

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

**FORM 8-K**

**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of**  
**the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported) May 3, 2018**

**BENEFITFOCUS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**001-36061**  
(Commission File Number)

**46-2346314**  
(IRS Employer Identification No.)

**100 Benefitfocus Way, Charleston, South Carolina 29492**  
(Address of principal executive offices) (Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this Chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this Chapter).

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

---

---

**Item 2.02. Results of Operations and Financial Condition.**

On May 3, 2018, Benefitfocus, Inc. (the “Company”) issued a press release announcing its operating results for the quarter ended March 31, 2018. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein in its entirety by reference.

The information in this Item 2.02 (including Exhibit 99.1) shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act, except as expressly set forth by specific reference in such a filing.

**Item 7.01. Regulation FD Disclosure.**

As previously announced, the Company adopted ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC 606”) effective January 1, 2018 using the full retrospective transition method. On May 3, 2018, the Company released an investor presentation providing additional information on its transition to ASC 606 and its impact on the Company’s results of operations. The Company may use this presentation, or portions thereof, in one or more subsequent meetings with investors and analysts. A copy of the investor presentation is attached hereto as Exhibit 99.2 and is incorporated herein in its entirety by reference.

The information in this Item 7.01 (including Exhibit 99.2) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, except as expressly set forth by specific reference in such a filing.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	<a href="#">Press release dated May 3, 2018.</a>
99.2	<a href="#">Investor presentation dated May 3, 2018.</a>

---

SIGNATURE

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

**BENEFITFOCUS, INC.**

Date: May 3, 2018

/s/ Jonathon E. Dussault

Jonathon E. Dussault  
Chief Financial Officer

Benefitfocus, Inc.  
843-284-1052 ext. 3527  
[pr@benefitfocus.com](mailto:pr@benefitfocus.com)



Investor Relations:  
Michael Bauer  
843-284-1052 ext. 6654  
[michael.bauer@benefitfocus.com](mailto:michael.bauer@benefitfocus.com)

### **Benefitfocus Announces First Quarter 2018 Financial Results**

*Total revenue of \$62.4 million grew 8% year-over-year*

**Charleston, S.C. – May 3, 2018** – Benefitfocus, Inc. (NASDAQ: BNFT), a leading cloud-based benefits management platform and services provider, today announced its first quarter 2018 financial results.

“I am extremely pleased with Benefitfocus’ accelerated financial momentum, as we achieved our key financial goals during the first quarter,” said Ray August, President and Chief Executive Officer of Benefitfocus. “2018 and our selling season are off to a solid start.”

August added, “The launch of BenefitsPlace will open new opportunities across our platform and help position Benefitfocus as the technology choice to connect the benefits industry. As we focus on our business strategy, improve our sales execution, and strengthen the core of our operations, we believe our revenue opportunities will continue to expand, along with long-term value for our shareholders.”

#### **First Quarter 2018 Financial Highlights**

The prior periods presented have been adjusted to reflect the adoption of the new ASC 606 revenue recognition standard.

##### **Revenue**

- Total revenue was \$62.4 million, an increase of 8% compared to the first quarter of 2017.
- Software services revenue was \$48.2 million, an increase of 4% compared to the first quarter of 2017.
- Professional services revenue was \$14.2 million, an increase of 28% compared to the first quarter of 2017.
- Employer revenue was \$40.3 million, an increase of 12% compared to the first quarter of 2017.
- Insurance carrier revenue was \$22.1 million, an increase of 1% compared to the first quarter of 2017.

##### **Net Loss**

- GAAP net loss was (\$13.8) million, compared to (\$15.6) million in the first quarter of 2017. GAAP net loss per share was (\$0.44), based on 31.3 million basic and diluted weighted average common shares outstanding, compared to (\$0.51) for the first quarter of 2017, based on 30.7 million basic and diluted weighted average common shares outstanding.

##### **Non-GAAP Net Loss and Adjusted EBITDA**

- Non-GAAP net loss was (\$8.0) million, compared to (\$11.1) million in the first quarter of 2017. Non-GAAP net loss per share was (\$0.26), based on 31.3 million basic and diluted weighted average
-

common shares outstanding, compared to (\$0.36) for the first quarter of 2017, based on 30.7 million basic and diluted weighted average common shares outstanding.

