale, and that its holding of the Transfer Stock and that its receipt of the purchase price does not violate anti-money laundering, sanctions or similar laws (and shall not include representations, warranties and indemnities relating to the business of the Company) even if such Investor or Key Holder proposes to make additional or different representations, warranties and indemnities to a third party purchaser. In addition, in connection with any sale by the Investors or Key Holders to Mercer pursuant to this Agreement, the Company shall be required to use commercially reasonable efforts to assist Mercer and the applicable Investor or Key Holder to consummate such sale.

Section 2.05. *Effect of Failure to Comply* . (a) *Transfer Void* . Any Proposed Transfer not made in compliance with the requirements of this Agreement shall be null and void *ab initio* , shall not be recorded on the books of the Company or its transfer agent and shall not be recognized by the Company.

(b) *Violation of First Offer Right* . If any Key Holder or Investor becomes obligated to sell any Transfer Stock to Mercer under this Agreement and fails to deliver such Transfer Stock in accordance with the terms of this Agreement, Mercer, may, at its option, in addition to all other remedies it may have, send to such Key Holder or Investor the purchase price for such Transfer Stock as is herein specified and request that the Company transfer to the name of Mercer on the Company’s books the certificate or certificates representing the Transfer Stock to be sold.

Section 2.06. *Standstill* . For the avoidance of doubt, nothing in this Agreement does or shall be deemed to amend or otherwise modify the restrictions on Mercer’s acquisition of additional shares of voting stock of the Company set forth in Section 4.8 of the Securities Purchase Agreement (as amended, the “ **Standstill** ”), and Mercer acknowledges and agrees that it shall not acquire any shares of Transfer Stock pursuant to any Right of First Offer hereunder to the extent that any such acquisition would result in a violation of the Standstill. Notwithstanding anything herein to the contrary, no Investor

or Key Holder shall be required to offer Mercer shares of Transfer Stock pursuant to any Right of First Offer hereunder (i) to the extent the acquisition thereof by Mercer would result in a violation of the Standstill or (ii) if the Standstill is terminated or suspended pursuant to Section 4.8 of the Securities Purchase Agreement or otherwise, to the extent that the acquisition thereof by Mercer would have resulted in a violation of the Standstill in the absence of such termination or suspension.

ARTICLE 3
EXEMPT TRANSFERS

Section 3.01. *Exempted Transfers* . Notwithstanding the foregoing or anything to the contrary herein, the provisions of Sections 2.01, 2.02 and 2.03 shall not apply: (a) in the case of a Key Holder or Investor that is an entity, upon a transfer by such Key Holder or Investor to its stockholders, members, limited or other partners or other equity holders, (b) in the case of an Investor that is an entity, upon a transfer by such Investor to any fund or other investment vehicle of which an Affiliate of such Investor serves as the general partner, managing member, manager or in a similar capacity (each, an " **Affiliated Fund** "); *provided* , *however* , that such Investor will not be permitted to transfer any Transfer Stock to an Affiliated Fund without Mercer's prior written consent where following such transfer all or a majority of the consolidated assets owned by and/or held by such Affiliated Fund is Transfer Stock, (c) to a pledge of Transfer Stock that creates a mere security interest in the pledged Transfer Stock; *provided* , *however* , that, if such pledge is non-recourse, the pledgee thereof agrees in writing in advance to be bound by and comply with all applicable provisions of this Agreement to the same extent as if it were the Key Holder or Investor making such pledge, (d) in the case of a Key Holder or Investor that is a natural person, upon a transfer of Transfer Stock by such Key Holder or Investor made for *bona fide* estate planning purposes, either during his or her lifetime or on death by will or intestacy to his or her spouse, child (natural or adopted), or any other direct lineal descendant of such Key Holder or Investor (or his or her spouse) (all of the foregoing collectively referred to as " **family members** "), or any other relative/person approved by Mercer, or any custodian or trustee of any trust, partnership or limited liability company for the benefit of, or the ownership interests of which are owned wholly by, such Key Holder, Investor or any such family members, (e) pursuant to a merger, tender offer for any and all shares of Common Stock or other similar business combination transaction involving the Company, or (f) in the case of a Key Holder, to any sale of Transfer Stock by such Key Holder pursuant to Rule 144; *provided* that in the case of clause(s) (a) (other than (x) with respect to the Oak Fund or (y) with respect to any GS Fund, any transfer that such GS Fund reasonably determines is necessary or advisable to reduce, eliminate, modify or mitigate an adverse effect on such GS Fund or any of its Affiliates arising from any law, regulation or interpretation thereof applicable to such GS Fund or any of its Affiliates, so long as such GS Fund intends to transfer assets, or has transferred assets, other than, or in addition to, Transfer Stock in a similar manner in order to reduce, eliminate, modify or mitigate such adverse effect), (b), (c) (solely with respect to non-recourse pledges), and (d) only, the Investor shall deliver prior written notice to Mercer of such transfer or pledge, and such shares of Transfer Stock of the Investor or the Key Holder, as applicable, shall at all times remain subject to the

