

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

or

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

For the transition period from _____ to _____ .

Commission File Number: 001-36061

Benefitfocus, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-2346314

(I.R.S. Employer
Identification No.)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	BNFT	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

- Large accelerated filer Accelerated filer Non-accelerated filer
 Smaller reporting company 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.

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

As of November 1, 2021, there were approximately 33,430,384 shares of the registrant's common stock outstanding.

Benefitfocus, Inc.

Form 10-Q

For the Quarterly Period Ended September 30, 2021

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>Unaudited Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020</u>	3
<u>Unaudited Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2021 and 2020</u>	4
<u>Unaudited Consolidated Statements of Changes in Stockholders' Deficit for the Three and Nine Months Ended September 30, 2021 and 2020</u>	5
<u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	34
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	35

PART II. OTHER INFORMATION

<u>ITEM 1. LEGAL PROCEEDINGS</u>	36
<u>ITEM 1A. RISK FACTORS</u>	36
<u>ITEM 6. EXHIBITS</u>	37
<u>SIGNATURES</u>	38

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of September 30, 2021	As of December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,589	\$ 90,706
Marketable securities	81,899	95,085
Accounts receivable, net	20,368	22,240
Contract, prepaid and other current assets	17,239	21,354
Total current assets	132,095	229,385
Property and equipment, net	27,259	29,701
Financing lease right-of-use assets	58,503	68,670
Operating lease right-of-use assets	925	1,107
Intangible assets, net	8,688	10,393
Goodwill	12,857	12,857
Deferred contract costs and other non-current assets	12,078	10,259
Total assets	<u>\$ 252,405</u>	<u>\$ 362,372</u>
Liabilities, redeemable preferred stock and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 7,729	\$ 2,160
Accrued expenses	8,155	6,262
Accrued compensation and benefits	16,993	19,129
Deferred revenue, current portion	26,113	27,782
Lease liabilities and financing obligations, current portion	7,226	5,959
Total current liabilities	66,216	61,292
Deferred revenue, net of current portion	2,651	4,422
Convertible senior notes	105,637	184,308
Lease liabilities and financing obligations, net current portion	77,265	79,282
Other non-current liabilities	2,661	2,470
Total liabilities	<u>254,430</u>	<u>331,774</u>
Commitments and contingencies		
Redeemable preferred stock:		
Series A preferred stock, par value \$0.001, 5,000,000 shares authorized, 1,777,778 and 1,777,778 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively, liquidation preference \$45 per share as of September 30, 2021 and December 31, 2020, respectively	79,193	79,193
Stockholders' deficit:		
Common stock, par value \$0.001, 95,000,000 and 50,000,000 shares authorized, 33,386,994 and 32,327,439 issued and outstanding at September 30, 2021 and December 31, 2020, respectively	33	32
Additional paid-in capital	429,978	427,431
Accumulated deficit	(511,229)	(476,058)
Total stockholders' deficit	<u>(81,218)</u>	<u>(48,595)</u>
Total liabilities, redeemable preferred stock and stockholders' deficit	<u>\$ 252,405</u>	<u>\$ 362,372</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 62,026	\$ 63,583	\$ 187,993	\$ 191,911
Cost of revenue	31,247	30,113	87,870	94,422
Gross profit	30,779	33,470	100,123	97,489
Operating expenses:				
Sales and marketing	12,669	12,405	34,481	39,863
Research and development	11,062	11,439	32,997	34,252
General and administrative	12,156	9,424	39,592	29,320
Restructuring costs	—	—	4,127	5,616
Total operating expenses	35,887	33,268	111,197	109,051
(Loss) income from operations	(5,108)	202	(11,074)	(11,562)
Other income (expense):				
Interest income	52	40	163	563
Interest expense	(5,556)	(5,771)	(16,757)	(17,524)
(Loss) gain on repurchase of convertible senior notes	(7,520)	1,138	(7,520)	1,138
Other income	120	1	142	8
Total other expense, net	(12,904)	(4,592)	(23,972)	(15,815)
Loss before income taxes	(18,012)	(4,390)	(35,046)	(27,377)
Income tax expense	42	6	125	17
Net loss	(18,054)	(4,396)	(35,171)	(27,394)
Preferred dividends	(1,600)	(1,600)	(4,800)	(2,062)
Net loss available to common stockholders	\$ (19,654)	\$ (5,996)	\$ (39,971)	\$ (29,456)
Comprehensive loss	\$ (18,054)	\$ (4,396)	\$ (35,171)	\$ (27,394)
Net loss per common share:				
Basic and diluted	\$ (0.59)	\$ (0.19)	\$ (1.21)	\$ (0.91)
Weighted-average common shares outstanding:				
Basic and diluted	33,354,624	32,263,876	32,978,394	32,320,201

