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

SCHEDULE 13D

Under the Securities Exchange Act of 1934
(Amendment No. 2)*

Benefitfocus, Inc.
(Name of Issuer)

Common Stock, par value $0.001 per share
(Title of Class of Securities)

08180D106
(CUSIP Number)

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(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

February 9, 2021
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), Rule 13d-1(f) or Rule 13d-1(g), check the following box. [ ]

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1	NAME OF REPORTING PERSON Indaba Capital Management, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [ ] (b) [X]		
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 0	
	8	SHARED VOTING POWER 3,097,800	
	9	SOLE DISPOSITIVE POWER 0	
	10	SHARED DISPOSITIVE POWER 3,097,800	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 3,097,800		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.6% (1)		
14	TYPE OF REPORTING PERSON IA, PN		

(1) Based on 32,201,280 shares of common stock of Benefitfocus, Inc. (the “Issuer”) outstanding as of November 6, 2020, as reported in the Issuer's Form 10-Q filed with the Securities and Exchange Commission (the “SEC”) on November 9, 2020.

1	NAME OF REPORTING PERSON IC GP, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [ ] (b) [X]		
3	SEC USE ONLY		
4	SOURCE OF FUNDS AF		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 0	
	8	SHARED VOTING POWER 3,097,800	
	9	SOLE DISPOSITIVE POWER 0	
	10	SHARED DISPOSITIVE POWER 3,097,800	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 3,097,800		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.6% (1)		
14	TYPE OF REPORTING PERSON OO, HC		

(1) Based on 32,201,280 shares of common stock of the Issuer outstanding as of November 6, 2020, as reported in the Issuer's Form 10-Q filed with the SEC on November 9, 2020.

1	NAME OF REPORTING PERSON Derek C. Schrier	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [ ] (b) [X]	
3	SEC USE ONLY	
4	SOURCE OF FUNDS AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]	
6	CITIZENSHIP OR PLACE OF ORGANIZATION United States of America	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 3,097,800
	9	SOLE DISPOSITIVE POWER 0
	10	SHARED DISPOSITIVE POWER 3,097,800
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 3,097,800	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 9.6% (1)	
14	TYPE OF REPORTING PERSON IN, HC	

(1) Based on 32,201,280 shares of common stock of the Issuer outstanding as of November 6, 2020, as reported in the Issuer's Form 10-Q filed with the SEC on November 9, 2020.

AMENDMENT NO. 2 TO SCHEDULE 13D

The following constitutes Amendment No. 2 ("Amendment No. 2") to the Schedule 13D filed with the Securities and Exchange Commission ("SEC") by Indaba Capital Management, L.P. (the "Investment Manager"), IC GP, LLC ("IC GP") and Derek C. Schrier (collectively, the "Reporting Persons") on December 15, 2020, as amended by Amendment No. 1 filed on January 4, 2021. This Amendment No. 2 amends and supplements the Schedule 13D as specifically set forth herein.

All capitalized terms contained herein but not otherwise defined shall have the meanings ascribed to such terms in the Schedule 13D, as amended. Information given in response to each item shall be deemed incorporated by reference in all other items, as applicable.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 of the Schedule 13D is hereby amended and restated as follows:

The Reporting Persons used approximately $35,139,875.01 (including brokerage commissions) in the aggregate to purchase the shares of Common Stock reported in this Schedule 13D.

The source of the funds used to acquire the shares of Common Stock reported herein is the working capital of the Fund, which at any given time may include funds borrowed on margin in the ordinary course of business and on customary terms.

Item 4. Purpose of Transaction

Item 4 of the Schedule 13D is supplemented and superseded, as the case may be, as follows:

On February 11, 2021, the Investment Manager sent a letter to the Board of Directors (the "Board") of the Issuer (the "February 11 Letter") describing the Investment Manager's view that the Issuer's prolonged financial and share price underperformance is a result of dismal corporate governance, problematic related party transactions and a history of poor oversight and strategic execution. In the February 11 Letter, the Investment Manager also expressed its belief that the Issuer should immediately add new independent shareholder representatives identified by the Investment Manager to the Board and form a special committee consisting of independent directors to undertake a full review of strategic alternatives, including a good faith sales process.

The foregoing description of the February 11 Letter does not purport to be complete and is qualified in its entirety by reference to the full text of the February 11 Letter, which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The Investment Manager had sent private letters to the Board on December 14, 2020, and January 28, 2021. Such letters are attached hereto as Exhibits 99.2 and 99.3, respectively.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended and restated as follows:

(a) – (b) The responses of the Reporting Persons to Rows (7) through (13) of the cover pages of this Schedule 13D are incorporated herein by reference. As of the date hereof, the Reporting Persons beneficially own an aggregate of 3,097,800 shares of Common Stock, which shares of Common Stock may be deemed to be beneficially owned by each of the Investment Manager, IC GP and Mr. Schrier, and which represent approximately 9.6% of the outstanding Common Stock. All percentages set forth herein are based on 32,201,280 shares of Common Stock of the Issuer outstanding as of November 6, 2020, as reported in the Issuer's Form 10-Q filed with the SEC on November 9, 2020.

In addition, the Fund holds $50,681,000 aggregate principal amount of the Issuer's 1.25% convertible senior notes due December 15, 2023 (the "Senior Notes"). As the Issuer has the option, at its discretion, to settle conversions of the Senior Notes in cash, shares of Common Stock or a combination of cash and shares of Common Stock, the Reporting Persons are not deemed to be beneficial owners of any shares of Common Stock underlying the Senior Notes as the Reporting Persons do not have the right to acquire such underlying shares of Common Stock.

Pursuant to an Investment Management Agreement, the Fund and its general partner have delegated all voting and investment power over the securities of the Issuer directly held by the Fund to the Investment Manager. As a result, each of the Investment Manager, IC GP, as the general partner of Investment Manager, and Mr. Schrier, as Managing Member of IC GP, may be deemed to exercise voting and investment power over the securities of the Issuer directly held by the Fund. The Fund specifically disclaims beneficial ownership of the securities of the Issuer directly held by it by virtue of its inability to vote or dispose of such securities as a result of such delegation to the Investment Manager.

(c) Except as previously disclosed in this Schedule 13D, as amended, information concerning transactions in the shares of Common Stock effected by the Reporting Persons on behalf of the Fund during the past sixty days is set forth in Schedule I hereto and is incorporated herein by reference.

(d) Not applicable.

(e) Not applicable.

Item 7. Material to Be Filed As Exhibits

Exhibit	Description
99.1	Letter to the Board of Directors of Benefitfocus, Inc., dated February 11, 2021.
99.2	Letter to the Board of Directors of Benefitfocus, Inc., dated December 14, 2020.
99.3	Letter to the Board of Directors of Benefitfocus, Inc., dated January 28, 2021.

SIGNATURES

After reasonable inquiry and to the best of his or its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Date: February 11, 2021

INDABA CAPITAL MANAGEMENT, L.P.

By: IC GP, LLC, its general partner

By: /s/ Derek C. Schrier
Name: Derek C. Schrier
Title: Managing Member

IC GP, LLC

By: /s/ Derek C. Schrier
Name: Derek C. Schrier
Title: Managing Member

By: /s/ Derek C. Schrier
DEREK C. SHRIER

Schedule I

TRANSACTIONS IN SHARES OF COMMON STOCK BY THE REPORTING PERSONS

Except as previously disclosed in this Schedule 13D, the following table sets forth all transactions in the shares of Common Stock effected by each of the Reporting Persons (on behalf of the Fund) in the past sixty days, inclusive of any transactions effected through 4:00 p.m., New York City time, on February 10, 2021. All such transactions were purchases of shares of Common Stock effected in the open market, and the table excludes commissions paid in per share prices.