- Adjusted EBITDA was (\$1.0) million, compared to (\$4.3) million in the first quarter of 2017.

See important disclosures about non-GAAP measures, and a reconciliation of them to GAAP, below.

#### **Balance Sheet**

- Cash and cash equivalents at March 31, 2018 totaled \$54.8 million, compared to \$55.3 million at the end of the fourth quarter of 2017.

#### **First Quarter and Recent Business Highlights**

- We ended the quarter with 948 large employer customers, up from 853 at the end of the prior year period, and 920 at the end of the fourth quarter of 2017.
- We had record attendance at our 8<sup>th</sup> annual One Place user conference in Orlando, Florida and announced enhancements to the Benefitfocus Platform.
- We launched Benefitfocus BenefitsPlace™, a new offering designed to connect the entire U.S. employee benefits industry, uniting brokers, employers, carriers and suppliers on a single platform. BenefitsPlace opens the Benefitfocus platform to create buyer-seller opportunities, provide greater access and choice of benefits, and deliver decision-support tools to consumers for more personalized, informed and hassle-free benefits enrollment and management.
- We opened a new office in New York City as part of an expansion effort to broaden Benefitfocus' operations in the key Northeast region of the United States.
- We published our "State of Employee Benefits 2018 - Regional Edition" report, a snapshot of real, but anonymized employee benefits election data from over 1.2 million consumers.

#### **Business Outlook**

Based on information available as of May 3, 2018, Benefitfocus is providing guidance for the second quarter and full year 2018 as indicated below. Our guidance is based on the new ASC 606 revenue recognition standard that is effective beginning January 1, 2018.

#### **Second Quarter 2018:**

- Total revenue is expected to be in the range of \$55.5 million to \$57.5 million.
- Non-GAAP net loss is expected to be in the range of (\$14.0) million to (\$12.0) million, or (\$0.44) to (\$0.38) per share, based on 31.8 million basic and diluted weighted average common shares outstanding.
- Adjusted EBITDA is expected to be in the range of (\$7.0) million to (\$5.0) million.

#### **Full Year 2018:**

- Total revenue is expected to be in the range of \$250.0 million to \$258.0 million.
- Non-GAAP net loss is expected to be in the range of (\$25.0) million to (\$17.0) million, or (\$0.79) to (\$0.54) per share, based on 31.8 million basic and diluted weighted average common shares outstanding.
- Adjusted EBITDA is expected to be in the range of \$5.0 million to \$13.0 million.

See important disclosures about non-GAAP measures, and a reconciliation of them to GAAP, below.

---

**Conference Call Details:**

In conjunction with this announcement, Benefitfocus will host a conference call today, May 3, 2018, at 5:00 p.m. Eastern Time to discuss the company's financial results. To access this call, dial (877) 407-9039 (domestic) or (201) 689-8470 (international). A live webcast, as well as the replay, of the conference call will be available on the Investor Relations page of the company's website at <http://investor.benefitfocus.com/>. After the conference call, a replay will be available until May 10, 2018, and can be accessed by dialing (844) 512-2921 (domestic) or (412) 317-6671 (international) with passcode 13678853.

**Investor Presentation Details**

An investor presentation providing additional information on the ASC 605 to ASC 606 accounting change can be found at <http://investor.benefitfocus.com>.

**About Benefitfocus**

Benefitfocus (NASDAQ: BNFT) provides technology and services that improve the way employers of all sizes manage their benefits investment. Through a combination of powerful cloud-based software, data-driven insights and thoughtfully-designed services, we provide employers, their brokers and insurance carriers with a single partner to deliver a world-class benefits experience. Learn more at [www.benefitfocus.com](http://www.benefitfocus.com), [LinkedIn](#) and [Twitter](#).