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

Benefitfocus, Inc.
Unaudited Consolidated Statements of Changes in Stockholders' Deficit
(in thousands, except share and per share data)

	Common Stock, \$0.001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Par Value			
Balance, December 31, 2020	32,327,439	\$ 32	\$ 427,431	\$ (476,058)	\$ (48,595)
Exercise of stock options	15,000	1	154	—	155
Issuance of common stock upon vesting of restricted stock units	173,731	—	—	—	—
Stock-based compensation expense	—	—	1,523	—	1,523
Preferred dividends	—	—	(1,600)	—	(1,600)
Net loss	—	—	—	(2,097)	(2,097)
Balance, March 31, 2021	32,516,170	\$ 33	\$ 427,508	\$ (478,155)	\$ (50,614)
Exercise of stock options	9,250	—	102	—	102
Issuance of common stock upon vesting of restricted stock units	704,543	—	—	—	—
Issuance of common stock under Employee Stock Purchase Plan, or ESPP	4,823	—	65	—	65
Stock-based compensation expense	—	—	4,376	—	4,376
Preferred dividends	—	—	(1,600)	—	(1,600)
Net loss	—	—	—	(15,020)	(15,020)
Balance, June 30, 2021	33,234,786	\$ 33	\$ 430,451	\$ (493,175)	\$ (62,691)
Issuance of common stock upon vesting of restricted stock units	152,208	—	—	—	—
Cancellation of convertible senior note capped call hedge	—	—	98	—	98
Equity component of repurchased convertible senior notes	—	—	(3,566)	—	(3,566)
Stock-based compensation expense	—	—	4,595	—	4,595
Preferred dividends	—	—	(1,600)	—	(1,600)
Net loss	—	—	—	(18,054)	(18,054)
Balance, September 30, 2021	33,386,994	\$ 33	\$ 429,978	\$ (511,229)	\$ (81,218)

	Common Stock, \$0.001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Par Value			
Balance, December 31, 2019	32,788,980	\$ 33	\$ 426,025	\$ (451,702)	\$ (25,644)
Cumulative effect adjustment from adoption of credit standard	—	—	—	(59)	(59)
Exercise of stock options	13,584	—	73	—	73
Issuance of common stock upon vesting of restricted stock units	43,315	—	—	—	—
Stock-based compensation expense	—	—	3,677	—	3,677
Common stock repurchased	(1,070,665)	(1)	(9,382)	—	(9,383)
Net loss	—	—	—	(11,136)	(11,136)
Balance, March 31, 2020	31,775,214	\$ 32	\$ 420,393	\$ (462,897)	\$ (42,472)
Exercise of stock options	10,685	—	69	—	69
Issuance of common stock upon vesting of restricted stock units	416,848	—	—	—	—
Issuance of common stock under ESPP	8,205	—	83	—	83
Stock-based compensation expense	—	—	3,323	—	3,323
Common stock repurchased	(35,508)	—	(284)	—	(284)
Preferred dividends	—	—	(462)	—	(462)
Net loss	—	—	—	(11,862)	(11,862)
Balance, June 30, 2020	32,175,444	\$ 32	\$ 423,122	\$ (474,759)	\$ (51,605)
Exercise of stock options	38,000	—	288	—	288
Issuance of common stock upon vesting of restricted stock units	78,251	—	—	—	—