Trade Date	Shares Purchased (Sold)	Price Per Share ($)
02/03/2021	58,759	12.8699
02/04/2021	7,773	13.5167
02/05/2021	100,000	14.4228
02/08/2021	60,000	14.4963
02/09/2021	111,774	14.5153
02/10/2021	5,000	16.0045

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February 11, 2021

Dear Members of the Board of Directors,

Indaba Capital Management, L.P. (together with its affiliates, "Indaba" or "we") is a significant shareholder of Benefitfocus, Inc. (NASDAQ: BNFT) ("Benefitfocus" or the "Company"). In addition to owning approximately 9.6% of the Company's outstanding common shares, we hold approximately 22.9% of the outstanding issue of the 1.25% convertible senior notes (the "Notes"). We are writing to you today to convey three primary points:

1. **We are extremely disappointed with the Board of Directors' (the "Board") decision to undermine our private discussions by unilaterally announcing incremental governance changes that should represent the start – not the conclusion – of boardroom improvements.**

2. **The Company's long-term underperformance and years of negative returns stem from an array of governance, operational and strategic failures that the Board still seems reluctant to substantively address.**

3. **The Company should adopt our logical suggestions, that include refreshing the Board with additional, diverse, independent directors and forming a special committee to conduct a credible review of strategic alternatives, including a sale of Benefitfocus.**

Indaba is a firm that focuses on opportunistic, long-term value investments – not public activism. We have a strong track record of maintaining constructive, private dialogues with boards of directors and management teams.

We invested in Benefitfocus because it is an attractive, established business that operates in the stable, high-potential benefits administration market. Although we understood that the Company's shares had dramatically underperformed peers and traded at a steep discount to intrinsic value for years, our due diligence led us to conclude that these headwinds were the result of addressable and correctable missteps. This is why we spent the past eight weeks trying to convince the Board to implement clear, practical solutions.

Unfortunately, the Board's recent actions indicate it is uninterested in implementing the meaningful changes required to turn around Benefitfocus and realize its standalone potential. The Board appears to be more interested in maintaining the status quo that has already given shareholders years of dismal governance, problematic related party transactions, poor oversight and weak strategic execution. In the subsequent sections of this letter, we have outlined why the Board would be remiss to continue down this path. We hope that this leads the Board to reconsider its opposition to adding new, independent shareholder representatives as directors and creating a special committee of independent directors to undertake a full review of strategic alternatives, including a good faith sales process. This is clearly the best path forward for Benefitfocus and its shareholders.

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<u>We are concerned about the Board's recent attempt to pass off incremental, half-measures as meaningful governance enhancements.</u>

After sending a private letter to Benefitfocus on December 14, 2020 regarding the issues that have led to the Company's untenable valuation, we were pleased to enter into discussions with the Board.[1] We believed that we were involved in earnest, private negotiations to add meaningful shareholder representation to the Board and secure prompt, substantive changes. This is why we maintained a private dialogue even when the Board missed our original mid-January target for a joint resolution.

On January 26, 2021, however, the Board abruptly undermined these private discussions by unilaterally announcing certain basic, long-overdue corporate governance improvements that Indaba was advocating for. While it was a small step in the right direction, the announced changes fell woefully short of what is needed. They suggest only a wink to cleaning up the mess, with no real commitment to value-enhancing change.

Although Benefitfocus accepted our recommendation to put to a vote at the Company's 2021 Annual Meeting of Shareholders (the "2021 Annual Meeting") a proposal to declassify the Board, it has not disclosed whether directors will be elected for one year or whether declassification will be delayed until 2022.

Benefitfocus also announced the planned resignation of Executive Chairman Mason Holland Jr., who in our view participated in multiple problematic related party transactions. However, just a few days later Benefitfocus announced it intends to retain Mr. Holland in a paid advisory role and allow him to continue attending Board and committee-level meetings after the 2021 Annual Meeting. This suggests that his influence over the Board has not been significantly diminished. The Board must recognize that it will not be lost on shareholders that Mr. Holland's recent track record includes leading Benefitfocus down a path of considerable value destruction, including negative returns over the past one-, three- and five-year periods. While we anticipate that incoming independent Chairman Doug Dennerline will be more suitable to formally lead the Board, his lengthy boardroom tenure and complicity in enacting self-serving, half-measures force us to call into question his independence from Mr. Holland.

At our urging, Benefitfocus also announced certain amendments to the voting agreement entered into by Mr. Holland and BuildGroup LLC ("BuildGroup"), an entity controlled by director A. Lanham Napier. The amendments eliminated the requirement that BuildGroup vote to elect Messrs. Holland and Napier and any of their designees to the Board. However, the Company rejected our demand to renegotiate the most egregious aspect of the preferred stock agreement: BuildGroup's right to separately elect two directors to the Board while also voting on an as-converted basis with the common shareholders to elect all other directors. It defies logic for Benefitfocus to provide BuildGroup two bites of the apple at the expense of other shareholders.

Following the Company's unilateral announcement last month, Indaba sent a second letter on January 28, 2021 that indicated our willingness to compromise on the renegotiation of the convertible preferred voting rights in the interest of expediting a resolution.[2] The Board subsequently rejected a key element of our proposal: the formation of a special committee with the purview and external advisory resources to make recommendations regarding operational and strategic initiatives. The Board also rejected our proposal to appoint any two of the three highly-qualified, independent director candidates that we had identified. One of our candidates has a legal background and currently serves as a director at two public companies with market capitalizations of more than $1 billion. Our second candidate possesses strong executive-level and product development experience in consumer and enterprise software businesses, while our third has significant strategic and commercial transaction expertise. The latter two candidates also self-identify as African American, an added benefit to a Board that had no racial diversity prior to Indaba's engagement.

It should also be noted that while the Board rejected any two of the candidates we proposed, Mr. Napier expressed some willingness to "fast track" *consideration* for our third candidate because the individual happens to be his former graduate

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[1] The December 14, 2020 letter to Benefitfocus can be found as an exhibit within Indaba's Schedule 13D Amendment filed with the U.S. Securities and Exchange Commission on February 11, 2021.

[2] The January 28, 2021 letter to Benefitfocus can be found as an exhibit within Indaba's Schedule 13D Amendment filed with the U.S. Securities and Exchange Commission on February 11, 2021.

school classmate. It was disheartening to learn that the Board was only willing to consider additional shareholder representation upon the revelation of a prior relationship with Mr. Napier. The Board's focus on maintaining interlocks and protecting insiders' interests severely limits its ability to engineer a turnaround of Benefitfocus.

The Board remains far too inattentive to the Company's long-term financial underperformance relative to peers and relevant indices.

In light of the Board's actions, we have been forced to question whether the current directors are more focused on enhancing shareholder value or maintaining some semblance of the status quo that the insiders clearly prefer. Why is the Board not devoting all of its energy to reversing the value destructive tailspin that has been unfolding in recent years? As shown below, the Company's share price performance versus its self-identified peer group (the "Peer Group") and the Russell 2000 Index is appalling. [3]

	Share Price Performance		
	1-Year	3-Year	5-Year
Benefitfocus	(23.7%)	(39.0%)	(43.0%)
Peer Average	55.7%	209.9%	527.5%
Russell 2000	32.8%	49.8%	126.6%

Source: Bloomberg. As of February 5, 2021.

Benefitfocus' shares also trade far below the Peer Group average based on forward sales estimates for 2020 and 2021. We suspect this persistent gap is why several large institutional funds have been exiting or dramatically reducing their ownership positions.

	Valuation			
	EV / Gross Profit		EV / Revenue	
	FY2020E	FY2021E	FY2020E	FY2021E
Benefitfocus	4.2x	3.9x	2.2x	2.1x
Peer Average	16.1x	14.0x	10.3x	9.0x

Source: Market data and Bloomberg consensus estimates. As of February 5, 2021.

In addition, Benefitfocus' revenue growth has materially lagged its Peer Group over the past several years. Consensus estimates project continuing lagging growth versus the Peer Group in 2021. This disparity becomes even more stark when neutralizing for the impact of the COVID-19 pandemic, by comparing 2021 expectations with 2019 results.