**Non-GAAP Financial Measures**

The company uses certain non-GAAP financial measures in this release, including non-GAAP gross profit, operating income (loss), net loss, net loss per common share, adjusted EBITDA, and free cash flow. Generally, a non-GAAP financial measure is a numerical measure of a company's performance or financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

Non-GAAP gross profit, operating income (loss), net loss and net loss per share exclude stock-based compensation expenses, amortization of acquisition-related intangible assets, offering costs expensed, if any and costs not core to our business, if any. We define adjusted EBITDA as net loss before net interest, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense, expense related to the impairment of goodwill and intangible assets, and costs not core to our business. We define free cash flow as cash from operations plus purchases of property and equipment. Please note that other companies might define their non-GAAP financial measures differently than we do.

Management presents these non-GAAP financial measures in this release because it considers them to be important supplemental measures of performance. Management uses these non-GAAP financial measures for planning purposes, including analysis of the company's performance against prior periods, the preparation of operating budgets and to determine appropriate levels of operating and capital investments. Management believes that these non-GAAP financial measures provide additional insight for analysts and investors in evaluating the company's financial and operational performance. Management also intends to provide these non-GAAP financial measures as part of the company's future earnings discussions and, therefore, their inclusion should provide consistency in the company's financial reporting.

Non-GAAP financial measures have limitations as an analytical tool. Investors are encouraged to review the reconciliation of the non-GAAP measures to their most directly comparable GAAP measures provided in this release, including in the accompanying tables.

---

**Safe Harbor Statement**

Except for historical information, all of the statements, expectations, and assumptions contained in this press release are forward-looking statements. Actual results might differ materially from those explicit or implicit in the forward-looking statements. Important factors that could cause actual results to differ materially include: our continuing losses and need to achieve GAAP profitability; fluctuations in our financial results; risks related to changing healthcare and other applicable regulations; our ability to maintain our culture, recruit and retain qualified personnel and effectively expand our sales force; cyber-security risks; the immature and volatile market for our products and services; the need to innovate and provide useful products and services; our ability to compete effectively; privacy, security and other risks associated with our business; and the other risk factors set forth from time to time in our SEC filings, copies of which are available free of charge within the Investor Relations section of the Benefitfocus website at <http://investor.benefitfocus.com/sec-filings> or upon request from our Investor Relations Department. Benefitfocus assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

Source: Benefitfocus, Inc.

---

**Benefitfocus, Inc.**  
**Unaudited Consolidated Statements of Operations and Comprehensive Loss**  
*(in thousands, except share and per share data)*

	Three Months Ended March 31,	
	2018	2017
Revenue	\$ 62,363	\$ 57,623
Cost of revenue (1)(2)	31,403	32,202
Gross profit	30,960	25,421
Operating expenses:(1)(2)		
Sales and marketing	19,917	18,023
Research and development	12,023	12,181
General and administrative	9,693	7,757
Total operating expenses	41,633	37,961
Loss from operations	(10,673)	(12,540)
Other income (expense):		
Interest income	58	27
Interest expense on building lease financing obligations	(1,866)	(1,860)
Interest expense on other borrowings	(1,317)	(1,062)
Other expense	-	(148)
Total other expense, net	(3,125)	(3,043)
Loss before income taxes	(13,798)	(15,583)
Income tax expense	4	-
Net loss	\$ (13,802)	\$ (15,583)
Comprehensive loss	\$ (13,802)	\$ (15,583)
Net loss per common share:		
Basic and diluted	\$ (0.44)	\$ (0.51)
Weighted-average common shares outstanding:		
Basic and diluted	31,333,348	30,658,468
(1) Stock-based compensation included in above line items:		
Cost of revenue	\$ 711	\$ 661
Sales and marketing	954	1,332
Research and development	768	719
General and administrative	1,892	1,676
(2) Amortization of acquired intangible assets included in above line items:		
Cost of revenue	\$ 34	\$ 36
Sales and marketing	14	13
Research and development	12	12
General and administrative	4	3