Cancellation of convertible senior note capped call hedge	(3,651)	–	26	–	26
Equity component of repurchased convertible senior notes	–	–	(412)	–	(412)
Stock-based compensation expense	–	–	3,859	–	3,859
Preferred dividends	–	–	(1,600)	–	(1,600)
Net loss	–	–	–	(4,396)	(4,396)
Balance, September 30, 2020	<u>32,288,044</u>	<u>\$ 32</u>	<u>\$ 425,283</u>	<u>\$ (479,155)</u>	<u>\$ (53,840)</u>

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

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

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (35,171)	\$ (27,394)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	18,976	18,479
Stock-based compensation expense	10,494	10,859
Accretion of interest on convertible senior notes	8,590	8,834
Interest accrual on finance lease liabilities	3,259	71
Rent expense less than payments	(41)	(24)
Non-cash accretion income from investments	741	16
Impairment or loss on disposal of right-of-use assets and property and equipment	4,074	-
Loss (gain) on extinguishment of debt	7,520	(1,138)
Provision for doubtful accounts	-	111
Changes in operating assets and liabilities:		
Accounts receivable, net	1,872	3,685
Accrued interest on investments	161	(38)
Contract, prepaid and other current assets	4,009	7,502
Deferred costs and other non-current assets	1,238	1,014
Accounts payable and accrued expenses	6,960	(9,157)
Accrued compensation and benefits	(2,136)	490
Deferred revenue	(3,441)	(5,726)
Other non-current liabilities	191	3,490
Net cash and cash equivalents provided by operating activities	<u>27,296</u>	<u>11,074</u>
Cash flows from investing activities		
Purchases of investments held to maturity	(91,361)	(67,785)
Proceeds from investments held to maturity	100,588	-
Purchases of property and equipment	(7,454)	(9,739)
Net cash and cash equivalents provided by (used in) investing activities	<u>1,773</u>	<u>(77,524)</u>
Cash flows from financing activities		
Draws on revolving line of credit	-	10,000
Payments on revolving line of credit	-	(10,000)
Repurchase of convertible senior notes	(98,678)	(14,619)
Payments of debt issuance costs	-	(154)
Cancellation of convertible senior notes capped call hedge	98	26
Proceeds from issuance of preferred stock, net of issuance costs	-	79,192
Payments of preferred dividends	(4,800)	(2,062)
Repurchase of common stock	-	(9,667)
Proceeds from exercises of stock options and ESPP	322	513
Payments on financing obligations	(226)	(635)
Payments of principal on finance lease liabilities	(3,902)	(8,880)
Net cash and cash equivalents (used in) provided by financing activities	<u>(107,186)</u>	<u>43,714</u>
Net decrease in cash and cash equivalents	<u>(78,117)</u>	<u>(22,736)</u>
Cash and cash equivalents, beginning of period	90,706	130,976
Cash and cash equivalents, end of period	<u>\$ 12,589</u>	<u>\$ 108,240</u>

Supplemental disclosure of non-cash investing and financing activities

Property and equipment purchases in accounts payable and accrued expenses	\$ 945	\$ -
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The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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

1. Organization and Description of Business

Benefitfocus, Inc. (the "Company") provides a leading cloud-based benefits management platform for consumers, employers, health plans (also known as insurance carriers) and brokers that is designed to simplify how organizations and individuals transact benefits. The financial statements of the Company include the financial position and operations of its wholly owned subsidiaries, Benefitfocus.com, Inc. and BenefitStore, Inc.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Interim Unaudited Consolidated Financial Information