	Revenue Growth				
	FY2017	FY2018	FY2019	FY2020E	FY2021E / 2019
Benefitfocus	0.1%	9.2%	14.3%	(9.8%)	(5.9%)
Peer Average	20.8%	21.4%	23.1%	18.0%	29.2%
Delta	***(20.6%)***	***(12.1%)***	***(8.8%)***	***(27.8%)***	***(35.2%)***

Source: Company filings and Bloomberg consensus estimates. As of February 5, 2021.

[3] Publicly traded peer group constituents, as identified in the Company's 2020 Proxy Statement filed April 29, 2020: AppFolio, Inc., Castlight Health, Inc., ChannelAdvisor Corporation, Cornerstone OnDemand, Inc., Evolent Health, Inc., Five9, Inc., HealthEquity, Inc., HealthStream, Inc., Inovalon Holdings, Inc., LivePerson, Inc., NIC Inc., Paylocity Holding Corporation, Q2 Holdings, Inc., SPS Commerce, Inc., Upland Software, Inc., Workiva, Inc.

<u>The Board and management team have presided over misguided strategic decisions that continue to cast a long shadow on performance.</u>

It is clear to us that poor financial results are a consequence of the Board's misguided strategic decisions. For example, in a bid to grow revenue, the Company previously launched BenefitStore to disintermediate brokers. This initiative was approved despite the fact that brokers are the very source of lead generation and end-customer adoption for benefits administration products. This was an unwise strategy from the outset and proved to be highly unsuccessful.

Benefitfocus further alienated the broker community by entering into a strategic partnership with Mercer LLC ("Mercer"). While the Company has unwound the initiative, such poor decisions cast a long shadow. The Mercer separation continues to be a direct revenue headwind and the broker community has not forgotten what then-Chief Financial Officer and current Chief Executive Officer Steve Swad referred to as its *"adversarial relationship"* with Benefitfocus.[4] If the Board had been more attentive and engaged in its oversight, perhaps these misguided actions could have been avoided.

<u>The Board has failed to fulfill one of its most essential duties: identifying and retaining stable management.</u>

Since 2015, Benefitfocus has had <u>three</u> Chief Executive Officers and <u>six</u> Chief Financial Officers. It does not appear that the Company has ever undertaken a thorough process by retaining a top search firm to find the most highly-qualified chief executive from an external candidate pool. The Company's three internal appointments can be understood – but not excused – because, until two weeks ago, Benefitfocus maintained Mr. Holland as Executive Chairman, effectively resulting in two Chief Executive Officers for the Company.

At the Chief Financial Officer level, we note that the six individuals who have served during the past five years have all had abbreviated tenures. Indeed, one of the individuals served for only one month. Based on public filings, other members of the management team, including most recently Benefitfocus' Chief Technology Officer, have also left with concerning frequency.

This level of management turnover is both disruptive and disturbing. Hiring and retaining key executive leaders should be among the Board's primary focus areas and most fundamental fiduciary responsibilities. Clearly, the Board has failed one of its most important tasks.

<u>We are alarmed with the Board's history of approving problematic related party transactions – this must end.</u>

As you know, we continue to urge the Board to form a special committee that is empowered to evaluate past and future related party transactions. Most importantly, we urge Benefitfocus to renegotiate its related party transaction with Mr. Napier's BuildGroup to remove the ability to vote on an as-converted basis with the common shareholders on the election of directors (since BuildGroup has had the right to separately designate two directors to the Board).

Equally troubling are the unusually favorable economics given to BuildGroup at a time when Benefitfocus was underleveraged and did not appear to have a need for additional capital. In March 2020, the Company had the financial means to prepay nearly $4 million of future rent to entities controlled by Mr. Holland (the Company's Executive Chairman).[5] In May 2020, the Company reported $115 million of cash on its balance sheet and guided 2020 free cash flow to be a usage of $15 million.[6] Despite this stable position in the spring of 2020, Benefitfocus chose to disclose an $80 million convertible preferred investment from BuildGroup. The terms include an 8% coupon and rights to convert into common equity at $15 per share for a total of 5.3 million shares, or 13% of the total outstanding shares. Just a few months later, Benefitfocus revised its free cash flow guidance upward by $30 million in its third quarter earnings release.[7] The Company also reported repurchasing almost $19 million in principal value of 1.25% convertible senior notes.[8]

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[4] Transcript from the Raymond James Technology Investors Conference on December 10, 2019.
[5] Form 8-K filed with the U.S. Securities and Exchange Commission on March 19, 2020.
[6] First quarter 2020 financial results announcement released on May 6, 2020. Cash flow usage of $15 million represents midpoint of Company guidance of a usage of $10-20 million.
[7] First quarter 2020 financial results announcement released on May 6, 2020 and second quarter 2020 financial results announcement released on August 5, 2020. Increase of $30 million calculated as the difference between the midpoint of a usage of $10-20 million as disclosed in the first quarter earnings announcement and the midpoint of an inflow of $10-20 million as disclosed in the second quarter earnings announcement.
[8] Third quarter 2020 financial results announcement released on November 5, 2020.

We seriously question these capital allocation decisions. Why raise capital at an 8% interest rate when capital was not needed, only to then use that expensive currency to repurchase deeply out-of-the-money 1.25% convertible notes (convertible at $53.17 per share) at a yield to maturity of only 9%? What would compel the Board to approve a sale of 13% of Benefitfocus to BuildGroup in return for only a 1% improvement on the capital allocated? We do not believe that this proposed financing was widely marketed and maintain that Benefitfocus could have raised capital at much more attractive terms.

In another example of directors unfairly benefitting at the expense of shareholders, Benefitfocus is party to three lease agreements with entities controlled and owned by Mr. Holland and former Chief Executive Officer Shawn Jenkins. Total payments paid since 2014 and owed through the life of the leases amount to approximately $186 million (See Indaba's private letter to Benefitfocus from December 14, 2020 for additional detail).[9] We question the inherent conflicts and misalignment of incentives in these seemingly excessive related party transactions.

We urge the Board to immediately pursue a credible director refresh process based on shareholder input.

In light of the aforementioned issues, shareholders deserve more Board representation and input in any refreshment process. But rather than provide shareholders the opportunity to vote for or against Mr. Holland at the 2021 Annual Meeting, the Board proactively shifted him into an advisory role as a non-voting member of the Board. He is still slated to be compensated at 75% of what is paid to non-employee directors. This leads us to believe that Mr. Holland's influence at Benefitfocus has not been significantly altered.

Further, the Company's seven-person Board appears far too interconnected. The Board currently has two members from F5 Networks, Inc. ("F5 Networks"): Ana White and Frank Pelzer. Though the Company disclosed Ms. White's resignation yesterday for "personal reasons" effective March 23, 2021, we question why both these directors served on this Board when F5 Networks is not regarded as a model of effective corporate governance or shareholder value optimization and it shares no discernible industry overlap. According to *The Wall Street Journal,* F5 Networks is also reportedly facing pressure from investor Elliott Management regarding ways to boost its own lagging share price.[10]

We believe the Board is clearly lacking when it comes to independence, objectivity and diverse skill sets. To facilitate a legitimate strategic review process, it will be critical to add highly-qualified, independent individuals with fresh viewpoints. This is why we devoted the energy and time to finding ideal candidates for Benefitfocus.

We urge the Board to augment a director refresh with the formation of a special committee to run a sales process.

Given the present realities at Benefitfocus, Indaba believes the only viable path forward is for the disinterested members of the Board to comprise a special committee, retain an independent financial advisor and undertake a full review of strategic alternatives, including a good-faith sales process.