**Benefitfocus, Inc.**  
**Unaudited Consolidated Balance Sheets**  
*(in thousands, except share and per share data)*

	As of March 31, 2018	As of December 31, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 54,785	\$ 55,335
Accounts receivable, net	29,678	30,091
Contract, prepaid and other current assets	15,077	15,859
Total current assets	99,540	101,285
Property and equipment, net	71,233	72,681
Intangible assets, net	86	150
Goodwill	1,634	1,634
Deferred contract costs and other non-current assets	15,262	16,253
Total assets	<u>\$ 187,755</u>	<u>\$ 192,003</u>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Accounts payable	\$ 5,557	\$ 4,260
Accrued expenses	10,599	9,110
Accrued compensation and benefits	11,288	14,250
Deferred revenue, current portion	36,167	43,804
Revolving line of credit, current portion	24,000	24,000
Financing and capital lease obligations, current portion	3,716	3,423
Total current liabilities	91,327	98,847
Deferred revenue, net of current portion	16,733	11,223
Revolving line of credit, net of current portion	39,246	32,246
Financing and capital lease obligations, net of current portion	55,724	55,597
Other non-current liabilities	2,699	2,809
Total liabilities	205,729	200,722
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, par value \$0.001, 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2018 and December 31, 2017	-	-
Common stock, par value \$0.001, 50,000,000 shares authorized, 31,339,469 and 31,307,989 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	31	31
Additional paid-in capital	357,043	352,496
Accumulated deficit	(375,048)	(361,246)
Total stockholders' deficit	(17,974)	(8,719)
Total liabilities and stockholders' deficit	<u>\$ 187,755</u>	<u>\$ 192,003</u>

**Benefitfocus, Inc.**  
**Unaudited Consolidated Statements of Cash Flows**  
*(in thousands)*

	Three Months Ended March 31,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net loss	\$ (13,802)	\$ (15,583)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	3,930	4,005
Stock-based compensation expense	4,325	4,388
Interest accrual on financing obligation	1,879	1,873
Loss on disposal or impairment of property and equipment	-	148
Provision for doubtful accounts	359	22
Changes in operating assets and liabilities:		
Accounts receivable, net	54	5,654
Accrued interest on short-term investments	-	7
Contract, prepaid and other current assets	881	1,092
Deferred contract costs and other non-current assets	1,166	1,945
Accounts payable and accrued expenses	2,722	(1,039)
Accrued compensation and benefits	(2,962)	(6,593)
Deferred revenue	(2,127)	(3,110)
Other non-current liabilities	(108)	(222)
Net cash and cash equivalents used in operating activities	<u>(3,683)</u>	<u>(7,413)</u>
<b>Cash flows from investing activities</b>		
Proceeds from maturity of short-term investments held to maturity	-	2,000
Purchases of property and equipment	(1,641)	(2,103)
Net cash and cash equivalents used in investing activities	<u>(1,641)</u>	<u>(103)</u>
<b>Cash flows from financing activities</b>		
Draws on revolving line of credit	31,000	28,000
Payments on revolving line of credit	(24,000)	(20,000)
Proceeds from exercises of stock options and ESPP	222	2,454
Payments on financing and capital lease obligations	(2,448)	(2,120)
Net cash and cash equivalents provided by financing activities	<u>4,774</u>	<u>8,334</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(550)</u>	<u>818</u>
Cash and cash equivalents, beginning of period	55,335	56,853
<b>Cash and cash equivalents, end of period</b>	<u>\$ 54,785</u>	<u>\$ 57,671</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property and equipment purchases in accounts payable and accrued expenses	\$ 452	\$ 200
Property and equipment purchased with financing and capital lease obligations	\$ 713	\$ —
Post contract support purchased with financing obligations	\$ 275	\$ —

**Benefitfocus, Inc.**  
**Unaudited Reconciliation of GAAP to Non-GAAP Measures**  
*(in thousands, except share and per share data)*

