

Benefitfocus, Inc.
Form 424B4
July 17, 2014
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-197188

2,500,000 Shares

Common Stock

A stockholder of Benefitfocus, Inc. is offering all 2,500,000 shares of common stock. We will not receive any of the proceeds from the sale of the shares being offered by the selling stockholder.

Our common stock is listed on the NASDAQ Global Market under the symbol **BNFT**. The last reported sale price of our common stock on the NASDAQ Global Market on July 16, 2014 was \$39.77. Upon completion of this offering, we will remain a controlled company as defined under the NASDAQ Stock Market listing rules.

We are an emerging growth company under the federal securities laws and are eligible for reduced public company reporting requirements. Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 15.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

| | Per Share | Total |
|---|-----------|---------------|
| Public offering price | \$ 38.50 | \$ 96,250,000 |
| Underwriting discount(1) | \$ 1.829 | \$ 4,572,500 |
| Proceeds, before expenses, to the selling stockholder | \$ 36.671 | \$ 91,677,500 |

(1) The underwriters will receive compensation in addition to the underwriting discount. See Underwriting (Conflicts of Interest) on page 145 of this prospectus for a description of the compensation payable to underwriters.

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To the extent that the underwriters sell more than 2,500,000 shares of common stock, the underwriters have the option to purchase up to an additional 375,000 shares from the selling stockholder at the offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on July 22, 2014.

Goldman, Sachs & Co.

Deutsche Bank Securities

Jefferies

Canaccord Genuity

Piper Jaffray

Raymond James

Prospectus dated July 16, 2014.

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We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

For investors outside the United States: Neither we, nor the selling stockholder, nor the underwriters have done anything that would permit this public offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of our common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary highlights information appearing elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our financial statements and related notes, and the risk factors beginning on page 15, before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, we use the terms "Benefitfocus", "the Company", "our company", "we", "us", and "our" in this prospectus to refer to the consolidated operations of Benefitfocus, Inc. and its consolidated subsidiaries as a whole.

Benefitfocus, Inc.

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 customers (which are employers and insurance carriers) to more efficiently shop, enroll, manage, and exchange benefits information. Our web-based platform has a user-friendly interface designed to enable insured individuals and their dependents (which we refer to as consumers or members) 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 June 30, 2014, we served over 23 million consumers on the Benefitfocus platform. As of March 31, 2014, we served 418 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. 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. Historically, our annual software services revenue retention rate has been in excess of 95%. Our total revenue increased from \$81.7 million in 2012 to \$104.8 million in 2013,

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representing a 28.2% year-over-year increase. Our employer revenue increased from \$23.8 million in 2012 to \$40.7 million in 2013, representing a 71.1% year-over-year increase. Our carrier revenue increased from \$58.0 million in 2012 to \$64.1 million in 2013, representing a 10.6% year-over-year increase. We had net losses of \$14.9 million in 2012 and \$30.4 million in 2013. Our company was founded in 2000, and we currently employ approximately 1,195 associates.

Industry Background

The administration and distribution of benefits to employees is costly and complex. It 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 human resources, or 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 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. 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. Employers are increasingly interested in SaaS solutions that can help capture and analyze benefits data, increase efficiency and contain costs, and ultimately lead to healthier, happier, and more productive 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.

Carrier IT systems typically consist of an enterprise software platform that handles claims management, claims re-pricing, insurance premium billing, network management, and case management. Despite widespread carrier consolidation, numerous disparate systems remain in place, with many large carriers operating on multiple IT systems. The effective delivery and management of

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.

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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.

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.

The Benefitfocus Solutions

We provide a multi-tenant cloud-based benefits 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.

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. Our solutions also include advanced analytics that enable employers and employees to quickly gather, report, and forecast benefit costs.

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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. 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. Employers and HR professionals can efficiently enroll users or update information, and communicate or make changes to plans in real-time.

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 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.

Reduce Administrative Costs. 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.

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. In order to reach new customers in our existing employer and carrier markets, we are aggressively investing in our sales and marketing resources.

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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.

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. 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, the Mayo Clinic, and others in a variety of industries to deliver best-in-class applications to our customers. 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.

Leverage our Corporate Culture. We believe our culture benefits our associates and customers and supports our growth. 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.

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.

Selected Risks Affecting Our Business

Our business is subject to a number of risks you should be aware of before making an investment decision. These risks are discussed more fully in *Risk Factors* beginning on page 15 and include:

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

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

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 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.

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.

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If our security measures are breached or fail and unauthorized access is obtained to customers' data, our service might be perceived as not being secure, customers might curtail or stop using our service, and we might incur significant liabilities.

We rely on third-party service providers, computer hardware and software, and our own systems for providing services to our customers, and any failure or interruption in these services, products or systems could expose us to litigation and negatively impact our customer relationships, adversely affecting our brand and our business.

Government regulation of the areas in which we operate creates risks and challenges with respect to our compliance efforts and our business strategies, imposes increased costs on us, delays or prevents our introduction of new service types, and could impair the function or value of our existing service types.

Recent Developments***Preliminary Financial Data***

The following preliminary financial information for the three months ended June 30, 2014 is based upon our estimates and subject to completion of our financial closing procedures. Moreover, these data have been prepared solely on the basis of currently available information by, and are the responsibility of, management. Our independent registered public accounting firm, Ernst & Young LLP, has not audited or reviewed, and does not express an opinion with respect to, these data. This summary is not a comprehensive statement of our financial results for this period, and our actual results may differ materially from these estimates due to the completion of our financial closing procedures, final adjustments, completion of the review of our financial statements and other developments that may arise between now and the time the review of our financial statements is completed. There can be no assurance that these estimates will be realized, and estimates are subject to risks and uncertainties, many of which are not within our control.