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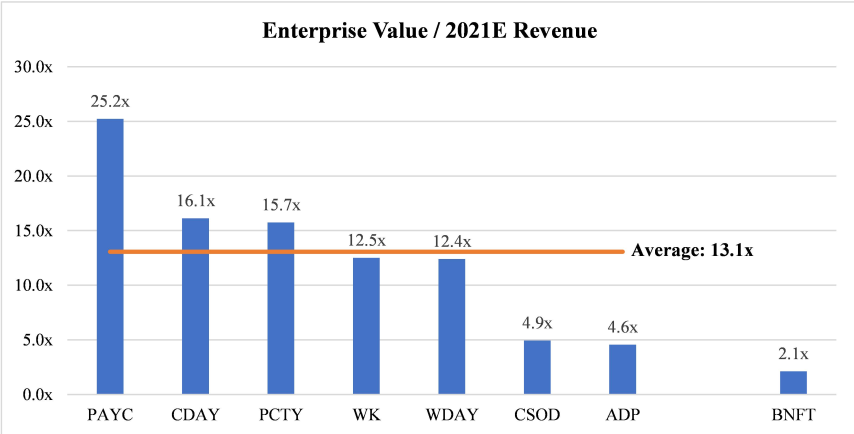
9 Company DEF 14As filed April 25, 2014, April 30, 2015, April 22, 2016, April 21, 2017, April 20, 2018, April 19, 2019, and April 29, 2020. Future amounts owed as of December 31, 2019.

10 *The Wall Street Journal:* Elliott Management Takes Stake in Software Company F5 Networks (November 2020).

We recognize that the Board may want to point out that Indaba previously entertained the idea of giving leadership more runway to effectuate operational improvements and pursue a turnaround. However, that consideration was given prior to the Board's unilateral breach of our dialogue and stated unwillingness to accept meaningful shareholder representation on the Board. The Board's focus on maintaining the broken status quo has convinced Indaba that the current leadership has lost the privilege of running Benefitfocus.

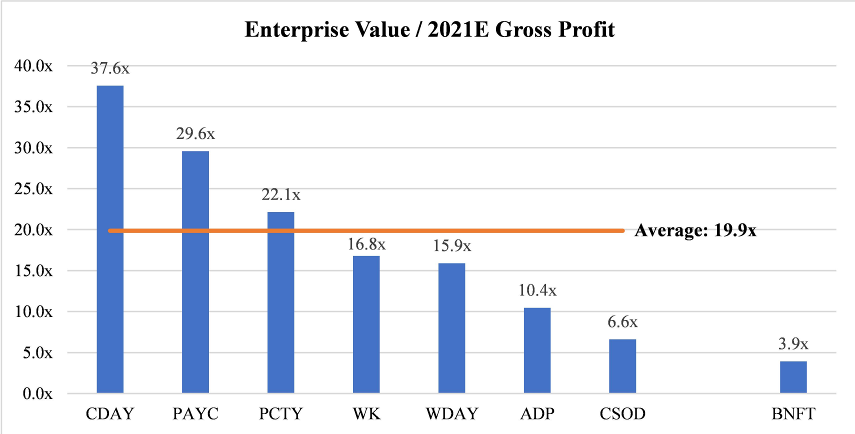
In its Benefitfocus initiation report published on July 3, 2019, J.P. Morgan Chase stated that its price target was based on an enterprise value to 2020 revenue multiple that was a ~7-turn discount to their "comparables group of well-executing human capital management companies" ("HCM Peers").[11] This valuation gap has persisted, with Benefitfocus trading at a significant discount to the HCM Peers and recent transaction multiples in the sector. This suggests that substantial value could be immediately unlocked for shareholders if Benefitfocus is sold. On an enterprise value to revenue basis, the Company trades at a meager 2.1x consensus 2021 revenue. This represents a significant discount to the HCM Peers average of 13.1x and less than half of the lowest multiple in the group. The disparity is similar when compared to the Company's self-identified Peer Group, which trades at an average multiple of 9.0x (more than 4x Benefitfocus' multiple).



Source: Market data and Bloomberg consensus estimates. As of February 5, 2021.

The valuation gap is equally stark on an enterprise value to gross profit basis. Benefitfocus trades at 3.9x 2021 consensus gross profit versus the HCM Peer average of 19.9x. Again, the analogous average multiple for the Company's self-identified Peer Group is 14.0x.

[11] HCM company peer set per J.P. Morgan Benefitfocus initiation report "Best-of-Breed Benefits Administration Platform; Initiating at Neutral" published July 3, 2019. Includes Automatic Data Processing, Inc., Ceridian HCM Holding Inc., Cornerstone OnDemand, Inc., Paycom Software, Inc., Paylocity Holding Corporation, Workday, Inc., and Workiva Inc.



Source: Market data and Bloomberg consensus estimates. As of February 5, 2021.

Transaction multiples tell the same story as there has been significant strategic and financial sponsor interest for well-managed human capital management companies. In 2019, peer company Ultimate Software was bought by a private equity sponsor for 8x the next 12 months' revenue.[12] In 2020, Cornerstone OnDemand acquired Saba Software, a talent software company, for 4.9x the next 12 months' revenue.[13] These multiples and levels of interest are not just a recent phenomenon. In 2011, SAP acquired SuccessFactors for 8.7x the next 12 months' revenue.[14]

Simply put, Benefitfocus is a quality asset in a growing industry and there is a plentiful value creation opportunity under the right stewardship. We believe having a refreshed Board pursue a sales process would be in the best interests of shareholders, including the many long-suffering investors forced to endure the incumbent directors' self-dealing and value-destructive blunders.

* * *

Indaba intends to remain actively engaged with Benefitfocus. We hope the Board will now act in good faith by taking the aforementioned actions, including appointing highly-qualified and independent directors and forming a special committee to explore strategic alternatives. If the Board fails to take meaningful action, we reserve our rights as shareholders to protect our investment.

Sincerely,

Derek Schrier	Alex Lerner
Managing Partner	Partner
Indaba Capital Management, L.P.	Indaba Capital Management, L.P.

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12 RealPage, Inc. Schedule 14A filed February 5, 2021.
13 RealPage, Inc. Schedule 14A filed February 5, 2021.
14 Ultimate Software Group, Inc. Schedule 14A filed March 26, 2019.

Indaba Capital Management LP
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December 14, 2020

Mr. Mason Holland, Jr., Executive Chairman
Mr. Stephen Swad, President, Chief Executive Officer
Members of the Board of Directors

Benefitfocus, Inc.
100 Benefitfocus Way
Charleston, SC 29492

Dear Mr. Holland, Mr. Swad and Members of the Board of Directors,

We are writing in our capacity as the investment manager for Indaba Capital Fund, L.P. ("Indaba"), owner of 2,427,651 shares of common stock of Benefitfocus, Inc. (the "Company" or "Benefitfocus"), or approximately 7.5% of the outstanding shares, and $50,681,000 principal amount of 1.25% convertible senior notes (the "Notes"), or approximately 22.9% of the outstanding issue.

We accumulated our investment in Benefitfocus because we believe that the Company, while an attractive asset in a healthy end-market, is trading well below its intrinsic value. Since first investing in Benefitfocus, we have sought to privately engage with management to better understand and address this valuation gap. However, based on our due diligence and engagement to date, we have concluded that lax and self-interested oversight from the Company's Board of Directors (the "Board") has been the key driver of the Company's remarkably low valuation.

In our view, the Board's dismal corporate governance, problematic related party transactions and history of poor operational and strategic execution have adversely impacted the Company's financial performance, share price performance, and corporate culture. Given the gravity of the issues facing the Company, we believe the only viable path forward is for the disinterested members of the Board to form a special committee, retain an independent financial advisor, and undertake a full review of strategic alternatives, including a good faith sales process. We further believe that in order to ensure the Board faithfully undertake this strategic review, new independent directors need to be immediately appointed to the Board, including representatives identified by Indaba.