The accompanying unaudited consolidated financial statements and footnotes have been prepared in accordance with GAAP as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC") for interim financial information, and with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations and comprehensive loss, financial position, changes in stockholders' deficit and cash flows. The results of operations and comprehensive loss for the three- and nine-month period ended September 30, 2021 are not necessarily indicative of the results for the full year or for any other future period. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended December 31, 2020 included in the Company's Annual Report on Form 10-K, as amended.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Such estimates include allowances for doubtful accounts and returns, valuations of deferred income taxes, long-lived assets, capitalizable software development costs and the related amortization, incremental borrowing rate used in lease accounting, the determination of the useful lives of assets, and the impairment assessment of acquired intangibles and goodwill. Additionally, as described in revenue and deferred revenue below, estimates are utilized in association with revenue recognition, in particular the estimation of variable consideration using the expected value method from insurance broker commissions reported in Platform revenue. Determination of these transactions and account balances are based on, among other things, the Company's estimates and judgments. These estimates are based on the Company's knowledge of current events and actions it may undertake in the future as well as on various other assumptions that it believes to be reasonable. Actual results could differ materially from these estimates.

Restructuring Costs

During January 2021, the Company recorded restructuring costs of \$1,400 from a reduction to its workforce. In June 2021, the Company recorded restructuring costs of \$2,727 from the elimination of the office of the executive chairman of the board of directors. Restructuring costs are comprised of one-time severance charges, continuation of health benefits and outplacement services and are presented separately in operating expenses in the consolidated statements of operations and comprehensive loss.

Revenue and Deferred Revenue

The Company derives its revenue primarily from fees for subscription services and professional services sold to employers and health plans as well as platform revenue derived from the value of products sold on its platform. Revenue is recognized when control of these services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Taxes collected from customers relating to services and remitted to governmental authorities are excluded from revenue.

The Company determines revenue recognition through the following steps:

- Identification of each contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;

- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, performance obligations are satisfied.

Software Services Revenue

Software services revenue consists of subscription revenue and platform revenue.

Subscription Revenue

Subscription revenue primarily consists of monthly or annual subscription fees paid to the Company by its employer and health plan customers for access to, and usage of, cloud-based benefits software solutions for a specified contract term. Fees are generally charged based on the number of employees or subscribers with access to the solution.

Subscription services revenue is generally recognized on a ratable basis over the contract term beginning on the date the subscription services are made available to the customer. The Company's subscription service contracts are generally three years.

Subscription revenue also includes fees paid for other services, such as event sponsorships and certain data services.

Platform Revenue

Platform revenue is generated from the value of policies or products enrolled in through the Company's marketplace. Platform revenue from insurance carriers is generally recognized over the policy period of the enrolled products. In arrangements where the Company sells policies to employees of its customers as the broker, it earns broker commissions. Revenue from insurance broker commissions and supplier transactions is recognized at a point in time when the orders for the policies are received and transferred to the insurance carrier or supplier, and is reduced by constraints for variable consideration associated with collectability, policy cancellation and termination risks.

Professional Services Revenue

Professional services revenue primarily consists of fees related to the implementation of software products purchased by customers. Professional services typically include discovery, configuration and deployment, integration, testing, and training. Fees from consulting services and support services are also included in professional services revenue.

The Company determined that implementation services for certain of its health plan customers significantly modify or customize the software solution and, as such, do not represent a distinct performance obligation. Accordingly, revenue from such implementation services with these health plan customers are generally recognized over the contract term of the associated subscription services contract, including any extension periods representing a material right. In certain arrangements, the Company utilizes estimates of hours as a measure of progress to determine revenue.

Revenue from implementation services with employer customers is generally recognized as those services are performed.

Revenue from support and training fees is recognized over the service period.

Contracts with Multiple Performance Obligations

Certain of the Company's contracts with customers contain multiple performance obligations. For these contracts, the individual performance obligations are accounted for separately if they are distinct. The Company allocates the transaction price to the separate performance obligations based on their relative standalone selling prices. The Company determines the standalone selling prices based on its overall pricing objectives, taking into consideration market conditions and other factors, including the value of its contracts, the subscription services sold, customer size and complexity, and the number and types of users under the contracts.