We have prepared estimates of the following preliminary financial data for the three months ended June 30, 2014.

| | Three Months Ended June 30, 2014 | | Three Months Ended June 30, 2013 |
|------------------------|-------------------------------------|-----------|-------------------------------------|
| | Low | High | |
| | Range | | |
| | (in millions) | | |
| <u>GAAP</u> | | | |
| Revenue | \$ 31.8 | \$ 32.3 | \$ 24.3 |
| Gross profit | \$ 10.2 | \$ 10.7 | \$ 10.0 |
| <u>Non-GAAP</u> | | | |
| Adjusted EBITDA | \$ (14.0) | \$ (13.5) | \$ (6.8) |
| <u>Revenue</u> | | | |

Our revenue for the three months ended June 30, 2014 is estimated to be between \$31.8 million and \$32.3 million, an increase of between 30.9% and 32.9% from revenue of \$24.3 million for the three months ended June 30, 2013. The estimated increase in revenue for the three months ended June 30, 2014 is primarily related to revenue from new customers and completed implementations.

Table of ContentsGross profit

Our gross profit for the three months ended June 30, 2014 is estimated to be between \$10.2 million and \$10.7 million, an increase of between 2.0% and 7.0% from gross profit of \$10.0 million for the three months ended June 30, 2013.

Adjusted EBITDA

Our adjusted EBITDA for the three months ended June 30, 2014 is estimated to be between \$(14.0) million and \$(13.5) million, a decrease of between 105.9% and 98.5% from adjusted EBITDA of \$(6.8) million for the three months ended June 30, 2013. The estimated decrease in adjusted EBITDA for the three months ended June 30, 2014 is primarily related to increases in headcount to support our growing business.

The following table presents a reconciliation from net loss to adjusted EBITDA for the three months ended June 30, 2014.

| | Three Months Ended June 30, 2014 Range | | Three Months Ended June 30, 2013 |
|--|--|-----------------------|----------------------------------|
| | Low | High (in millions) | |
| Reconciliation from Net Loss to Adjusted EBITDA: | | | |
| Net loss | \$ (18.7) | \$ (18.2) | \$ (9.6) |
| Depreciation | 1.7 | 1.7 | 1.3 |
| Amortization of software development costs | 0.8 | 0.8 | 0.6 |
| Amortization of acquired intangible assets | 0.1 | 0.1 | 0.1 |
| Interest income | | | |
| Interest expense on building lease financing obligations | 0.6 | 0.6 | 0.4 |
| Interest expense on other borrowings | 0.1 | 0.1 | 0.1 |
| Income tax expense (benefit) | | | |
| Stock-based compensation expense | 1.4 | 1.4 | 0.3 |
| Impairment of goodwill and intangible assets | | | |
| Total net adjustments | \$ 4.7 | \$ 4.7 | \$ 2.8 |
| Adjusted EBITDA | \$ (14.0) | \$ (13.5) | \$ (6.8) |

For additional information about our non-GAAP financial measures, including how they are defined, see [Consolidated Selected Financial Data](#), [Management's Discussion and Analysis of Financial Condition and Results of Operations](#), and our consolidated financial statements, related notes, and other financial information elsewhere in this prospectus.

Key Metrics

We estimate that as of June 30, 2014, we served approximately 488 large employer customers and 43 carrier customers. For additional information about our key metrics, including how they are defined and measured, see [Management's Discussion and Analysis of Financial Condition and Results of Operations - Key Financial and Operating Performance Metrics](#).

For additional information regarding the various risks and uncertainties inherent in estimates such as those above, see [Special Note Regarding Forward-Looking Statements](#) elsewhere in this prospectus.

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Corporate Restructuring

We are a Delaware corporation and, prior to September 13, 2013, were a wholly owned subsidiary of Benefitfocus.com, Inc., the South Carolina corporation that conducts our business. On September 13, 2013, we restructured our organization by merging Benefitfocus.com, Inc. with a newly formed South Carolina corporation, which was a wholly owned subsidiary of ours. As a result of the corporate restructuring, Benefitfocus.com, Inc. became a wholly owned operating subsidiary of Benefitfocus, Inc. Additionally, the common and preferred shareholders 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.

Corporate Information and Structure

Following this offering, over 62% of our outstanding common stock will be beneficially owned by a group of our significant stockholders, including funds associated with The Goldman Sachs Group, Inc. and Oak Investment Partners XII, L.P., and our current chairman, Mason R. Holland, Jr., and chief executive officer, Shawn A. Jenkins. In particular, the funds associated with The Goldman Sachs Group collectively will beneficially own approximately 34.91% of our common stock (or approximately 33.44% of our common stock assuming the full exercise of the underwriters' option to purchase additional shares). As a result of the beneficial ownership of our common stock by our significant stockholders, we will remain a controlled company under the NASDAQ Stock Market listing rules, and will be 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. As a result, a majority of the members of our board of directors will not be independent directors and our nominating and corporate governance and compensation committees will not consist entirely of independent directors. Goldman, Sachs & Co. is one of the underwriters of this offering. See Underwriting (Conflicts of Interest) .

In addition, due to the size of its voting and economic interest in our company, we are deemed to be controlled by The Goldman Sachs Group, and are considered to be its subsidiary, under the Bank Holding Company Act, or BHC Act. As a result, certain restrictions applicable to Goldman Sachs under the BHC Act are expected to apply to the Company as well. We are subject to regulation, supervision, examination and potential enforcement action by the Federal Reserve, and 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 include activities that the Federal Reserve has previously determined to be complementary to financial activities, including data processing services such as those that we provide with our software solutions, and we believe that our current and anticipated business activities are permitted under the BHC Act.

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, including rights to access certain of our information and to review the policies and procedures that we implement to comply with the laws and regulations that relate to our activities. We will be 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 from those activities. We do not believe our status as a subsidiary of The Goldman Sachs Group under the BHC Act will have a material impact on our business or operations.

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In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by President Obama on July 21, 2010, including Title VI known as the Volcker Rule. U.S. 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.