terms and restrictions set forth in this Agreement and the transferee thereof shall, as a condition to such transfer or pledge, deliver a counterpart signature page to this Agreement to the other parties hereto as confirmation that such transferee shall be bound by all the terms and conditions of this Agreement as a Key Holder or an Investor, as applicable (but only with respect to the securities so transferred to the transferee), including the obligations of a Key Holder or an Investor with respect to Proposed Transfers of such Transfer Stock pursuant to Article 2; and *provided, further* , in the case of any transfer pursuant to clause (a), (b) or (d) only, that such transfer is made pursuant to a transaction in which there is no consideration actually paid for such transfer. If, as a result of a transaction described in clause (e) of this Section 3.01, the holders of the capital stock of the Company receive shares of capital stock in the surviving entity in such transaction, or the ultimate parent entity that directly or indirectly owns the outstanding capital stock of such surviving entity, that represent more than fifty percent (50%) of the shares of capital stock of such entity, then the Investors and the Key Holders agree to enter into an agreement substantially similar to this Agreement providing that the shares of capital stock received by them as a result of such transaction will be subject to a right of first offer substantially similar to the terms and conditions set forth herein. For the avoidance of doubt, this Section 3.01 specifically allows the Oak Fund to make transfers pursuant to clause (a) above without the consent of Mercer and without the transferee executing a counterpart signature page hereto or becoming subject to the terms and provisions hereof.

Section 3.02. *Additional Acquisitions by Key Holders and Investors* . For so long as this Agreement remains in effect, each Key Holder agrees to cause any of its Affiliates, and each Investor agrees to cause any of its Affiliated Funds, that, in either case, directly or indirectly acquires any shares of Capital Stock after the date hereof (other than any acquisition pursuant to a transfer in accordance with Section 3.01, which shall be governed by and subject to the terms of such Section 3.01 instead of this Section 3.02) to deliver, no later than the time of such acquisition, a counterpart signature page to this Agreement as confirmation that such Affiliate or Affiliated Fund, as applicable, shall be bound by all the terms and conditions of this Agreement as a Key Holder or Investor, as applicable (but only with respect to the securities so acquired), including the obligations of a Key Holder or Investor with respect to Proposed Transfers of such Transfer Stock pursuant to Article 2 (*provided* that the obligations of each GS Fund pursuant to this Section 3.02 shall be limited to the Affiliated Funds thereof that are managed by the Merchant Banking Division of The Goldman Sachs Group, Inc. (each, an " **Affiliated MBD Fund** ")).

Section 3.03. *Obligation Not to Make or Permit Certain Indirect Transfers* . For so long as this Agreement remains in effect, each of the Key Holders and Investors agrees not to cause or permit any direct or indirect sale, offer to sell, disposition of or any other like transfer of any equity interests of any Affiliate, in the case of any Key Holder, or any Investor or Affiliated Fund thereof, in the case of any Investor, all or a majority of whose consolidated assets directly or indirectly consist of Transfer Stock (*provided* that the obligations of each GS Fund pursuant to this Section 3.03 shall be limited to the other GS Funds, any Affiliated Fund thereof to which any GS Fund has made a transfer pursuant to Section 3.01 and the Affiliated MBD Funds).