Contract Costs

The Company capitalizes costs to obtain contracts that are considered incremental and recoverable, such as sales commissions. Payments of sales commissions generally include multiple payments. The Company capitalizes only those payments made within an insignificant time from the contract inception, typically three months or less. Subsequent payments are expensed as incurred. The capitalized costs are amortized to sales and marketing expense over the estimated period of benefit of the asset, which is generally four to five years. The Company expenses the costs to obtain a contract when the amortization period is less than one year. Deferred costs related to obtaining contracts are included in deferred contract costs and other non-current assets.

The Company capitalizes contract fulfillment costs directly associated with customer contracts that are not related to satisfying performance obligations. The costs are amortized to cost of revenue expense over the estimated period of benefit, which is generally five years. Deferred fulfillment costs are included in deferred contract costs and other non-current assets.

The following tables present information about deferred contract costs:

	As of September 30, 2021	As of December 31, 2020
Balance of deferred contract costs		
Costs to obtain contracts	\$ 4,779	\$ 5,624
Costs to fulfill contracts	\$ 3,099	\$ 3,639

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Amortization of deferred contract costs				
Costs to obtain contracts included in sales and marketing expense	\$ 753	\$ 772	\$ 2,276	\$ 2,484
Costs to fulfill contracts included in cost of revenue	\$ 308	\$ 279	\$ 998	\$ 961

Marketable Securities

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

Debt securities classified as held-to-maturity are subject to the expected credit loss model prescribed under Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments". The Company utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for held-to-maturity securities at the time the financial asset is originated or acquired. The Company measures expected credit losses on its held-to-maturity portfolio on a collective basis by major security type. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The Company's credit loss calculations for held-to-maturity securities are based upon historical default and recovery rates of bonds rated with the same rating as its portfolio. An adjustment factor is applied to these credit loss calculations based upon the Company's assessment of the expected impact from current economic conditions on its investments. The Company monitors the credit quality of debt securities classified as held-to-maturity through the use of their respective credit rating and updates them on a quarterly basis. The allowance for credit losses is discussed in Note 5.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents, marketable securities, accounts receivable, and long-term securities. All of the Company's cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The bank deposits of the Company might at times, exceed federally insured limits and are generally uninsured and uncollateralized. The Company has not experienced any losses on cash and cash equivalents to date.

To manage credit risk related to marketable securities, the Company invests in various types of highly rated corporate bonds, commercial paper, and various United States backed securities with maturities of less than two years. The weighted average maturity of the portfolio at time of investment must not exceed nine months, per the Company's investment policy. Marketable securities with maturities of one year or less are classified as "Marketable securities" in the consolidated balance sheet. Securities with maturities exceeding one year, are included in the consolidated balance sheet within "Deferred cost and other non-current assets." As of September 30, 2021, the Company had \$3,056 of long-term securities.

To manage accounts receivable risk, the Company evaluates the creditworthiness of its customers and maintains an allowance for doubtful accounts. Accounts receivable are unsecured and derived from revenue earned from customers located in the United States. No customer exceeded 10% of accounts receivable as of September 30, 2021 and December 31, 2020. No customer exceeded 10% of total revenue in any of the three and nine-month periods ended September 30, 2021 and 2020.

Allowance for Doubtful Accounts

The Company uses a current expected credit loss model. Accounts receivable and allowance for doubtful accounts are discussed in Note 6.

Capitalized Software Development Costs

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

The following tables present information about capitalized software development costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Capitalized software development costs				
Capitalized	\$ 1,886	\$ 2,627	\$ 5,625	\$ 9,199
Amortized	\$ 2,268	\$ 2,032	\$ 6,589	\$ 5,278

<u>Capitalized software development costs</u>	<u>As of September 30, 2021</u>	<u>As of December 31, 2020</u>
Net book value	\$ 16,978	\$ 17,942

Leases

The Company periodically enters into finance leases for property and equipment. The leasing arrangements for the Company's office space at its headquarters campus are classified as finance leases. The Company also leases office space under operating leases.