<u>Prolonged Share Price Underperformance</u>

➢ **Poor Shareholder Returns**

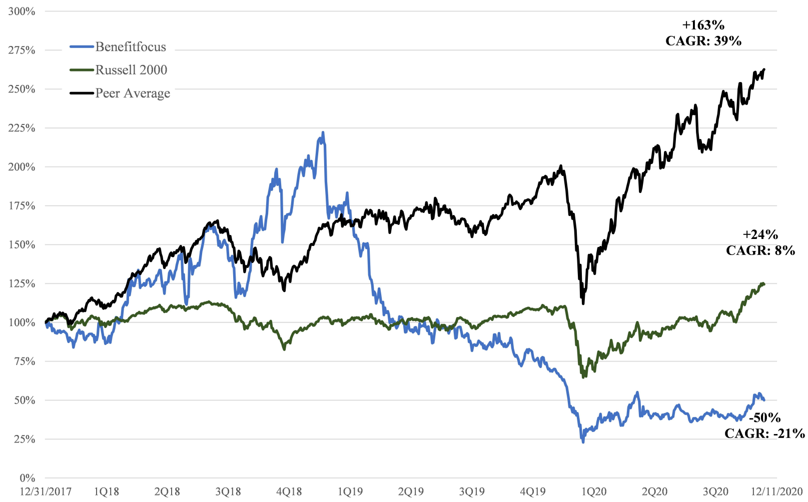
The Company's share price performance versus its self-identified peer group (the "Peer Group"),[1] and the Russell 2000 Index, is appalling. The Company's share price has underperformed on a 1-, 3- and 5-year basis.

	Share Price Performance		
	1-Year	3-Year	5-Year
Benefitfocus	(31.7%)	(50.4%)	(60.6%)
Peer Average	40.8%	165.3%	350.9%
Russell 2000	17.1%	25.8%	70.1%

Source: Bloomberg. As of December 11, 2020.

[1] Publicly traded peer group constituents, as identified in the Company's 2020 Proxy Statement filed April 29, 2020: AppFolio, Inc., Castlight Health, Inc., ChannelAdvisor Corporation, Cornerstone OnDemand, Inc., Evolent Health, Inc., Five9, Inc., HealthEquity, Inc., HealthStream, Inc., Inovalon Holdings, Inc., LivePerson, Inc., NIC Inc., Paylocity Holding Corporation, Q2 Holdings, Inc., SPS Commerce, Inc., Upland Software, Inc., Workiva, Inc.

With regard to year-to-date share price performance, as of December 11, 2020, the Russell 2000 Index is approximately +15%, the Peer Group is +39% and Benefitfocus is -38%. The results for shareholders—or lack thereof—speak for themselves.



Source: Bloomberg. As of December 11, 2020.

➢ **Discount to Peers**

Benefitfocus's valuation reflects the disregard with which market participants are viewing the Company. Benefitfocus's shares trade at less than 30% of the Peer Group average on forward sales estimates for 2020 and 2021.

	Valuation			
	EV / Gross Profit		EV / Revenue	
	FY2020E	FY2021E	FY2020E	FY2021E
Benefitfocus	3.9x	3.6x	2.1x	2.0x
Peer Average	14.0x	12.3x	9.0x	7.9x

Source: Market data and Bloomberg consensus estimates. As of December 11, 2020.

The Company's persistent underperformance may be the reason why many key shareholders, including Fidelity as well as BlackRock, have either exited or dramatically reduced their ownership of the Company's shares.

Execution Issues

➢ **Revenue Growth Well Below Peers**

Over the last several years, Benefitfocus's revenue growth has materially lagged its Peer Group. Consensus estimates project continuing lagging growth versus the Peer Group in 2021. This disparity becomes even more stark when neutralizing for the impact of COVID-19 this year, by comparing 2021 expectations with 2019 results. Why has the Company been such a consistent underachiever in this important respect?

	Revenue Growth				
	FY2017	FY2018	FY2019	FY2020E	FY2021E/2019
Benefitfocus	0.1%	9.2%	14.3%	(9.6%)	(3.3%)
Peer Average	20.8%	21.4%	23.1%	17.8%	28.4%
Delta	***(20.6%)***	***(12.1%)***	***(8.8%)***	***(27.4%)***	***(31.7%)***

Source: Company filings and Bloomberg consensus estimates. As of December 11, 2020.

➢ **Depressed Gross Margins**

The Company's gross margins are more than 10% lower than its Peer Group average across 2019 to 2021E. Is there a structural reason that Benefitfocus needs to operate at approximately 80% of its Peer Group on this metric?

	Gross Margin		
	FY2019	**FY2020E**	**FY2021E**
Benefitfocus	52.8%	53.1%	53.9%
Peer Average	64.4%	63.8%	64.2%
Delta	***(11.6%)***	***(10.7%)***	***(10.2%)***

Source: Company filings and Bloomberg consensus estimates. As of December 11, 2020.

➢ **Strategic Miscalculations**

We believe the Company's disappointing share price and financial performance, as detailed above, is in part due to the Board's misguided strategic decisions. In a bid to grow revenue, the Company launched BenefitStore in an effort to disintermediate brokers – the very source of lead generation and end-customer adoption for benefits administration products. This was an unwise strategy from its outset and proved to be highly unsuccessful. Benefitfocus further alienated the broker community by entering into a strategic partnership with Mercer LLC ("Mercer").

While the Company has unwound these initiatives, such poor strategic decisions cast a long shadow. The Mercer separation continues to be a direct revenue headwind[2] and the broker community has not forgotten what then CFO and current CEO, Steve Swad, referred to as its "adversarial relationship" [3] with Benefitfocus. Our research suggests that brokers continue to direct business to competitors, eroding the Company's market-leading position, a view many of the Company's analysts share.

> *"Additionally, we note that brokers not recommending Benefitfocus (brokers recommend the majority of employer deals) is currently the second biggest reason that Benefitfocus loses deals..."*
> - Jefferies Equity Research, "One Place 2018," March 22, 2018

➢ **Dissatisfied Customers**

In the course of our due diligence, we have collected numerous anecdotes from customers, competitors, and brokers which suggest that the Company may find it difficult to procure a list of referenceable clients. It has been called to our attention that customer service has been an issue which exacerbates churn and stalls growth.

➢ **Damaged Corporate Culture**

Glassdoor analysis versus the Peer Group indicates a substantial underperformance gap across key metrics. This analysis is troubling and suggests a serious cultural problem. Benefitfocus is an outlier in the wrong direction. We find that a lack of emphasis on building a strong corporate culture impairs employee morale, exacerbates employee turnover, gets reflected in poor financial performance and ultimately destroys shareholder value.

	Glassdoor Employer Ratings		
	Overall Employer Rating	***Recommend to a Friend***	***Positive Business Outlook***
Benefitfocus	2.6	37%	18%
Peer Average	3.7	70%	63%

Note: Overall Employer Rating on a scale of 0 to 5 (0 being the lowest and 5 being the highest). *Recommend to a Friend* and *Positive Business Outlook* percentages represent the percentage of reviewers responding approvingly to the respective prompt.
Source: Glassdoor.com. As of December 11, 2020.

[2] Reduction in revenue from Mercer of approximately $9 million in 2019 and $17-18 million in 2020, per Company estimates, as the partnership winds down.
[3] Source: Transcript from the Raymond James Technology Investors Conference on December 10, 2019.

Poor Corporate Governance

- **Management Turnover and Poor Leadership**

  Since 2015, the Company has had three CEOs and six CFOs, resulting in inconsistent leadership, execution, and messaging. From our review, it does not appear that the Company has ever undertaken a thorough search process using a nationally recognized search firm to find the most qualified CEO. Rather, the Company has promoted each of these CEOs from within, perhaps because the Company has maintained Mason Holland as Executive Chairman, effectively resulting in two CEOs for the Company.

  At the CFO level, we note that one of the six CFOs to serve during the past five years, served for only one month. Based on public filings, other members of the management team, including most recently the Company's Chief Technology Officer, have also left with concerning frequency.

  This level of management turnover is obviously disturbing. Hiring a permanent CEO and CFO and retaining key individuals must be one of the Board's primary focus areas and most fundamental fiduciary responsibilities. Turbulence at the top projects instability and undermines credibility with customers, partners, and shareholders. The Company's inability to select and retain a qualified CEO or CFO demonstrates the Board's ineffective oversight and poor succession planning and has likely exacerbated the Company's depressed valuation.