ARTICLE 4
LEGEND

Each certificate or book entry representing shares of Transfer Stock held by the Key Holders or Investors, issued to any permitted transferee in connection with a transfer permitted by Section 3.01 hereof, to the extent that such permitted transferee is required to become a party to this Agreement pursuant to Section 3.01, or acquired by any Person in connection with an acquisition subject to Section 3.02 shall be endorsed with the following legend:

> THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS [CERTIFICATE] [BOOK ENTRY] IS SUBJECT TO, AND IN CERTAIN CASES PROHIBITED BY, THE TERMS AND CONDITIONS OF A CERTAIN RIGHT OF FIRST OFFER AGREEMENT BY AND AMONG THE STOCKHOLDER, THE CORPORATION AND CERTAIN OTHER HOLDERS OF STOCK OF THE CORPORATION. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION.

Each Key Holder and Investor agrees that the Company may instruct its transfer agent to impose transfer restrictions on the shares represented by certificates or book entries bearing the legend referred to in this Article 4 above to enforce the provisions of this Agreement, and the Company agrees to promptly do so. The legend shall be removed at the request of the holder upon the earliest to occur of (a) termination of this Agreement, (b) transfer of Transfer Stock pursuant to Section 2.02 or Section 2.03 or (c) transfer of Transfer Stock pursuant to Section 3.01 unless such transferee is required to become a party to this Agreement pursuant to Section 3.01.

ARTICLE 5
MISCELLANEOUS

Section 5.01. *Term* . (a) This Agreement shall automatically terminate upon any termination of the Securities Purchase Agreement in accordance with its terms prior to the Closing (as defined in the Securities Purchase Agreement), it being understood and agreed that no termination hereof pursuant to this Section 5.01(a) shall affect the validity of or otherwise have any effect on any prior purchase of Transfer Stock by Mercer pursuant to its Rights of First Offer hereunder.

(b) After the Closing, this Agreement shall automatically terminate upon the earlier of (i) the expiration or termination of the Alliance Agreement in accordance with its terms, (ii) the first date on which Mercer and its Affiliates beneficially own less than (A) seventy-five percent (75)% of the shares of Common Stock acquired by Mercer

pursuant to the Securities Purchase Agreement or (B) five percent (5%) of the outstanding shares of Common Stock, in each case in this clause (ii), for a period of at least forty-five (45) consecutive calendar days, (iii) any breach by Mercer or its Affiliates of the Standstill and (iv) if Mercer delivers an Exercise Notice, Mercer failing to acquire the shares of Transfer Stock that are the subject of such Exercise Notice on the terms and conditions set forth in the Exercise Notice within the time frame set forth in Section 2.04(a); *provided* that, notwithstanding the foregoing, (A) this Agreement shall not terminate pursuant to Section 5.01(b)(iii) or (iv) unless the applicable Investor or Key Holder has provided Mercer with reasonably detailed written notice of the basis for such proposed termination and Mercer has not cured the basis for such proposed termination within fifteen (15) calendar days after receipt of such notice; and (B) this Agreement shall not terminate pursuant to Section 5.01(b)(iv) if Mercer fails to acquire the shares of Transfer Stock that are the subject of such Exercise Notice on the terms and conditions set forth in the Exercise Notice within the time frame set forth in Section 2.04(a) due to the failure to receive any regulatory approval required for such acquisition or any action or omission of any Investor, Key Holder or Person other than Mercer and its Affiliates. In addition, if the Standstill is terminated or suspended pursuant to Section 4.8 of the Securities Purchase Agreement or otherwise, any obligation of the Key Holders or the Investors to comply with Section 2.01, Section 2.02 and Section 2.03 shall terminate with respect to any Transfer Stock to the extent that, and for so long as, immediately prior to such termination or suspension, Mercer would have been prohibited from acquiring as a result of the Standstill.

Section 5.02. *Stock Split* . All references to numbers of shares in this Agreement shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization affecting the Capital Stock and occurring after the date of this Agreement.