The Company determines if an arrangement is a lease at inception. Right of use, or ROU, assets represent the Company's right to use an underlying asset for the lease term. Lease liabilities represent an obligation to make lease payments arising from the lease. Leases with a term of 12 months or less are not included in the recognized ROU assets and lease liabilities for all classes of assets.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Because the Company's operating leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on information available at commencement date to determine the present value of lease payments. The ROU asset also consists of any prepaid lease payments, lease incentives, or initial direct costs. The lease terms used to calculate the ROU asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while the expense for finance leases is recognized as depreciation expense and interest expense. The Company has lease agreements which require payments for lease and non-lease components (e.g. common area maintenance and equipment maintenance) that are accounted for as a single lease component. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as maintenance costs based on future obligations, are not included in the ROU assets or liabilities. These are expensed as incurred and recorded as variable lease expense.

Comprehensive Loss

The Company's net losses equal comprehensive losses for all periods presented. Presentation of the prior year comprehensive losses has been updated to reflect the exclusion of preferred dividends.

Recently Adopted Accounting Standards

On January 1, 2021, the Company adopted ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". The purpose of this ASU is to simplify various aspects related to accounting for income taxes, eliminate certain exceptions to the general principles in ASC Topic 740 related to intra-period tax allocation, simplify when companies recognize deferred taxes in an interim period, and clarify certain aspects of the current guidance to promote consistent application. ASU No. 2019-12 had no impact on the Company's consolidated financial statements.

Accounting Standards Not Yet Adopted

In August 2020, the FASB issued ASU No. 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)". The update simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and the number of embedded conversion features that could be recognized separately from the primary contract. This ASU also enhances transparency and improves disclosures for convertible instruments and earnings per share guidance. It will be effective for the Company beginning January 1, 2022. This ASU permits the use of either the modified retrospective or fully retrospective method of transition. The Company is currently evaluating the impact of the adoption of ASU 2020-06 on its consolidated financial statements, but anticipates that it will result in a reduction in non-cash interest expense related to its convertible senior notes.

3. Net Loss Per Common Share

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss.

The following common share equivalent securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the periods presented:

Anti-Dilutive Common Share Equivalents	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Restricted stock units	3,642,298	2,686,057	3,642,298	2,686,057
Stock options	97,553	122,178	97,553	122,178
Convertible senior notes	2,277,017	4,161,182	2,277,017	4,161,182
Conversion of preferred stock	5,333,334	5,333,334	5,333,334	5,333,334
Employee Stock Purchase Plan	4,051	3,117	4,051	3,117
Total anti-dilutive common share equivalents	11,354,253	12,305,868	11,354,253	12,305,868

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator:				
Net loss	\$ (18,054)	\$ (4,396)	\$ (35,171)	\$ (27,394)
Preferred dividends	(1,600)	(1,600)	(4,800)	(2,062)
Net loss attributable to common stockholders	<u>\$ (19,654)</u>	<u>\$ (5,996)</u>	<u>\$ (39,971)</u>	<u>\$ (29,456)</u>
Denominator:				
Weighted-average common shares outstanding, basic and diluted	33,354,624	32,263,876	32,978,394	32,320,201
Net loss per common share, basic and diluted	<u>\$ (0.59)</u>	<u>\$ (0.19)</u>	<u>\$ (1.21)</u>	<u>\$ (0.91)</u>

4. Fair Value Measurement

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

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

- Level 1.** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2.** Other inputs that are directly or indirectly observable in the marketplace.
- Level 3.** Unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

Description	September 30, 2021			Total
	Level 1	Level 2	Level 3	
Cash Equivalents:				
Money market mutual funds ⁽¹⁾	\$ 10,122	\$ —	\$ —	\$ 10,122
Total assets	<u>\$ 10,122</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,122</u>

Description	December 31, 2020			Total
	Level 1	Level 2	Level 3	
Cash Equivalents:				
Money market mutual funds(1)	\$ 87,224	\$ —	\$ —	\$ 87,224
Total assets	\$ 87,224	\$ —	\$ —	\$ 87,224

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

5. Marketable Securities

Marketable securities consist of corporate bonds, commercial paper and U.S. Treasury and agency bonds, and are classified as held-to-maturity. All marketable securities had contractual maturities of less than one year as of September 30, 2021 and December 31, 2020. The following tables present information about the Company's marketable securities by major security type.