	Three Months Ended March 31,	
	2018	2017
<b>Reconciliation from Gross Profit to Non-GAAP Gross Profit:</b>		
Gross profit	\$ 30,960	\$ 25,421
Amortization of acquired intangible assets	34	36
Stock-based compensation expense	711	661
Total net adjustments	745	697
Non-GAAP gross profit	<u>\$ 31,705</u>	<u>\$ 26,118</u>
<b>Reconciliation from Operating Loss to Non-GAAP Operating Income (Loss):</b>		
Operating loss	\$ (10,673)	\$ (12,540)
Amortization of acquired intangible assets	64	64
Stock-based compensation expense	4,325	4,388
Costs not core to our business	1,371	—
Total net adjustments	5,760	4,452
Non-GAAP operating income (loss)	<u>\$ (4,913)</u>	<u>\$ (8,088)</u>
<b>Reconciliation from Net Loss to Adjusted EBITDA:</b>		
Net loss	\$ (13,802)	\$ (15,583)
Depreciation	2,977	3,110
Amortization of software development costs	889	831
Amortization of acquired intangible assets	64	64
Interest income	(58)	(27)
Interest expense on building lease financing obligations	1,866	1,860
Interest expense on other borrowings	1,317	1,062
Income tax expense	4	—
Stock-based compensation expense	4,325	4,388
Costs not core to our business	1,371	—
Total net adjustments	12,755	11,288
Adjusted EBITDA	<u>\$ (1,047)</u>	<u>\$ (4,295)</u>
<b>Reconciliation from Net Loss to Non-GAAP Net Loss:</b>		
Net loss	\$ (13,802)	\$ (15,583)
Amortization of acquired intangible assets	64	64
Stock-based compensation expense	4,325	4,388
Costs not core to our business	1,371	—
Total net adjustments	5,760	4,452
Non-GAAP net loss	<u>\$ (8,042)</u>	<u>\$ (11,131)</u>
<b>Calculation of Non-GAAP Earnings Per Share:</b>		
Non-GAAP net loss	\$ (8,042)	\$ (11,131)
Weighted average shares outstanding - basic and diluted	31,333,348	30,658,468
Shares used in computing non-GAAP net loss per share – basic and diluted	31,333,348	30,658,468
Non-GAAP net loss per common share - basic and diluted	<u>\$ (0.26)</u>	<u>\$ (0.36)</u>

**Benefitfocus, Inc.**  
**Unaudited Reconciliation of GAAP to Non-GAAP Guidance Ranges**  
*(in millions, except per share data)*

	Second Quarter 2018		Full Year 2018	
	Range		Range	
	Low	High	Low	High
<b>Reconciliation from Net Loss Guidance to Adjusted EBITDA Guidance:</b>				
Net loss - Guidance range	\$ (20.1)	\$ (18.1)	\$ (41.5)	\$ (33.5)
Depreciation and amortization	4.2	4.2	17.8	17.8
Interest income	(0.1)	(0.1)	(0.2)	(0.2)
Interest expense	3.0	3.0	12.7	12.7
Income tax expense	—	—	—	—
Stock-based compensation expense	5.7	5.7	14.8	14.8
Costs not core to business	0.3	0.3	1.4	1.4
Total net adjustments	<u>13.1</u>	<u>13.1</u>	<u>46.5</u>	<u>46.5</u>
Adjusted EBITDA - Guidance range	<u>\$ (7.0)</u>	<u>\$ (5.0)</u>	<u>\$ 5.0</u>	<u>\$ 13.0</u>
<b>Reconciliation from Net Loss Guidance to Non-GAAP Net Loss Guidance:</b>				
Net loss - Guidance range	\$ (20.1)	\$ (18.1)	\$ (41.5)	\$ (33.5)
Amortization of acquired intangible assets	0.1	0.1	0.3	0.3
Stock-based compensation expense	5.7	5.7	14.8	14.8
Costs not core to business	0.3	0.3	1.4	1.4
Total net adjustments	<u>6.1</u>	<u>6.1</u>	<u>16.5</u>	<u>16.5</u>
Non-GAAP net loss - Guidance range	<u>\$ (14.0)</u>	<u>\$ (12.0)</u>	<u>\$ (25.0)</u>	<u>\$ (17.0)</u>
<b>Calculation of Non-GAAP Earnings Per Share Guidance:</b>				
Non-GAAP net loss - Guidance range	\$ (14.0)	\$ (12.0)	\$ (25.0)	\$ (17.0)
Weighted average shares outstanding - basic and diluted	<u>31.8</u>	<u>31.8</u>	<u>31.8</u>	<u>31.8</u>
Shares used in computing non-GAAP net loss per share - basic and diluted	<u>31.8</u>	<u>31.8</u>	<u>31.8</u>	<u>31.8</u>
Non-GAAP net loss per common share - basic and diluted	<u>\$ (0.44)</u>	<u>\$ (0.38)</u>	<u>\$ (0.79)</u>	<u>\$ (0.54)</u>