Our principal executive offices are located at 100 Benefitfocus Way, Charleston, South Carolina 29492. The telephone number of our principal executive offices is (843) 849-7476. Our website is www.benefitfocus.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

Benefitfocus, HR InTouch, HR InTouch Marketplace, Benefitfocus eEnrollment, Benefitfocus eBilling, Benefitfocus eExchange, Benefitfocus eSales, All your benefits. In your pocket., and other trademarks or service marks of Benefitfocus appearing in this prospectus are the property of Benefitfocus. This prospectus may refer to brand names, trademarks, service marks, or trade names of other companies and organizations, and these brand names, trademarks, service marks, and trade names are the property of their respective holders.

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The Offering

Common stock offered by the selling stockholder

2,500,000 shares

Common stock to be outstanding after this offering

25,062,962 shares

Option to purchase additional shares offered to underwriters

To the extent that the underwriters sell more than 2,500,000 shares of common stock, the underwriters have the option to purchase up to an additional 375,000 from the selling stockholder. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.

Use of proceeds

We will not receive any proceeds from the sale of shares by the selling stockholder.

NASDAQ Global Market symbol

BNFT

Conflicts of Interest

Goldman, Sachs & Co., an underwriter of this offering, is an affiliate of each of 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 we refer to as the Goldman Funds. Since the Goldman Funds beneficially own more than 10% of our outstanding common stock and will receive greater than five percent of the net proceeds from this offering, not including underwriting compensation, a conflict of interest is deemed to exist under the applicable provisions of Rule 5121 of the Conduct Rules of the Financial Industry Regulatory Authority, or FINRA.

Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5110 and Rule 5121 of the Conduct Rules. See Underwriting (Conflicts of Interest) .

The number of shares of our common stock to be outstanding after this offering is based on 25,062,962 shares outstanding as of March 31, 2014 and excludes:

2,941,595 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2014 with a weighted-average exercise price of \$6.85 per share, of which 2,408,647 shares were vested and exercisable;

94,200 shares of common stock issuable upon vesting of restricted stock units, of which none are vested and exchangeable; and

2,577,286 shares of common stock available for future issuance under our stock plans as of March 31, 2014.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their option to purchase up to an additional 375,000 shares from the selling stockholder.

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The following summary financial data should be read in conjunction with the sections entitled "Consolidated Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements, related notes, and other financial information included elsewhere in this prospectus. We derived the summary financial data as of and for the years ended December 31, 2013, 2012 and 2011 from our audited financial statements included elsewhere in this prospectus. We derived the summary financial data as of and for the year ended December 31, 2010 from audited financial statements not included in this prospectus. We have derived the following summary consolidated statement of operations data for the three months ended March 31, 2014 and 2013 and balance sheet data as of March 31, 2014 from our unaudited consolidated interim financial statements appearing elsewhere in this prospectus. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our operating results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2014.

Consolidated Statement of Operations Data

| | Three Months Ended March 31, | | | Year Ended December 31, | | |
|--|---|------------|-------------|-------------------------|-------------|------------|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands, except share and per share data) | | | | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Revenue (1) | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 | \$ 67,122 |
| Cost of revenue (2) | 19,226 | 12,445 | 62,411 | 44,400 | 42,133 | 38,870 |
| Gross profit | 11,470 | 11,402 | 42,341 | 37,339 | 26,650 | 28,252 |
| Operating expenses: | | | | | | |
| Sales and marketing (2) | 10,987 | 9,138 | 36,072 | 27,905 | 22,553 | 14,174 |
| Research and development (2) | 8,778 | 4,539 | 23,532 | 14,621 | 9,120 | 8,650 |
| General and administrative (2) | 3,529 | 2,819 | 10,974 | 7,494 | 5,821 | 6,038 |
| Impairment of goodwill | | | | | 1,670 | |
| Change in fair value of contingent consideration | | (30) | (43) | 121 | 503 | |
| Total operating expenses | 23,294 | 16,466 | 70,535 | 50,141 | 39,667 | 28,862 |
| Loss from operations | (11,824) | (5,064) | (28,194) | (12,802) | (13,017) | (610) |
| Total other expense, net | (564) | (531) | (2,198) | (1,987) | (2,012) | (1,855) |
| Loss before income taxes | (12,388) | (5,595) | (30,392) | (14,789) | (15,029) | (2,465) |
| Income tax expense (benefit) | 14 | 20 | (31) | 84 | 35 | 10 |
| Net loss | \$ (12,402) | \$ (5,615) | \$ (30,361) | \$ (14,873) | \$ (15,064) | \$ (2,475) |
| Net loss per common share - basic and diluted | \$ (0.51) | \$ (1.17) | \$ (2.99) | \$ (3.09) | \$ (3.09) | \$ (0.39) |
| Weighted-average common shares outstanding - basic and diluted | 24,541,359 | 4,798,043 | 10,144,243 | 4,812,632 | 4,875,157 | 6,405,944 |
| Other Financial Data: | | | | | | |
| Adjusted gross profit (3) | \$ 13,651 | \$ 13,125 | \$ 49,735 | \$ 45,161 | \$ 33,283 | \$ 34,682 |
| Adjusted EBITDA (4) | \$ (8,842) | \$ (2,931) | \$ (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 extends 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:

| | Three Months Ended March 31, | | 2013 | Year Ended December 31, | | |
|----------------------------|---------------------------------|-------|--------|-------------------------|------------|------------|
| | 2014 | 2013 | | 2012 | 2011 | 2010 |
| | | | | (in thousands) | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Cost of revenue | \$ 79 | \$ 62 | \$ 274 | \$ 195 | \$ 252 | \$ 352 |
| Sales and marketing | 164 | 30 | 171 | 68 | 102 | 77 |
| Research and development | 149 | 66 | 255 | 130 | 121 | 87 |
| General and administrative | 148 | 95 | 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