Sector	As of September 30, 2021					Fair value
	Amortized cost	Allowance for credit losses	Net carrying amount	Gross unrealized gains	Gross unrealized losses	
Industrial	\$ 8,615	\$ -	\$ 8,615	\$ -	\$ (3)	\$ 8,612
Financial	71,041	-	71,041	-	(4)	71,037
Utility	2,243	-	2,243	-	-	2,243
Total	\$ 81,899	\$ -	\$ 81,899	\$ -	\$ (7)	\$ 81,892

Sector	As of December 31, 2020					Fair value
	Amortized cost	Allowance for credit losses	Net carrying amount	Gross unrealized gains	Gross unrealized losses	
Industrial	\$ 8,993	\$ -	\$ 8,993	\$ -	\$ -	\$ 8,993
Financial	55,943	-	55,943	-	(5)	55,938
Government	30,149	-	30,149	6	-	30,155
Total	\$ 95,085	\$ -	\$ 95,085	\$ 6	\$ (5)	\$ 95,086

The fair value of marketable securities in the Government major security type is classified as a Level 1 in the Company's fair value hierarchy described in Note 4. The fair values of the remaining major security types are classified as Level 2.

The Company invests in highly rated securities with maturities of two years or less at the time of purchase. Given the credit quality of the financial assets and the historical loss experience associated with their respective credit ratings as well as the duration of these financial assets and the short time horizon over which to consider expectations of future economic conditions, the Company has assessed that non-collection of the cost basis of these financial assets is remote.

6. Accounts Receivable, net

Accounts receivable, net include:

	As of September 30, 2021	As of December 31, 2020
Accounts receivable	\$ 23,547	\$ 26,791
Less: Allowance for doubtful accounts	(192)	(200)
Less: Allowance for returns	(2,987)	(4,351)
Total accounts receivable, net	\$ 20,368	\$ 22,240

Accounts receivable are stated at their amortized cost adjusted for any write-offs and net allowances for returns. The Company estimates expected credit losses related to accounts receivable balances based on a review of available and relevant information including current economic conditions, projected economic conditions, historical loss experience, account aging, and other factors that could affect collectability. Expected credit losses are determined individually or collectively depending on whether the accounts receivable balances share similar risk characteristics. The allowance for doubtful accounts is the best estimate of the amount of expected credit losses related to existing accounts receivable. The Company does not have any off-balance sheet credit exposure related to its customers.

<u>Allowance for doubtful accounts</u>	<u>Nine Months Ended September 30,</u>			
	<u>2021</u>		<u>2020</u>	
Beginning of period	\$	200	\$	155
Provision for credit losses		18		187
Write-offs and recoveries		(26)		(44)
End of period	\$	192	\$	298

The allowances for returns are accounted for as reductions of revenue and are estimated based on the Company's periodic assessment of historical experience and trends. The Company considers factors such as historical reasons for adjustments, service and delivery issues or delays, and past due customer billings.

7. Convertible Senior Notes

In December 2018, the Company issued \$240,000 aggregate principal amount of 1.25% convertible senior notes ("Notes") due December 15, 2023, unless earlier repurchased by the Company or converted by the holder pursuant to their terms. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing on June 15, 2019.

The Notes are governed by an Indenture between the Company, as issuer, and U.S. Bank, National Association, as trustee. The Notes are unsecured and rank: senior in right of payment to the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to the Company's unsecured indebtedness that is not subordinated; effectively junior in right of payment to any of the Company's senior, secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities incurred by the Company's subsidiaries.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

At issuance, the Notes had an initial conversion rate of 18.8076 shares of common stock per \$1 principal amount of Notes, which represented an initial effective conversion price of approximately \$53.17 per share of common stock and 4,513,824 shares issuable upon conversion. Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest, if any, upon conversion of a Note, except in limited circumstances. Accrued but unpaid interest will be deemed to be paid by cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock paid or delivered, as the case may be, to the holder upon conversion of Notes.