# New Revenue Accounting Standard ASC 606

May 3, 2018

**BENEFITFOCUS**<sup>®</sup>  
All Your Benefits. One Place.<sup>®</sup>

## Safe Harbor

This presentation may include forward-looking statements related to the future business and financial performance of Benefitfocus and future events or developments involving Benefitfocus, including our long-term financial model. These statements may be identified by words such as “expects,” “looks forward to,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “might,” “will,” “could,” “would,” “should,” “targets,” “projects,” “opportunity” or words of similar meaning. Forward-looking statements can involve a number of risks and uncertainties that could cause actual results to differ materially from those explicit or implicit in the forward-looking statements, including our continuing losses and need to achieve GAAP profitability; fluctuations in our financial results; risks related to changing healthcare and other applicable regulations; our ability to maintain our culture, recruit and retain qualified personnel and effectively expand our sales force; cyber-security risks; the immature and volatile market for our products and services; the need to innovate and provide useful products and services; our ability to compete effectively; privacy, security and other risks associated with our business; and the other risk factors set forth from time to time in our SEC filings, copies of which are available free of charge within the Investor Relations section of the Benefitfocus website at <http://investor.benefitfocus.com/sec-filings> or upon request from our Investor Relations Department. Benefitfocus assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

# Overview of New Revenue Standard (ASC 606)

Revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that we expect to receive in exchange for those goods and services.

## Professional Services:

- Revenue will either be recognized over the contract term of the associated software services contract or over the period of delivery of the professional fees, both of which are typically shorter than the customer relationship period that was previously used under ASC 605.

## Brokerage Commissions:

- Commission revenue will be recognized when the orders for the underlying policies have been taken and transferred to the insurance carrier. As a result, revenue from these arrangements will be recognized as a lump sum and in earlier periods under the new standard in comparison to ASC 605 and the timing and amount of revenue recognized for annual and interim periods will change.

## Deferral & Amortization of Commission and Fulfillment Costs:

- Assets recognized for the costs to obtain a contract, primarily sales commissions, will be amortized in a consistent manner with the transfer of the services to which the asset relates.
- Assets recognized for the costs to fulfill a contract will be amortized in a manner consistent with the transfer of the services to which the asset relates.

# Key Changes to Benefitfocus

	ASC 605	ASC 606
Professional Services Revenue - Carrier segment	Implementation fees recognized over customer relationship period	Implementation fees recognized over contract period
Professional Services Revenue - Employer segment	Implementation fees recognized upon delivery	Implementation fees recognized over the delivery period
Brokerage Commission Revenue - Employer segment	Commissions recognized over policy term	Commission revenue recognized when orders are transferred to the customer
Professional Services Cost of Revenue	Expensed as incurred	Certain upfront customer fulfillment costs capitalized and amortized ratably over expected benefit period
Commissions Expense	Expensed upon booking	Capitalized and amortized ratably over expected benefit period



# Selected 2017 GAAP & Non-GAAP Financial Metrics (Unaudited)

## ASC 606 Impacts

(in millions)