| | Three Months Ended March 31, | | 2013 | Year Ended December 31, | | |
|--|---------------------------------|------------|-------------|-------------------------|-------------|------------|
| | 2014 | 2013 | | 2012 | 2011 | 2010 |
| | | | | (in thousands) | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Revenue from external customers by segment: | | | | | | |
| Employer | \$ 13,277 | \$ 8,625 | \$ 40,656 | \$ 23,760 | \$ 15,938 | \$ 9,356 |
| Carrier | 17,419 | 15,222 | 64,096 | 57,979 | 52,845 | 57,766 |
| Total revenue | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 | \$ 67,122 |
| Gross profit by segment: | | | | | | |
| Employer | \$ 4,607 | \$ 4,017 | \$ 13,316 | \$ 9,810 | \$ 6,059 | \$ 3,121 |
| Carrier | 6,863 | 7,385 | 29,025 | 27,529 | 20,591 | 25,131 |
| Total gross profit | \$ 11,470 | \$ 11,402 | \$ 42,341 | \$ 37,339 | \$ 26,650 | \$ 28,252 |
| (Loss) income from operations by segment: | | | | | | |
| Employer | \$ (9,963) | \$ (3,702) | \$ (26,312) | \$ (19,015) | \$ (19,533) | \$ (6,628) |
| Carrier | (1,861) | (1,362) | (1,882) | 6,213 | 6,516 | 6,018 |
| Total loss from operations | \$ (11,824) | \$ (5,064) | \$ (28,194) | \$ (12,802) | \$ (13,017) | \$ (610) |

Table of Contents**Consolidated Balance Sheet Data**

| | As of March 31, 2014 | 2013 | As of December 31, 2012 (in thousands) (Restated) | 2011 (Restated) | 2010 (Restated) |
|--|-------------------------|-----------|--|--------------------|--------------------|
| Cash and cash equivalents | \$ 48,824 | \$ 65,645 | \$ 19,703 | \$ 15,856 | \$ 18,166 |
| Marketable securities | 26,130 | 13,168 | | | |
| Accounts receivable, net | 18,291 | 23,668 | 13,372 | 9,060 | 7,163 |
| Total assets | 132,042 | 139,611 | 58,226 | 52,842 | 53,343 |
| Deferred revenue, total | 82,273 | 80,221 | 57,520 | 42,773 | 32,952 |
| Total liabilities | 131,783 | 128,179 | 89,357 | 69,809 | 55,433 |
| Total redeemable convertible preferred stock | | | 135,478 | 135,478 | 135,478 |
| Common stock | 25 | 24 | 6,109 | 4,923 | 3,574 |
| Additional paid-in capital | 215,715 | 214,487 | | | |
| Total stockholders' equity (deficit) | 259 | 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 prospectus 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.

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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:

| | Three Months Ended March 31, | | Year Ended December 31, | | | |
|---|---------------------------------|------------|-------------------------|-------------|-------------|------------|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | | |
| | | | (Restated) | | (Restated) | (Restated) |
| Reconciliation from Gross Profit to Adjusted Gross Profit: | | | | | | |
| Gross profit | \$ 11,470 | \$ 11,402 | \$ 42,341 | \$ 37,339 | \$ 26,650 | \$ 28,252 |
| Depreciation | 1,348 | 994 | 4,257 | 4,224 | 4,096 | 4,272 |
| Amortization of software development costs | 696 | 603 | 2,618 | 3,149 | 2,009 | 1,690 |
| Amortization of acquired intangible assets | 58 | 64 | 245 | 254 | 276 | 116 |
| Stock-based compensation expense | 79 | 62 | 274 | 195 | 252 | 352 |
| Adjusted gross profit | \$ 13,651 | \$ 13,125 | \$ 49,735 | \$ 45,161 | \$ 33,283 | \$ 34,682 |
| Reconciliation from Net Loss to Adjusted EBITDA: | | | | | | |
| Net loss | \$ (12,402) | \$ (5,615) | \$ (30,361) | \$ (14,873) | \$ (15,064) | \$ (2,475) |
| Depreciation | 1,672 | 1,218 | 5,231 | 5,080 | 3,225 | 3,197 |
| Amortization of software development costs | 696 | 603 | 2,618 | 3,145 | 1,903 | 1,656 |
| Amortization of acquired intangible assets | 76 | 83 | 323 | 335 | 2,178 | 1,756 |
| Interest income | (26) | (13) | (46) | (53) | (151) | (364) |
| Interest expense on building lease financing obligations | 459 | 443 | 1,768 | 1,774 | 1,771 | 1,759 |
| Interest expense on other borrowings | 129 | 77 | 381 | 202 | 203 | 211 |
| Income tax expense (benefit) | 14 | 20 | (31) | 84 | 35 | 10 |
| Stock-based compensation expense | 540 | 253 | 1,202 | 712 | 721 | 1,035 |
| Impairment of goodwill and intangible assets | | | | | 1,724 | |
| Total net adjustments | 3,560 | 2,684 | 11,446 | 11,279 | 11,609 | 9,260 |
| Adjusted EBITDA | \$ (8,842) | \$ (2,931) | \$ (18,915) | \$ (3,594) | \$ (3,455) | \$ 6,785 |

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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 prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, 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 \$30.4 million, \$14.9 million, and \$15.1 million for the years ended December 31, 2013, 2012, and 2011, respectively and net losses of \$ 12.4 million and \$5.6 million for the three months ended March 31, 2014 and 2013, 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 prospectus, 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;

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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 software-as-a-service, or SaaS, company, we recognize our subscription revenue monthly for the term of our contracts and recognize the majority of our professional services revenue ratably

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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

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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.

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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 47.4%, 58.6% and 64.1% of our consolidated revenue in each of 2013, 2012 and 2011, respectively. Our largest customer by revenue in the past three years accounted for approximately 9.5%, 10.5% and 11.7% of our revenue in each of 2013, 2012 and 2011, respectively. If any of our key customers 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.

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

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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.