- **Lack of Board Independence**

  The Company's seven-person Board has two Board members from F5 Networks, Inc.— Ana White and Frank Pelzer. Why would Benefitfocus appoint two directors from a single company with which it shares no discernible industry overlap nor any financial relationship? Even more puzzling is that F5 Networks is not exactly regarded as a model of corporate governance. Per the *Wall Street Journal,* F5 Networks is itself reportedly facing pressure from activist investor Elliott Management about "ways to boost its lagging share price."[4]

  As further discussed below, the Company's largest convertible preferred shareholder, BuildGroup LLC ("BuildGroup"), an investment firm run by long-time Benefitfocus board member Lanham Napier, recently entered into a voting agreement with the Company's executive chairman, Mason Holland, in which the parties agreed to nominate and vote in favor of each other or their respective designees for election to the Board. This arrangement effectively creates a large voting block on the Board whose interests are likely to diverge from common shareholders.

  The Board's governance profile is also highly problematic. The Board maintains a classified Board, with Board members serving three-year terms rather than annual terms. In addition, Board members can only be removed for cause and shareholders cannot act by written consent, thereby further limiting shareholders' ability to hold Board members accountable for their poor performance.

  We believe the Board has an obvious lack of independence, objectivity and diverse skill set. Accordingly, in order to effectuate a legitimate strategic review process, we believe it will be critical to add new and different voices in the boardroom, including individuals identified by Indaba.

A History of Problematic Related Party Transactions

- **Conflicts of Interest – Questionable Convertible Preferred Financing**

  In May of this year, after the Company reported $115 million of cash on the balance sheet and guided free cash flow for 2020 to be a usage of $15 million,[5] the Company announced an $80 million convertible preferred investment from BuildGroup. The terms of this investment include an 8% coupon and rights to convert into common equity at $15 per share for a total of 5.3 million shares, 13% of total shares outstanding. These terms strike us as unusually favorable economics for an underleveraged software company that did not appear to have a need for additional cash. In fact, just a few months later in August, the Company revised its free cash flow guidance upward by $30 million.[6] Furthermore, in its third quarter earnings release, the Company reported repurchasing almost $19 million in principal value of 1.25% convertible senior notes.[7]

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[4] Source: Wall Street Journal, "Elliott Management Takes Stake in Software Company F5 Networks" published November 8, 2020.
[5] Source: First quarter 2020 financial results announcement released on May 6, 2020. Cash flow usage of $15 million represents midpoint of Company guidance of a usage of $10-20 million.

We question the capital allocation decisions that went into raising an equity-dilutive security with an 8% interest rate for a company that did not seem to need capital, only to then use that expensive currency to repurchase deeply out-of-the-money 1.25% convertible notes (convertible at $53.17 per share) at a yield to maturity of just 9%. What would compel the Board to authorize a sale of 13% of the Company to BuildGroup (at $15 per share) for the privilege to borrow at 8% and reinvest at 9% back into the Company's capital structure for an incremental return of just 1%? Moreover, why was this highly attractive convertible preferred financing – a sweetheart deal – not widely marketed?

Perhaps the answer lies with Executive Chairman, Mason Holland. As noted above, in conjunction with the financing, BuildGroup and Executive Chairman Holland, entered into an agreement to nominate and vote in favor of each other or their respective designees for election to the Board. This voting agreement smacks of entrenchment efforts and raises fiduciary issues that should be scrutinized by the disinterested directors of the Board. At best, this fact pattern does not scan well and these capital allocation decisions constitute alarming conflicts of interest to the detriment of shareholders.

In addition, we find it highly problematic and unusual, particularly absent an immediate need for liquidity, that the Board granted the preferred stockholders voting rights not only with respect to electing two directors, but also on each matter submitted for a vote or consent by the holders of the common stock, including with respect to the remaining Board members. When viewed in combination with the voting agreement described above, we question whether the real motivation for the convertible preferred financing may have been to solidify Chairman Holland and Lanham Napier's control, rather than being a transaction undertaken in the best interest of all shareholders.

- **Conflicts of Interest – Corporate Real Estate**

In another instance of Board members unfairly benefitting from the Company at the expense of shareholders, Benefitfocus is party to three lease agreements with entities controlled and owned by current executive chairman, Mason Holland, and former CEO Shawn Jenkins. Total payments paid since 2014 and owed through the life of the leases from the Company to these entities amount to approximately $186 million.[8] We question the inherent conflicts and misalignment of incentives in these related party transactions. Is the Company able to negotiate market rents with its landlord and extract competitive terms as its needs change when the Company's landlord is also its chairman of the Board? Why on March 13, 2020, at the height of market and economic uncertainty and as other companies were requesting rent abatement or forgiveness, did the Company prepay nearly $4 million of future 2021 rent to its landlord?[9] Further, if the Company was in such a sound financial position as to prepay rent to its chairman/landlord despite market uncertainty, why did it then need additional financing from BuildGroup a mere two and a half months later?

The comparison below of Benefitfocus's ratio of principal office space to employee count versus its Peer Group highlights our concerns. The price differential is stark in the rent per square foot for the Company's principal office space versus another Charleston, South Carolina-based public corporation, Blackbaud, Inc. ("Blackbaud"). Like Benefitfocus, Blackbaud is a software provider, but with three times the revenue and six times the market capitalization,[10] and is headquartered less than a mile away. Does it stand to reason that Benefitfocus requires 2.2 times the space per employee versus its Peer Group and pays nearly 70% more for its space compared to its larger and more profitable Daniel Island neighbor, Blackbaud? Or is this the result of an abusive transfer of value from shareholders to the Company's chairman/landlord?

	Principal Office Real Estate Footprint		
	Total Employees	Principal Office Square Footage	Square Footage Per Employee
Benefitfocus	1,560	289,000	185
Peer Average	1,651	121,038	84

Source: Company filings.

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[6] Source: First quarter 2020 financial results announcement released on May 6, 2020 and second quarter 2020 financial results announcement released on August 5, 2020. Increase of $30 million calculated as the difference between the midpoint of a usage of $10-20 million as disclosed in the first quarter earnings announcement and the midpoint of an inflow of $10-20 million as disclosed in the second quarter earnings announcement.
[7] Source: Third quarter 2020 financial results announcement released on November 5, 2020.
[8] Source: Company DEF 14As filed April 25, 2014, April 30, 2015, April 22, 2016, April 21, 2017, April 20, 2018, April 19, 2019, and April 29, 2020. Future amounts owed as of December 31, 2019.
[9] Source: Form 8-K filed March 19, 2020.
[10] Source: 2019 revenue from Blackbaud and Benefitfocus company filings. Market capitalizations as of December 11, 2020.

	Daniel Island, Charleston - Real Estate Cost		
	Principal Office Square Footage	2019 Principal Office Rent	2019 Rent Per Square Foot
Benefitfocus	289,000	$10,900,000	$37.72
Blackbaud	390,000	$8,700,000	$22.31

Source: Benefitfocus and Blackbaud company filings.

* * *

The corporate governance failures that shareholders have suffered are the consequence of a Board that has been a negligent steward of value. We request that the Company form a special committee of independent directors to oversee a strategic alternatives process and that new independent directors be immediately added to the Board, including individuals identified by Indaba who will also serve on such committee. We expect you to seriously consider our concerns and requests and remind you of your fiduciary duty to maximize value for shareholders.

As time is of the essence, we ask that you act urgently and respond to our requests no later than Friday, December 18. Should you fail to do so, we will be forced to address our grievances through more public and affirmative means. Please contact the undersigned to discuss these matters further.

Sincerely,

Derek Schrier
Chief Investment Officer

Alex Lerner
Partner

Indaba Capital Management, L.P.