Section 5.03. *Representations and Warranties* . Each Key Holder and Investor represents and warrants that as of the date hereof such Key Holder or Investor is the sole legal owner of the shares of Transfer Stock set forth opposite such Key Holder's or Investor's name on Schedule A or Schedule B hereto, as applicable, and that no other Person has any interest in such shares (other than a community property interest as to which the holder thereof has acknowledged and agreed in writing to the restrictions and obligations hereunder and, with respect to the Investors, other than any Person who is a direct or indirect investor, manager, investment advisor, managing member or general partner of such Investor or any direct or indirect owner of such Person). Each of the Company and Mercer represents and warrants that true and complete copies of the final form of the Securities Purchase Agreement and the Alliance Agreement have been made available to each Key Holder and Investor. Each party hereto represents and warrants that (a) such party has the requisite corporate, partnership or other entity power and authority or capacity, as applicable, to enter into this Agreement, (b) the execution and delivery of this Agreement by such party has been duly authorized by all necessary corporate, partnership or other entity action on the part of such party, and (c) this Agreement has been duly executed by such party and is the valid and binding obligation of such party enforceable against such party in accordance with its terms.

Section 5.04. *Notices* . All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given and received: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, and if not so confirmed, then on the next Business Day, (c) five (5) calendar days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) Business Day after deposit with a nationally recognized overnight courier, specifying next Business Day delivery, with written verification of receipt. All communications shall be sent to the respective parties at their address as set forth on Schedule A or Schedule B hereof, as the case may be, or to such email address, facsimile number or address as subsequently modified by written notice given in accordance with this Section 5.04. If notice is given to the Company, it shall be sent to Benefitfocus, Inc., 100 Benefitfocus Way, Charleston, SC 29492, Attention: Paris Cavic and a copy (which shall not constitute notice) shall also be sent to Wyrick Robbins Yates & Ponton LLP, 4101 Lake Boone Trail, Suite 300, Raleigh, NC 27607, Attn: Donald R. Reynolds; if notice is given to the Investors, a copy (which shall not constitute notice) shall also be given to the applicable party set forth on Schedule A or Schedule B.; and if notice is given to Mercer, it shall be sent to Mercer LLC, 1166 Avenue of the Americas, New York, NY 10036, Attention: Rian Miller, General Counsel, and copies (which shall not constitute notice) shall also be sent to Mercer LLC, 1166 Avenue of the Americas, New York, NY 10036, Attention: Margaret M. O’Brien, Global Chief Counsel - Health & Benefits, and Davis Polk & Wardwell LLP, 450 Lexington Avenue, New York, NY 10017, Attn: Phillip R. Mills.

Section 5.05. *Entire Agreement* . This Agreement (including the Schedules hereto) constitutes the full and entire understanding and agreement between the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties are expressly canceled.

Section 5.06. *Delays or Omissions* . No delay or omission to exercise any right, power or remedy accruing to any party under this Agreement, upon any breach or default of any other party under this Agreement, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

Section 5.07. *Amendment; Waiver and Termination* . This Agreement may be amended, modified or terminated (in addition to pursuant to Section 5.01 above) and the observance of any term hereof may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument executed by (a)

Mercer, (b) the Key Holders holding a majority of the shares of Transfer Stock then held by all of the Key Holders, (c) all of the Investors and (d) the Company, solely to the extent such amendment, modification, termination or waiver would enlarge the Company's obligations hereunder. Any amendment, modification, termination or waiver so effected shall be binding upon the Company, the Investors, the Key Holders and Mercer and all of their respective successors and permitted assigns whether or not such party, assignee or other shareholder entered into or approved such amendment, modification, termination or waiver. The Company shall give prompt written notice of any amendment, modification or termination hereof or waiver hereunder to any party hereto that did not consent in writing to such amendment, modification, termination or waiver. No waivers of or exceptions to any term, condition or provision of this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

Section 5.08. *Assignment of Rights* . (a) The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