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.

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.

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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 our partner organizations, and technology and content providers. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. 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. 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

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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.

We have 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 two U.S. patents 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.

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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.

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.

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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.

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.

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;

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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

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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

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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

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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

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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.

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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:

Although numerous lawsuits challenged the constitutionality of the Patient Protection and Affordable Care Act, or 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. While many of the provisions of PPACA will not be directly applicable to us, PPACA, as enacted, might affect the business of

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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. Moreover, Congress has repeatedly but unsuccessfully attempted to repeal PPACA and we are unable to predict the impact.

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 the Health Insurance Portability and Accountability Act of 1996, or 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. The American Recovery and Reinvestment Act of 2009, or 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 the 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.

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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 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" 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

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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 44.74% of the voting and economic interest in our business at June 30, 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. 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.

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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 Wall Street Reform and Consumer Protection Act, or 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 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 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

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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 this Offering and 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. Since our IPO in September 2013, the per share trading price of our common stock has been as high as \$76.00 and as low as \$27.72, as of June 30, 2014. 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.

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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

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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.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

Following the completion of this offering, based on the number of shares outstanding as of March 31, 2014, 25,062,962 shares of our common stock will be outstanding. All of the 2,500,000 shares being sold in this offering will be freely tradeable immediately after this offering (except for shares purchased by affiliates) and of the remaining 22,562,962 shares outstanding as of March 31, 2014, assuming no exercise of outstanding options after March 31, 2014, 17,478,298 shares may be sold upon expiration of lock-up agreements entered into in connection with this offering 90 days after the date of this offering (subject to volume and other restrictions of 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, subject to any outstanding lock-up agreements, 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.

You will experience immediate and substantial dilution.

The public offering price of the common stock being sold by the selling stockholder in this offering is considerably more than the net tangible book value per share of our outstanding common stock. Accordingly, you will pay a price per share that substantially exceeds, on a per share basis, the value of our assets after subtracting liabilities. In addition, if outstanding options are exercised or other stock rights such as restricted stock units vest, there could be further dilution. For more information refer to Dilution.

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 March 31, 2014, we had an aggregate of 25,062,962 shares of common stock outstanding. Of these shares, approximately 18,768,882 shares became eligible for sale on March 16, 2014, upon the expiration of lock-up agreements with the underwriters for our IPO, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act. As of March 31,

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2014, there were outstanding options and restricted stock units to purchase 3,035,795 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 and Rule 701 under the Securities Act. 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.

After this offering, our directors, executive officers, and their affiliated entities will beneficially own more than 65% of our outstanding common stock (assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options). In particular, after this offering, the Goldman Funds collectively will beneficially own approximately 34.91% (assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options after June 30, 2014). 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. For example, our bylaws provide that so long as The Goldman Sachs Group, Inc. and its affiliates own, collectively, at least 35% of our common stock, we may not amend, without the written consent of The Goldman Sachs Group, provisions in our restated certificate of incorporation or our bylaws related to the ability of our stockholders to act by written consent, the procedures by which our stockholders may call a special meeting of stockholders, and the classification of our board of directors into three classes.

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. After this offering, these stockholders will collectively beneficially own more than 62% of our common stock (assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options after June 30, 2014). 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, including those who purchase shares in this offering.

Following the offering, we will remain a controlled company within the meaning of the NASDAQ Stock Market listing rules, and we will take advantage of exemptions from certain corporate governance requirements.

Following this offering, approximately 62% of the voting power of our outstanding common stock (assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options after June 30, 2014), will be 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. Following

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this offering, we will rely on the controlled company exemption under the NASDAQ Stock Market listing rules. As a result, a majority of the members of our board of directors will not be independent directors and our nominating and corporate governance and compensation committees will 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.

Affiliates of Goldman, Sachs & Co., the lead underwriter in this offering, hold a controlling equity interest in our company, which could expose us to risks associated with Goldman's conflict of interest.

A controlling equity interest in our company is held in the aggregate by the Goldman Funds, each of which is affiliated with Goldman, Sachs & Co., the lead underwriter in this offering. Prior to this offering, the Goldman Funds held the following equity securities: (i) 1,460,808 shares of our common stock were held directly by GS Capital Partners VI Parallel, L.P., (ii) 4,418,634 shares of our common stock were held directly by GS Capital Partners VI Offshore Fund, L.P., (iii) 5,312,358 shares of our common stock were held directly by GS Capital Partners VI Fund, L.P., and (iv) 188,801 shares of our common stock were held directly by GS Capital Partners VI GmbH & CO. KG. The Goldman Funds propose to sell up to 2,500,000 shares in this offering, and will receive all the proceeds of this offering, not including underwriting compensation. Consequently, Goldman, Sachs & Co. has a conflict of interest within the meaning of Rule 5121 of the FINRA Rules.

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.

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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 will be 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.

We have identified a material weakness in connection with the preparation of our financial statements, and failure to develop and maintain adequate financial controls could cause us to have additional material weaknesses, which could adversely affect our operations and financial position.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2013, we identified a material weakness in the 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. This material error resulted from our incorrect interpretation of standards under ASC 840, Leases, related to this build-to-suit lease where we, as the lessee, were involved in asset construction. As a result, we previously incorrectly accounted for the lease as an operating lease rather than a financing obligation. To correct the error, we restated our financial

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statements related to the period ended September 30, 2013 in Amendment No. 1 to Quarterly Report on Form 10-Q/A, filed with the SEC on March 21, 2014, and our consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 in our Annual Report on Form 10-K, filed with the SEC on March 21, 2014. Our management is in the process of remediating this material weakness in accounting, which included a review of all of our leases to identify and correct instances where we were not complying with generally accepted accounting principles with regard to lease accounting. In addition, we are developing updated procedures to reflect the technical guidance for lease accounting and engaged external technical resources to assist with the proper implementation of accounting standards for leases going forward.