Appendix

Comparable Company Analysis

	Share Price	Market Capitalization	Enterprise Value	Shareholder Return YTD	% of 52 Week High
Benefitfocus	**$13.52**	**$435**	**$561**	**(38.4%)**	**60.1%**
Company-Identified Peers					
AppFolio	$168.96	$5,800	$5,623	53.7%	93.6%
Castlight Health	1.29	198	153	(3.0%)	79.1%
ChannelAdvisor	14.18	411	345	56.9%	63.5%
Cornerstone OnDemand	44.01	2,843	3,977	(24.8%)	68.3%
Evolent Health	15.08	1,294	1,235	66.6%	96.9%
Five9	162.57	10,727	10,766	147.9%	97.2%
HealthEquity	64.63	4,976	5,703	(12.7%)	72.8%
HealthStream	20.26	642	492	(25.5%)	68.0%
Inovalon	19.42	3,018	3,786	3.2%	69.5%
LivePerson	57.99	3,879	3,910	56.7%	90.8%
NIC	24.38	1,634	1,399	10.9%	94.0%
Paylocity	192.11	10,421	10,281	59.0%	91.7%
Q2 Holdings	116.86	6,297	6,485	44.1%	97.4%
SPS Commerce	96.81	3,418	3,157	74.7%	92.2%
Upland Software	43.55	1,283	1,585	22.0%	84.6%
Workiva	79.53	3,833	3,654	89.1%	99.2%
Peer Group Average				**38.7%**	**84.9%**

	Consensus 2020E		EV / Gross Profit		EV / Revenue	
	Revenue	EBITDA	2020E	2021E	2020E	2021E
Benefitfocus	**$267**	**$38**	**3.9x**	**3.6x**	**2.1x**	**2.0x**
Company-Identified Peers						
AppFolio	$312	$51	28.9x	25.8x	18.0x	16.0x
Castlight Health	141	8	1.6x	1.8x	1.1x	1.2x
ChannelAdvisor	143	34	3.0x	2.9x	2.4x	2.3x
Cornerstone OnDemand	730	260	7.4x	6.4x	5.4x	4.8x
Evolent Health	1,012	37	3.9x	4.0x	1.2x	1.3x
Five9	422	78	39.2x	33.1x	25.5x	21.6x
HealthEquity	729	236	13.7x	12.7x	7.8x	7.4x
HealthStream	242	44	3.2x	3.4x	2.0x	2.2x
Inovalon	659	229	7.6x	6.7x	5.7x	5.1x
LivePerson	364	30	14.7x	11.9x	10.8x	8.7x
NIC	438	106	8.5x	8.1x	3.2x	3.2x
Paylocity	581	158	24.8x	21.1x	17.7x	15.0x
Q2 Holdings	402	23	30.1x	24.4x	16.1x	13.3x
SPS Commerce	310	85	14.9x	13.5x	10.2x	9.3x
Upland Software	286	97	8.3x	8.2x	5.5x	5.5x
Workiva	348	8	14.0x	12.2x	10.5x	9.1x
Peer Group Average			**14.0x**	**12.3x**	**9.0x**	**7.9x**

Note: Amounts shown in USD in millions except share price.

Source: Company filings and Bloomberg consensus estimates. As of December 11, 2020.

Revenue Growth

	Revenue Growth				
	FY2017	FY2018	FY2019	FY2020E	FY2021E/2019
Benefitfocus	**0.1%**	**9.2%**	**14.3%**	**(9.6%)**	**(3.3%)**
Company-Identified Peers					
AppFolio	36.2%	32.2%	34.7%	21.7%	37.2%
Castlight Health	29.8%	18.5%	(8.4%)	(1.3%)	(8.4%)
ChannelAdvisor	8.2%	7.1%	(1.0%)	9.9%	15.4%
Cornerstone OnDemand	13.9%	11.6%	7.2%	26.7%	44.8%
Evolent Health	71.1%	44.2%	35.0%	19.5%	10.6%
Five9	23.5%	28.7%	27.3%	28.7%	52.3%
HealthEquity	28.7%	25.1%	85.2%	37.1%	45.8%
HealthStream	(4.9%)	7.8%	9.7%	(4.8%)	(10.7%)
Inovalon	5.1%	17.4%	21.7%	2.6%	16.6%
LivePerson	(1.8%)	14.1%	16.7%	24.7%	53.9%
NIC	5.8%	2.5%	2.7%	23.7%	23.6%
Paylocity	26.4%	25.1%	24.2%	12.0%	32.4%
Q2 Holdings	29.1%	24.3%	30.9%	27.4%	54.9%
SPS Commerce	13.9%	12.8%	12.4%	11.1%	21.7%
Upland Software	31.0%	53.0%	48.5%	28.4%	29.1%
Workiva	16.4%	17.5%	21.9%	16.9%	35.1%
Peer Group Average	**20.8%**	**21.4%**	**23.1%**	**17.8%**	**28.4%**
Delta	***(20.6%)***	***(12.1%)***	***(8.8%)***	***(27.4%)***	***(31.7%)***

Source: Company filings and Bloomberg consensus estimates. As of December 11, 2020.

Gross Margin

	Gross Margin		
	FY2019	FY2020E	FY2021E
Benefitfocus	**52.8%**	**53.1%**	**53.9%**
Company-Identified Peers			
AppFolio	60.9%	62.3%	62.0%
Castlight Health	61.6%	66.9%	66.3%
ChannelAdvisor	78.6%	80.0%	79.7%
Cornerstone OnDemand	76.0%	73.7%	74.7%
Evolent Health	40.2%	31.3%	32.9%
Five9	64.2%	65.1%	65.1%
HealthEquity	62.2%	57.0%	57.9%
HealthStream	59.4%	63.2%	63.7%
Inovalon	73.9%	75.5%	75.4%
LivePerson	74.8%	73.2%	73.0%
NIC	39.2%	37.4%	39.7%
Paylocity	72.1%	71.2%	70.8%
Q2 Holdings	54.0%	53.5%	54.5%
SPS Commerce	68.0%	68.5%	68.8%
Upland Software	73.3%	66.8%	67.7%
Workiva	72.6%	74.9%	74.7%
Peer Group Average	**64.4%**	**63.8%**	**64.2%**
Delta	***(11.6%)***	***(10.7%)***	***(10.2%)***

Note: Reflects adjusted gross margins.
Source: Company filings and Bloomberg consensus estimates. As of December 11, 2020.

Corporate Culture

	Glassdoor Employer Ratings		
	Overall Employer Rating	*Recommend to a Friend*	*Positive Business Outlook*
Benefitfocus	**2.6**	**37%**	**18%**
Company-Identified Peers			
AppFolio	4.6	93%	92%
Castlight Health	3.8	69%	56%
ChannelAdvisor	3.5	71%	52%
Cornerstone OnDemand	3.6	67%	61%
Evolent Health	3.1	55%	44%
Five9	4.8	94%	96%
HealthEquity	4.0	77%	74%
HealthStream	3.3	53%	42%
Inovalon	2.8	43%	40%
LivePerson	3.2	57%	50%
NIC	3.7	77%	68%
Paylocity	4.4	87%	84%
Q2 Holdings	3.1	54%	57%
SPS Commerce	3.9	84%	80%
Upland Software	3.4	60%	47%
Workiva	4.1	74%	71%
Peer Group Average	**3.7**	**70%**	**63%**

Note: Overall Employer Rating on a scale of 0 to 5 (0 being the lowest and 5 being the highest). *Recommend to a Friend* and *Positive Business Outlook* percentages represent the percentage of reviewers responding approvingly to the respective prompt. Source: Glassdoor.com. As of December 11, 2020.

Real Estate Footprint

	Principal Office Real Estate Footprint		
	Total Employees	Principal Office Square Footage	Square Footage Per Employee
Benefitfocus	**1,560**	**289,000**	**185**
<u>Company-Identified Peers</u>			
AppFolio	1,240	165,600	134
Castlight Health	463	67,000	145
ChannelAdvisor	642	110,000	171
Cornerstone OnDemand	2,000	94,000	47
Evolent Health	3,400	91,000	27
Five9	1,210	90,100	74
HealthEquity	2,931	187,000	64
HealthStream	876	92,000	105
Inovalon	2,371	110,000	46
LivePerson	1,341	105,000	78
NIC	1,000	51,000	51
Paylocity	3,600	326,000	91
Q2 Holdings	1,574	129,000	82
SPS Commerce	1,363	189,000	139
Upland Software	832	9,900	12
Workiva	1,580	120,000	76
Peer Group Average	**1,651**	**121,038**	**84**

Source: Company filings.