(b) Except as permitted by Section 3.01, the rights and obligations of the Key Holders, the Investors and the Company hereunder are not assignable, delegable or otherwise transferable without Mercer's prior written consent, it being acknowledged and agreed that Mercer's consent to any such assignment, delegation or other transfer may be conditioned upon any such transferee's delivery to Mercer and the Company of a counterpart signature page hereto pursuant to which such transferee shall confirm its agreement to be subject to and bound by all of the provisions set forth in this Agreement that were applicable to the transferor of such transferee. For the avoidance of doubt, nothing herein shall prohibit the Key Holders and the Investors from transferring their Transfer Stock as permitted herein, including pursuant to Section 3.01, without the consent of Mercer and without the transferee executing a counterpart signature page hereto if such consent and such counterpart signature page are not required herein, including pursuant to Section 3.01.

(c) Except in connection with an assignment, delegation or other transfer by Mercer by operation of law to the acquirer of Mercer, or by Mercer to an Affiliate thereof, the rights and obligations of Mercer hereunder are not assignable, delegable or otherwise transferable without the prior written consent of (i) the Key Holders holding a majority of the shares of Transfer Stock then held by all of the Key Holders, (ii) the holders of a majority of the shares of Transfer Stock then held by all of the Investors and (iii) the Company, it being acknowledged and agreed that any such assignment, delegation or other transfer shall be subject to and conditioned upon any such transferee's delivery to the Key Holders, the Investors and the Company of a counterpart signature page hereto pursuant to which such transferee shall confirm its agreement to be subject to and bound by all of the provisions set forth in this Agreement that were applicable to the transferor of such transferee.

Section 5.09. *Severability* . The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

Section 5.10. *Governing Law* . All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to that body of laws pertaining to conflict of laws.

Section 5.11. *Titles and Subtitles* . The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

Section 5.12. *Counterparts; Facsimile* . This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may also be executed and delivered by facsimile signature (and by .pdfs) and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 5.13. *Aggregation of Stock* . All shares of Capital Stock held or acquired by Affiliated Persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement and the exercise of any such rights may be allocated among such Affiliated Persons in such manner as such Affiliated Persons may determine in their discretion.

Section 5.14. *Specific Performance* . Each party hereto acknowledges and agrees that any breach of this Agreement would result in substantial harm to the other parties hereto for which monetary damages alone could not adequately compensate. Therefore, in addition to any and all other remedies that may be available at law, in the event of any breach of this Agreement the parties hereto unconditionally and irrevocably agree that any non-breaching party hereto shall be entitled to protective orders, injunctive relief and other remedies available at law or in equity (including, without limitation, specific performance or the rescission of purchases, sales and other transfers of Transfer Stock not made in strict compliance with this Agreement).

Section 5.15. *Venue; Service of Process; Waiver of Jury Trial* . EACH PARTY HEREBY IRREVOCABLY CONSENTS AND SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE STATE OF DELAWARE FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY (INCLUDING WITH RESPECT TO THE ENFORCEMENT HEREOF), AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT MAY NOW OR HEREAFTER HAVE THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, AND ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH

COURT OR THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE PARTIES HEREBY IRREVOCABLY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN CONNECTION WITH ANY DISPUTE HEREUNDER OR ANY TRANSACTION CONTEMPLATED HEREBY.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Right of First Offer Agreement as of the date first written above.

THE COMPANY:

BENEFITFOCUS, INC.

By: /s/ Mason R. Holland, Jr.
Name: Mason R. Holland, Jr.
Title: Executive Chairman of the Board

[Signature page to Right of First Offer Agreement]

INVESTORS:

GS CAPITAL PARTNERS VI FUND, L.P.

By: GSCP VI Advisors, L.L.C.
its General Partner

/s/ Joseph P. DiSabato

Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI OFFSHORE FUND, L.P.

By: GSCP VI Offshore Advisors, L.L.C.
its General Partner

/s/ Joseph P. DiSabato

Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI GMBH & CO. KG

By: GS Advisors VI, L.L.C.
its Managing Limited Partner

/s/ Joseph P. DiSabato

Name: Joseph P. DiSabato
Title: Vice President

GS CAPITAL PARTNERS VI PARALLEL, L.P.