While we believe that the planned steps will remediate the material weakness in our internal control over financial reporting with respect to lease accounting, no assurances can be made that our remediation is effective until our remedial controls operate for a period of time. We expect to have the material weakness remediated by mid-2014.

We may in the future also discover additional 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 will be required to include in our periodic reports filed with the SEC, beginning for our fiscal year ending December 31, 2014 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

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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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management, and expected market growth are forward-looking statements. The words anticipate, believe, estimate, expect, intend, may, might, plan, predict, project, will, would, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

our ability to attract and retain customers;

our financial performance;

the advantages of our solutions as compared to those of others;

our ability to establish and maintain intellectual property rights;

our ability to retain and hire necessary associates and appropriately staff our operations; and

our estimates regarding capital requirements and needs for additional financing.

We might not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section, which could cause actual results or events to differ materially from the forward-looking statements that we make.

You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations and market position, market opportunity, and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources, and on our knowledge of the markets for our products. Some of the market data contained in this prospectus is based on independent industry publications, including those generated by IBISWorld, Gartner, Inc., SNL Financial, The Kaiser Family Foundation and Health Research & Educational Trust, and other publicly available information. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We believe and act as if the third party data contained herein, and the underlying economic assumptions relied upon therein, are generally reliable. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Risk Factors and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

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The Gartner Report described herein, *Forecast: Enterprise IT Spending by Vertical Industry Market, Worldwide, 2012-2018, IQ14 Update*, April 14, 2014, or the Gartner Report, represents data, research opinion or viewpoints published as part of a syndicated subscription service, by Gartner, Inc., or Gartner, and is not a representation of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report are subject to change without notice.

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We will not receive any proceeds from the sale of common stock by the selling stockholder.

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 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 (through July 16, 2014) | \$ 47.75 | \$ 38.03 |

On July 16, 2014, the last reported sale price of our common stock on the NASDAQ Global Market was \$39.77 per share. As of June 30, 2014, we had 92 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.

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The following table sets forth our cash and cash equivalents and our capitalization as of March 31, 2014. You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes appearing elsewhere in this prospectus.

| | As of March 31, 2014 Actual (in thousands, except share and per share data) |
|--|--|
| Cash, cash equivalents and marketable securities | \$ 74,954 |
| Stockholders' (deficit) equity: | |
| Preferred stock, par value \$0.001, 5,000,000 shares authorized, issued and outstanding, actual | |
| Common stock, par value \$0.001, 50,000,000 shares authorized, 25,062,962 shares issued and outstanding, actual; | 25 |
| Additional paid-in capital | 215,715 |
| Accumulated deficit | (215,481) |
| Total stockholders' (deficit) equity | 259 |
| Total capitalization | \$ 259 |

The number of shares of our common stock issued and outstanding in the table above excludes:

2,941,595 shares of common stock issuable upon the exercise of options outstanding as of March 31, 2014, with a weighted-average exercise price of \$6.85 per share, of which 2,408,647 shares were vested and exercisable;

94,200 shares of common stock issuable upon vesting of restricted stock units, of which none are vested and exchangeable; and

2,577,286 shares of common stock available for future issuance under our stock plans as of March 31, 2014.

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DILUTION

Our net tangible book value per share of our common stock will be substantially below the public offering price. You will therefore incur immediate and substantial dilution of \$38.60 per share, based on public offering price of \$38.50 per share. As a result, if we are liquidated, you might not receive the full value of your investment.

Dilution in net tangible book value per share represents the difference between the amount per share of our common stock that you pay in this offering and the net tangible book value per share of our common stock immediately afterwards. Net tangible book value per share represents (1) the total pro forma net tangible assets, divided by (2) the number of shares of our common stock outstanding.

Our net tangible book value at March 31, 2014 was approximately \$(2.6) million, or \$(0.10) per share. This amount represents an immediate dilution in net tangible book value of \$38.60 per share to you. The following table illustrates this dilution per share:

| | |
|--|-----------|
| Public offering price per share | \$ 38.50 |
| Net tangible book value per share as of March 31, 2014 | \$ (0.10) |
| Dilution per share to you | \$ 38.60 |

As of March 31, 2014, there were options outstanding to purchase a total of 2,941,595 shares of our common stock at a weighted average exercise price of \$6.85 per share and 94,200 shares of common stock issuable upon vesting of restricted stock units. To the extent outstanding options are exercised or restricted stock units vest, you would experience further dilution.

Table of Contents**CONSOLIDATED SELECTED FINANCIAL DATA**

The following selected consolidated financial data for the years ended December 31, 2013, 2012, 2011, and 2010, and the selected consolidated balance sheet data as of December 31, 2013, 2012, 2011, and 2010 are derived from our audited consolidated financial statements. The selected consolidated statement of operations data for the three months ended March 31, 2014 and 2013 and the selected consolidated balance sheet data as of March 31, 2014 are derived from unaudited consolidated financial statements. Our historical results are not necessarily indicative of the results to be expected in the future, and our operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2014. 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 prospectus.