	ASC 605					Change					ASC 606				
	1Q17	2Q17	3Q17	4Q17	2017	1Q17	2Q17	3Q17	4Q17	2017	1Q17	2Q17	3Q17	4Q17	2017
Revenue:															
Software Services	56.7	53.6	53.1	55.0	218.4	(10.2)	(11.0)	(10.8)	(1.5)	(33.5)	46.5	42.6	42.3	53.5	184.9
Professional Services	7.5	9.7	9.4	11.7	38.3	3.6	2.8	4.5	2.7	13.6	11.1	12.5	13.9	14.4	51.9
Total Revenue	64.2	63.3	62.5	66.7	256.7	(6.6)	(8.2)	(6.3)	1.2	(19.9)	57.6	55.1	56.2	67.9	236.8
Revenue:															
Employer	40.6	38.8	40.2	44.4	164.0	(4.8)	(5.1)	(4.0)	2.5	(11.4)	35.8	33.7	36.2	46.9	152.6
Insurance Carrier	23.6	24.5	22.3	22.3	92.7	(1.8)	(3.1)	(2.3)	(1.3)	(8.5)	21.8	21.4	20.0	21.0	84.2
Total Revenue	64.2	63.3	62.5	66.7	256.7	(6.6)	(8.2)	(6.3)	1.2	(19.9)	57.6	55.1	56.2	67.9	236.8
Margin:															
GAAP Software Gross Margin	61.6%	65.1%	61.6%	57.2%	61.4%	219	(30)	255	1,280	455	63.8%	64.8%	64.2%	70.0%	65.9%
GAAP Professional Service Gross Margin	-31.9%	-3.7%	-8.0%	17.2%	-3.8%	(631)	(1,391)	(784)	(4,331)	(2,006)	-38.2%	-17.6%	-15.9%	-26.1%	-23.9%
GAAP Consolidated Gross Margin	50.8%	54.5%	51.2%	50.2%	51.6%	(664)	(840)	(687)	(53)	(542)	44.1%	46.1%	44.3%	49.7%	46.2%
Non-GAAP Software Gross Margin	62.5%	65.7%	62.5%	58.1%	62.2%	215	(27)	254	1,263	450	64.6%	65.4%	65.0%	70.7%	66.7%
Non-GAAP Professional Service Gross Margin	-29.0%	-1.7%	-5.3%	19.2%	-1.5%	(629)	(1,394)	(804)	(4,295)	(1,998)	-35.3%	-15.7%	-13.4%	-23.7%	-21.5%
Non-GAAP Consolidated Gross Margin	51.8%	55.3%	52.4%	51.3%	52.7%	(652)	(828)	(675)	(55)	(534)	45.3%	47.0%	45.6%	50.7%	47.3%
GAAP Net Loss	(7.7)	(4.5)	(6.7)	(7.0)	(25.9)	(7.9)	(9.2)	(7.4)	0.1	(24.4)	(15.6)	(13.7)	(14.1)	(6.9)	(50.3)
Adjusted EBITDA	3.6	5.4	5.1	5.3	19.4	(7.9)	(9.3)	(7.4)	0.2	(24.4)	(4.3)	(3.9)	(2.3)	5.5	(5.0)

# GAAP ASC 606 2017 Income Statement (Unaudited)

(in millions except share and per share data)

	Three Months Ended				
	Mar 31, 2017	June 30, 2017	Sep. 30, 2017	Dec 31, 2017	FY 2017
Revenue	57.6	55.1	56.2	67.9	236.8
Cost of revenue <sup>(1)</sup>	32.2	29.7	31.3	34.2	127.4
Gross profit	25.4	25.4	24.9	33.7	109.4
Operating expenses <sup>(1)(2)</sup>					
Sales and marketing	18.0	17.9	16.5	18.2	70.6
Research and development	12.2	12.4	12.6	12.3	49.5
General and administrative	7.8	5.9	6.8	6.8	27.3
Total operating expenses	38.0	36.2	35.9	37.3	147.4
Loss from operations	(12.6)	(10.8)	(11.0)	(3.6)	(38.0)
Other income (expense):					
Interest income	-	-	0.1	0.1	0.2
Interest expense on building lease financing obligations	(1.9)	(1.8)	(1.8)	(2.0)	(7.5)
Interest expense on other borrowings	(1.0)	(1.1)	(1.4)	(1.4)	(4.9)
Other expense	(0.1)	-	-	-	(0.1)
Total other (expense), net	(3.0)	(2.9)	(3.1)	(3.3)	(12.3)
Net loss	(15.6)	(13.7)	(14.1)	(6.9)	(50.3)
Comprehensive loss	(15.6)	(13.7)	(14.1)	(6.9)	(50.3)
Net loss per common share:					
Basic and diluted	\$ (0.31)	\$ (0.40)	\$ (0.40)	\$ (0.22)	\$ (1.62)
Weighted-average common shares outstanding:					
Basic and diluted	30,636,468	31,076,995	31,181,141	31,283,265	31,002,376
x					
(1) Stock-based compensation included in above line items:					
Cost of revenue	0.7	0.5	0.7	0.7	2.5
Sales and marketing	1.3	0.9	1.3	1.4	5.0
Research and development	0.7	0.7	0.7	0.8	3.0
General and administrative	1.7	0.7	1.7	1.6	5.7
(2) Amortization of acquired intangible assets included in above line items:					
Cost of revenue	0.0	0.0	0.0	0.0	0.1
Sales and marketing	0.0	0.0	0.0	0.0	0.1
Research and development	0.0	0.0	0.0	0.0	0.0
General and administrative	0.0	0.0	0.0	0.0	0.0
* Minimum of three-quarter amounts may not agree with the annual amount due to rounding					