By: GS Advisors VI, L.L.C.
its General Partner

/s/ Joseph P. DiSabato

Name: Joseph P. DiSabato
Title: Vice President

[Signature page to Right of First Offer Agreement]

OAK INVESTMENT PARTNERS XII, LIMITED PARTNERSHIP

By: Oak Associates XII, LLC, its General Partner

By: /s/ Ann H. Lamont
Name: Ann H. Lamont
Title: Managing Member

KEY HOLDERS:

/s/ Mason R. Holland, Jr.
Mason R. Holland, Jr.

/s/ Shawn Jenkins
Shawn Jenkins

[Signature page to Right of First Offer Agreement]

MERCER:

MERCER LLC

By: /s/ Julio Portalatin
Name: Julio Portalatin
Title: President and Chief Executive Officer

[Signature page to Right of First Offer Agreement]

Schedule A
INVESTORS

Name	Shares of Common Stock Held
GS Capital Partners VI Parallel, L.P. c/o The Goldman Sachs Group, Inc. Attn: Bill Eng 200 West Street 28th Flr New York, NY 10282	1,094,398 shares of Common Stock
GS Capital Partners VI GmbH & Co. KG c/o The Goldman Sachs Group, Inc. Attn: Bill Eng 200 West Street 28th Flr New York, NY 10282	141,445 shares of Common Stock
GS Capital Partners VI Fund, L.P. c/o The Goldman Sachs Group, Inc. Attn: Bill Eng 200 West Street 28th Flr New York, NY 10282	3,979,876 shares of Common Stock
GS Capital Partners VI Offshore Fund, L.P. c/o The Goldman Sachs Group, Inc. Attn: Bill Eng 200 West Street 28th Flr New York, NY 10282	3,310,322 shares of Common Stock
Oak Investment Partners XII, Limited Partnership Attn: Annie Lamont 901 Main Avenue Suite 600 Norwalk, CT 06851	2,441,009 shares of Common Stock

Schedule B
KEY HOLDERS

Name	Shares of Common Stock / Options Held
Mason R. Holland, Jr.	2,451,921 shares of Common Stock (held by Holland Family Trust) 423,729 Options 5,875 Restricted Stock Units
Shawn Jenkins	2,093,404 shares of Common Stock 847,458 Options 35,248 Restricted Stock Units

Exhibit 21.1

Benefitfocus, Inc.,
A Delaware corporation
List of subsidiaries

- Benefitfocus.com, Inc.
- Benefit Informatics, Inc.
- BenefitStore, Inc.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-192278) pertaining to the 2012 Stock Plan, as amended, and the Amended and Restated 2000 Stock Option Plan of Benefitfocus, Inc., of our report dated February 27, 2015, with respect to the consolidated financial statements and schedule of Benefitfocus, Inc. included in this Annual Report (Form 10-K) of Benefitfocus, Inc. for the year ended December 31, 2014.

/S/ Ernst & Young LLP

Raleigh, North Carolina
February 27, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Shawn A. Jenkins, certify that:

1. I have reviewed this Annual Report on Form 10-K of Benefitfocus, Inc. (the registrant);

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: February 27, 2015

/s/ Shawn A. Jenkins
Shawn A. Jenkins
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Milton A. Alpern, certify that:

1. I have reviewed this Annual Report on Form 10-K of Benefitfocus, Inc. (the registrant);

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: February 27, 2015

/s/ Milton A. Alpern
Milton A. Alpern
Chief Financial Officer

Exhibit 32.1

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

In accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Shawn A. Jenkins, President and Chief Executive Officer of Benefitfocus, Inc. (the "registrant"), and Milton A. Alpern, Chief Financial Officer of the registrant, each hereby certifies that, to the best of their knowledge:

1. The registrant's Annual Report on Form 10-K for the year ended December 31, 2014, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition of the registrant at the end of the period covered by the Report and results of operations of the registrant for the periods covered by the Report.

Date: February 27, 2015

/s/ Shawn A. Jenkins
Shawn A. Jenkins
President and Chief Executive Officer

/s/ Milton A. Alpern
Milton A. Alpern
Chief Financial Officer