Consolidated Statement of Operations Data

| | Three Months Ended March 31, | | Year Ended December 31, | | | |
|--|---|------------|-------------------------|-------------|-------------|------------|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands, except share and per share data) | | | | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Revenue (1) | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 | \$ 67,122 |
| Cost of revenue (2) | 19,226 | 12,445 | 62,411 | 44,400 | 42,133 | 38,870 |
| Gross profit | 11,470 | 11,402 | 42,341 | 37,339 | 26,650 | 28,252 |
| Operating expenses: | | | | | | |
| Sales and marketing (2) | 10,987 | 9,138 | 36,072 | 27,905 | 22,553 | 14,174 |
| Research and development (2) | 8,778 | 4,539 | 23,532 | 14,621 | 9,120 | 8,650 |
| General and administrative (2) | 3,529 | 2,819 | 10,974 | 7,494 | 5,821 | 6,038 |
| Impairment of goodwill | | | | | 1,670 | |
| Change in fair value of contingent consideration | | (30) | (43) | 121 | 503 | |
| Total operating expenses | 23,294 | 16,466 | 70,535 | 50,141 | 39,667 | 28,862 |
| Loss from operations | (11,824) | (5,064) | (28,194) | (12,802) | (13,017) | (610) |
| Total other expense, net | (564) | (531) | (2,198) | (1,987) | (2,012) | (1,855) |
| Loss before income taxes | (12,388) | (5,595) | (30,392) | (14,789) | (15,029) | (2,465) |
| Income tax expense (benefit) | 14 | 20 | (31) | 84 | 35 | 10 |
| Net loss | \$ (12,402) | \$ (5,615) | \$ (30,361) | \$ (14,873) | \$ (15,064) | \$ (2,475) |
| Net loss per common share - basic and diluted | \$ (0.51) | \$ (1.17) | \$ (2.99) | \$ (3.09) | \$ (3.09) | \$ (0.39) |
| Weighted-average common shares outstanding - basic and diluted | 24,541,359 | 4,798,043 | 10,144,243 | 4,812,632 | 4,875,157 | 6,405,944 |
| Other Financial Data: | | | | | | |
| Adjusted gross profit (3) | \$ 13,651 | \$ 13,125 | \$ 49,735 | \$ 45,161 | \$ 33,283 | \$ 34,682 |
| Adjusted EBITDA (4) | \$ (8,842) | \$ (2,931) | \$ (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 extends 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:

| | Three Months Ended March 31, | | 2013 | Year Ended December 31, | | 2010 |
|----------------------------|---------------------------------|-------|--------|-------------------------|------------|------------|
| | 2014 | 2013 | | 2012 | 2011 | |
| | (in thousands) | | | | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Cost of revenue | \$ 79 | \$ 62 | \$ 274 | \$ 195 | \$ 252 | \$ 352 |
| Sales and marketing | 164 | 30 | 171 | 68 | 102 | 77 |
| Research and development | 149 | 66 | 255 | 130 | 121 | 87 |
| General and administrative | 148 | 95 | 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

| | Three Months Ended March 31, | | 2013 | Year Ended December 31, | | 2010 |
|--|---------------------------------|------------|-------------|-------------------------|-------------|------------|
| | 2014 | 2013 | | 2012 | 2011 | |
| | (in thousands) | | | | | |
| | | | | (Restated) | (Restated) | (Restated) |
| Revenue from external customers by segment: | | | | | | |
| Employer | \$ 13,277 | \$ 8,625 | \$ 40,656 | \$ 23,760 | \$ 15,938 | \$ 9,356 |
| Carrier | 17,419 | 15,222 | 64,096 | 57,979 | 52,845 | 57,766 |
| Total revenue | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 | \$ 67,122 |
| Gross profit by segment: | | | | | | |
| Employer | \$ 4,607 | \$ 4,017 | \$ 13,316 | \$ 9,810 | \$ 6,059 | \$ 3,121 |
| Carrier | 6,863 | 7,385 | 29,025 | 27,529 | 20,591 | 25,131 |
| Total gross profit | \$ 11,470 | \$ 11,402 | \$ 42,341 | \$ 37,339 | \$ 26,650 | \$ 28,252 |
| (Loss) income from operations by segment: | | | | | | |
| Employer | \$ (9,963) | \$ (3,702) | \$ (26,312) | \$ (19,015) | \$ (19,533) | \$ (6,628) |
| Carrier | (1,861) | (1,362) | (1,882) | 6,213 | 6,516 | 6,018 |
| Total loss from operations | \$ (11,824) | \$ (5,064) | \$ (28,194) | \$ (12,802) | \$ (13,017) | \$ (610) |

Table of Contents**Consolidated Balance Sheet Data**

| | As of March 31, 2014 | 2013 | As of December 31, 2012 2011 2010 (in thousands) (Restated) (Restated) (Restated) | | |
|--|----------------------------|-----------|--|-----------|-----------|
| Cash and cash equivalents | \$ 48,824 | \$ 65,645 | \$ 19,703 | \$ 15,856 | \$ 18,166 |
| Marketable securities | 26,130 | 13,168 | | | |
| Accounts receivable, net | 18,291 | 23,668 | 13,372 | 9,060 | 7,163 |
| Total assets | 132,042 | 139,611 | 58,226 | 52,842 | 53,343 |
| Deferred revenue, total | 82,273 | 80,221 | 57,520 | 42,773 | 32,952 |
| Total liabilities | 131,783 | 128,179 | 89,357 | 69,809 | 55,433 |
| Total redeemable convertible preferred stock | | | 135,478 | 135,478 | 135,478 |
| Common stock | 25 | 24 | 6,109 | 4,923 | 3,574 |
| Additional paid-in capital | 215,715 | 214,487 | | | |
| Total stockholders' equity (deficit) | 259 | 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 prospectus 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.

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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:

| | Three Months Ended March 31, | | Year Ended December 31, | | | |
|---|---------------------------------|------------|-------------------------|-------------|-------------|------------|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | | |
| | | | (Restated) | | (Restated) | (Restated) |
| Reconciliation from Gross Profit to Adjusted Gross Profit: | | | | | | |
| Gross profit | \$ 11,470 | \$ 11,402 | \$ 42,341 | \$ 37,339 | \$ 26,650 | \$ 28,252 |
| Depreciation | 1,348 | 994 | 4,257 | 4,224 | 4,096 | 4,272 |
| Amortization of software development costs | 696 | 603 | 2,618 | 3,149 | 2,009 | 1,690 |
| Amortization of acquired intangible assets | 58 | 64 | 245 | 254 | 276 | 116 |
| Stock-based compensation expense | 79 | 62 | 274 | 195 | 252 | 352 |
| Adjusted gross profit | \$ 13,651 | \$ 13,125 | \$ 49,735 | \$ 45,161 | \$ 33,283 | \$ 34,682 |
| Reconciliation from Net Loss to Adjusted EBITDA: | | | | | | |
| Net loss | \$ (12,402) | \$ (5,615) | \$ (30,361) | \$ (14,873) | \$ (15,064) | \$ (2,475) |
| Depreciation | 1,672 | 1,218 | 5,231 | 5,080 | 3,225 | 3,197 |
| Amortization of software development costs | 696 | 603 | 2,618 | 3,145 | 1,903 | 1,656 |
| Amortization of acquired intangible assets | 76 | 83 | 323 | 335 | 2,178 | 1,756 |
| Interest income | (26) | (13) | (46) | (53) | (151) | (364) |
| Interest expense on building lease financing obligations | 459 | 443 | 1,768 | 1,774 | 1,771 | 1,759 |
| Interest expense on other borrowings | 129 | 77 | 381 | 202 | 203 | 211 |
| Income tax expense (benefit) | 14 | 20 | (31) | 84 | 35 | 10 |
| Stock-based compensation expense | 540 | 253 | 1,202 | 712 | 721 | 1,035 |
| Impairment of goodwill and intangible assets | | | | | 1,724 | |
| Total net adjustments | 3,560 | 2,684 | 11,446 | 11,279 | 11,609 | 9,260 |
| Adjusted EBITDA | \$ (8,842) | \$ (2,931) | \$ (18,915) | \$ (3,594) | \$ (3,455) | \$ 6,785 |

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**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 prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus 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 prospectus beginning on page 15 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. 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 93%, 93%, and 95% of our total revenue during the years ended 2013, 2012, and 2011, respectively, and for approximately 93% of our total revenue for the three months end March 31, 2014 and 2013.

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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 7%, 7%, and 5% of our total revenue during the years ended December 31, 2013, 2012, and 2011, respectively, and for approximately 7% of our total revenue during the three months ended March 31, 2014 and 2013.

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 418 as of March 31, 2014. 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 three 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 three 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 components of segment loss from operations, 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:

| | Three Months Ended March 31, | | | Year Ended December 31, | | | |
|----------------------|---------------------------------|------|------|-------------------------|------|------|------|
| | 2014 | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Number of customers: | | | | | | | |
| Large employer | 418 | 304 | 393 | 286 | 193 | 141 | 121 |
| Carrier | 43 | 36 | 40 | 34 | 30 | 29 | 28 |

Table of Contents**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 the years ended December 31, 2013, 2012, and 2011 and the three months ended March 31, 2014 and 2013 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 Consolidated Selected Financial Data Adjusted Gross Profit and Adjusted EBITDA in this prospectus 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 the years ended December 31, 2013, 2012, and 2011 and the three months ended March 31, 2014 and 2013.

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.

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

| | Three Months Ended March 31, | | Year Ended December 31, | | |
|-----------------------|---------------------------------|-----------|-------------------------|-----------|-----------|
| | 2014 | 2013 | 2013 | 2012 | 2011 |
| Revenue: | | | | | |
| Software services | \$ 28,508 | \$ 22,264 | \$ 97,713 | \$ 75,931 | \$ 65,210 |
| Professional services | 2,188 | 1,583 | 7,039 | 5,808 | 3,573 |
| Total revenue | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 |

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

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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.

In the first quarter of 2011, we increased the estimated expected life of our customer relationships for both employer and carrier customers. This change in estimate was a result of growing demand for our software services, reduced uncertainties in the regulatory environment, and increased confidence in customer retention. This change extends the term over which we recognize our deferred revenue. Most of our deferred revenue relates to professional services performed for our carrier customers, which require a more extensive and lengthy implementation. Further, prior to 2012, we generally did not charge implementation fees to our large employer customers. We will continue to 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.

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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 hold annually in the second 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.

Impairment of goodwill. On August 3, 2010, we acquired 100% of the net assets of Beninform Holdings, Inc. and recorded \$3.3 million of goodwill in connection with the acquisition. During the year ended December 31, 2011, we recorded an impairment of goodwill of \$1.7 million due to lower than expected sales forecast at the October 31, 2011 impairment testing date.

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.

Table of Contents**Income Tax Expense**

Income tax expense consists of U.S. federal and state income taxes. We incurred minimal income tax expense for 2013, 2012, and 2011. Net operating loss carryforwards for federal income tax purposes were \$41.4 million at December 31, 2013. State net operating loss carryforwards were approximately \$33.7 million at December 31, 2013. 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).

| | Three Months Ended March 31, | | Year Ended December 31, | | |
|--|---------------------------------|-----------|-------------------------|--------------------|--------------------|
| | 2014 | 2013 | 2013 | 2012 (Restated) | 2011 (Restated) |
| Revenue | \$ 30,696 | \$ 23,847 | \$ 104,752 | \$ 81,739 | \$ 68,783 |
| Cost of revenue (1) | 19,226 | 12,445 | 62,411 | 44,400 | 42,133 |
| Gross profit | 11,470 | 11,402 | 42,341 | 37,339 | 26,650 |
| Operating expenses: | | | | | |
| Sales and marketing (1) | 10,987 | 9,138 | 36,072 | 27,905 | 22,553 |
| Research and development (1) | 8,778 | 4,539 | 23,532 | 14,621 | 9,120 |
| General and administrative (1) | 3,529 | 2,819 | 10,974 | 7,494 | 5,821 |
| Impairment of goodwill | | | | | 1,670 |
| Change in fair value of contingent consideration | | (30) | (43) | 121 | 503 |
| Total operating expenses | 23,294 | 16,466 | 70,535 | 50,141 | 39,667 |
| Loss from operations | (11,824) | (5,064) | (28,194) | (12,802) | (13,017) |
| Other income (expense): | | | | | |
| Interest income | 26 | 13 | 46 | 53 | 151 |
| Interest expense | (588) | (520) | (2,149) | (1,976) | |