# ASC 606 2017 Balance Sheet (Unaudited)

(in millions)

	Three Months Ended			
	Mar 31, 2017	June 30, 2017	Sep 30, 2017	Dec 31, 2017
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	57.7	59.4	54.6	55.5
Accounts receivable	27.5	27.6	33.3	30.1
Contract and other current assets	19.2	18.3	10.6	15.9
<b>Total Current Assets</b>	<b>104.2</b>	<b>102.5</b>	<b>96.7</b>	<b>101.5</b>
Property and equipment, net				
Property and equipment, net	75.0	76.4	75.0	72.7
Intangible assets, net	0.5	0.5	0.2	0.2
Goodwill	1.6	1.6	1.6	1.6
Deferred costs and other non-current assets	19.9	18.8	17.5	16.2
<b>Total Assets</b>	<b>204.0</b>	<b>199.6</b>	<b>193.0</b>	<b>192.0</b>
<b>LIABILITIES &amp; EQUITY</b>				
Current Liabilities				
Accounts payable	5.0	5.1	3.4	4.3
Accrued expenses	10.1	8.5	8.9	9.1
Accrued compensation and benefits	10.6	14.7	11.9	14.2
Deferred revenue, current portion	35.6	41.4	41.7	45.8
Revolving lines of credit	14.0	20.0	20.0	24.0
Financing and capital lease obligations, current portion	3.2	3.2	3.4	3.4
<b>Total Current Liabilities</b>	<b>76.7</b>	<b>92.9</b>	<b>92.3</b>	<b>96.8</b>
Deferred revenue, not of current portion				
Deferred revenue, not of current portion	16.2	12.5	13.5	11.2
Revolving line of credit, not of current portion				
Revolving line of credit, not of current portion	34.2	32.2	33.2	32.2
Financing and capital lease obligations, not of current portion				
Financing and capital lease obligations, not of current portion	37.1	36.7	36.1	35.6
Other non-current liabilities				
Other non-current liabilities	2.8	2.6	2.4	2.9
<b>Total Liabilities</b>	<b>191.0</b>	<b>196.9</b>	<b>193.5</b>	<b>200.7</b>
<b>EQUITY</b>				
Additional paid-in capital				
Additional paid-in capital	339.5	343.1	347.9	352.5
Retained earnings				
Retained earnings	(126.5)	(140.4)	(154.3)	(161.2)
<b>Total Equity</b>	<b>13.0</b>	<b>2.7</b>	<b>(6.4)</b>	<b>(8.7)</b>
<b>Total Liabilities &amp; Equity</b>	<b>204.0</b>	<b>199.6</b>	<b>193.0</b>	<b>192.0</b>

# ASC 606 2017 Reconciliation of GAAP and Non-GAAP Financial Measures

	Year Ended December 31, 2017		Year Ended December 31, 2017
<b>Reconciliation from Net Loss to Adjusted EBITDA:</b>		<b>Reconciliation from Net Loss to Non-GAAP Net Loss:</b>	
Net Loss	\$ (50.3)	Net Loss	\$ (50.3)
Depreciation	12.4	Costs not core to business	1.1
Amortization of software development costs	3.3	Amortization of acquired intangible assets	0.3
Amortization of acquired intangible assets	0.3	Stock-based compensation expense	16.1
Interest income	(0.2)	Total net adjustments	17.5
Interest expense on building lease financing obligations	7.4	Non-GAAP Net Loss	\$ (32.8)
Interest expense on other borrowings	4.9		
Income tax expense	0.0		
Stock-based compensation expense	16.1		
Costs not core to business	1.1		
Total net adjustments	45.3		
Adjusted EBITDA	\$ (5.0)		

# BENEFITFOCUS®

All Your Benefits. One Place.®