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January 28, 2021

Members of the Board of Directors
Benefitfocus, Inc.
100 Benefitfocus Way
Charleston, SC 29492
Attn: Mr. Lanham Napier

Dear Mr. Napier and Members of the Board of Directors,

As you know, Indaba Capital Fund, L.P. ("Indaba") beneficially owns 2,754,494 shares of common stock of Benefitfocus, Inc. (the "Company" or "Benefitfocus"), or approximately 8.6% of the outstanding shares, and $50,681,000 principal amount of 1.25% convertible senior notes (the "Notes"), or approximately 22.9% of the outstanding issue.

Over the past several weeks, we have tried to work cooperatively and privately with you and other members of the Company's Board of Directors (the "Board") to discuss changes that would help maximize shareholder value. We could have come out publicly with a letter at any time to detail our concerns with the Company's prolonged underperformance and questionable related party transactions. We chose not to pursue this path, however, believing the Board was acting in good faith to come to a negotiated resolution with us that would have enhanced the Board's independence and skillset. It was therefore deeply troubling that the Company undermined our discussions by unilaterally announcing certain changes to the Board and the Company's governance. We appreciate that in response to our engagement the Board is making long-overdue corporate governance improvements. However, shareholders deserve more than incremental measures.

There was no urgency to jump the gun on a public announcement, as the Company's 2021 annual meeting of shareholders (the "2021 Annual Meeting") and corresponding nomination deadline are months away. We can therefore only conclude that the Company has no desire to work with us and now believes that the half-measures announced this week may buy the Board another year of avoiding more meaningful changes. To the extent you withdrew from our discussions because of the preferred shareholder's unwillingness to reconsider their voting rights – permitting them to vote with common shareholders and to separately appoint two directors – we strongly suggest you consider your fiduciary obligations to *all* shareholders, rather than a chosen few.

While we are pleased that the Company accepted our recommendation to declassify the Board and is taking steps to distance itself from Mr. Holland who, as Chairman, participated in and benefitted from problematic related party transactions, we believe these changes fall woefully short on several critical elements. Clearly the market's negative response to the announcement of these changes confirms that the Company has not satisfied shareholder expectations and more change is warranted.

While we welcome the new independent chairman Doug Dennerline, the circumstances surrounding his appointment raise additional issues. For example, we note that, with Mr. Holland's announcement to not stand for re-election, no director will be up for election at this year's Annual Meeting. It certainly appears that the Board is further entrenching itself – in short, demonstrating more of the same self-serving behavior that has gotten us here. The Company also failed to provide specifics with respect to the implementation of the declassification proposal. We hope that the Company will make this proposal the first item of business at the 2021 Annual Meeting and each incumbent director will voluntarily stand for election for a one-year term.

In light of the Board's recent conduct, we now find it even more important to add shareholder representatives to the Board and form a Finance Committee with a mandate to explore all means to maximize shareholder value. While we continue to believe that the voting rights in the recent convertible preferred deal should be amended, we are prepared to move forward on the terms set forth in the attached revised term sheet.

You have also suggested that our settlement discussions halted because we would not disclose the names of our director candidates. Throughout our discussions, however, we have expressed a willingness to disclose these names subject to an agreement on the number of directors and other basic terms of settlement. To avoid any further debate on this issue, attached to this letter are brief bios of the candidates we contemplated presenting to you at our next discussion. We provide this information with the expectation that the Company will commit to more meaningful change, including forming a Finance Committee to evaluate the Company's strategy and value maximization opportunities (charter included as addendum).

As we have stated to you in the past, we have long-term interests in Benefitfocus and intend to remain actively engaged with the Company to maximize value for all shareholders. If we cannot arrive at an agreement imminently, however, we will not hesitate to pursue all available recourse, including making our case directly to the Company's shareholders. Accordingly, if we cannot come to an agreement by Sunday, January 31, 2021, we must reserve all rights with respect to our investment.

Sincerely,

Derek Schrier
Indaba Capital Management, L.P.

Alex Lerner
Partner

Director Candidate Bios

Ronald P. Mitchell, age 50, is a business executive with 18+ years' experience leading people and organizations. Ron has built and managed technology-enabled consumer and enterprise SaaS businesses delivering career education and workforce solutions. Ron currently serves as the Managing Partner of Low Post Ventures LLC (LPV), a company that has developed, financed and grown many of the most innovative solutions in the EdTech and WorkforceTech ecosystem. Previously, Ron served as the CEO of Virgil Holdings Inc. (VHI) and its predecessor companies. VHI is a PE-backed, enterprise SaaS company that owns and operates Hcareers, the leading talent recruitment platform in the hospitality industry and Virgil Careers, a career assessment and analytics platform. Prior to Virgil, Ron founded and served as CEO of CareerCore Inc. CareerCore is an enterprise SaaS platform that enables organizations to scale professional development coaching throughout an organization. Through Virgil and CareerCore, Ron has worked with many of the world's most prestigious organizations including Marriott, JPMorgan, Omnicom, Southern Company, Visa and Accenture. Prior to his work in the HR technology space, Ron spent several years as an investment banker and private equity professional, including as a General Partner of Provender Capital Group, LLC, a merchant banking fund making principal investments in media, financial services and specialty retail. Ron earned his AB from Harvard University and MBA from the Harvard University Graduate School of Business where he served as President of his class. Ron self-identifies as African American.

Daniel J. Hirsch, age 47, has served as Chief Operating Officer and Chief Financial Officer of Cascade Acquisition Corp., a special purpose acquisition company listed on NYSE focusing on acquiring target in financial services sector, since August 2020. Dan has also served as a principal of KRDH Holdings, LLC, a venture pursuing acquisition, entitlement and development of in-fill multi-family projects in Santa Rosa, CA since July 2018. Previously, Dan served as a consultant to Farallon Capital Management, L.L.C. ("FCM"), an investment firm that manages capital on behalf of institutions and individuals, from January 2017 to March 2020 and from 2003 to December 2016, Mr. Hirsch held several senior positions at FCM, including Managing Member of the Real Estate Group from 2009 to December 2016, Managing Director from 2007 to 2008 and Legal Counsel from 2003 to 2006. Prior to joining FCM, Mr. Hirsch worked as an associate in the San Francisco office of the law firm Covington & Burling, from 2001 to 2003. In November 2019, Mr. Hirsch joined the board of Broadmark Realty Capital Inc. ("Broadmark") and is currently chairman of the nominating and corporate governance committee and a member of the compensation committee. Mr. Hirsch previously served as a director of Playa Hotels & Resorts N.V. ("Playa") from 2010 until March 2020, including serving as the FCM board designee for Playa from January 2017 until March 2020. Mr. Hirsch graduated from Yale Law School with a J.D., and summa cum laude with a Bachelor of Arts in Law, Jurisprudence and Social Thought from Amherst College.

Nicholas K. Pianim, age 53, is a Managing Director at DAG Ventures, a mid-stage venture capital firm with over $1.8 billion under management, which he joined in 2007. He focuses primarily on enterprise software/SaaS, infrastructure, financial technology and security. Prior to joining DAG, Nick was Vice President of Corporate Development at Juniper Networks where he was responsible for acquisitions, commercial transactions and venture investments. Previously, Nick was CEO of iAsiaWorks, a NASDAQ listed datacenter and managed services company, and CFO for Ensemble Communications where he oversaw corporate development. He also worked with Enterprise Partners Venture Capital, and with Morgan Stanley International. Nick has extensive private company board experience having served on the board of nine private portfolio companies. He currently serves as a director on a private Communications Platform company with over $100M in revenue where he leads the compensation committee. Nick has a B.Sc. in Electrical Engineering from Tufts University, and a MBA from the Stanford Graduate School of Business. Nick self identifies as African American.