Prior to the close of business on September 14, 2023, the Notes will be convertible at the option of holders during certain periods, only upon satisfaction of certain conditions set forth below. On or after September 15, 2023, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at the conversion price at any time regardless of whether the conditions set forth below have been met.

Holders may convert all or a portion of their Notes prior to the close of business on September 14, 2023, in multiples of \$1 principal amount, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2019 (and only during such calendar quarter), if the last reported sales price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period, or the Notes measurement period, in which the "trading price" (as defined in the Indenture) per \$1 principal amount of notes for each trading day of the Notes measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on September 14, 2023; or
- upon the occurrence of specified corporate events.

As of September 30, 2021, the Notes were not convertible.

Based on market data available for publicly traded, senior, unsecured corporate bonds issued by companies in the same industry and with similar maturity, the Company estimated the implied market interest rate of its Notes to be approximately 7.30%, assuming no conversion option. Assumptions used in the estimate represent what market participants would use in pricing the liability component of the Notes, including market interest rates, credit standing, and yield curves, all of which are defined as Level 2 observable inputs. The estimated implied interest rate was applied to the Notes, which resulted in a fair value of the liability component of \$181,500 upon issuance, calculated as the present value of future contractual payments based on the \$240,000 aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the Notes. The \$58,500 difference between the gross proceeds received from issuance of the Notes of \$240,000 and the estimated fair value of the liability component represented the equity component of the Notes and was recorded in additional paid-in capital. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the Notes, the Company allocated the total amount incurred to the liability and equity components in proportion to the allocation of proceeds. Transaction costs attributable to the liability component,

totaling \$4,808, are being amortized to expense over the term of the Notes, and transaction costs attributable to the equity component, totaling \$1,550, are included with the equity component in stockholders' deficit.

During the three months ended September 30, 2021, the Company repurchased Notes with an aggregate principal amount of \$100,181 and carrying value of \$87,592, including accrued interest. The Company paid \$98,678 in cash of which \$95,113, including broker fees, was allocated to the liability component of the Notes and \$3,566 was allocated to the equity component and recorded as an adjustment to additional paid-in capital. The Company recognized a loss on the extinguishment of the liability in the amount of \$7,520, including \$501 of broker fees, that is presented separately in other income (expense) in the unaudited consolidated statements of operations and comprehensive loss.

During the three months ended September 30, 2020, the Company repurchased Notes with an aggregate principal amount of \$18,750 and carrying value of \$15,346. The Company paid \$14,619 in cash of which \$14,207 was allocated to the liability component of the Notes and \$412 was allocated to the equity component and recorded as an adjustment to additional paid-in capital. The Company recognized a gain on the extinguishment of the liability in the amount of \$1,139 that is presented separately in other income (expense) in the unaudited consolidated statements of operations and comprehensive loss.

The Notes consist of the following:

	As of	
	September 30, 2021	December 31, 2020
Liability component:		
Principal	\$ 121,069	\$ 221,250
Less: Debt discount, net of amortization	(15,432)	(36,942)
Net carrying amount	\$ 105,637	\$ 184,308
Equity component (a)	52,973	56,539

(a) Recorded in the consolidated balance sheet within additional paid-in capital, net of \$1,550 transaction costs in equity.

The following table sets forth total interest expense recognized related to the Notes:

Interest expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
1.25% coupon	\$ 656	\$ 750	\$ 2,039	\$ 2,250
Amortization of debt discount and transaction costs	2,811	2,940	8,591	8,834
Total	\$ 3,467	\$ 3,690	\$ 10,630	\$ 11,084

As of September 30, 2021, the fair value of the Notes, which was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the Notes in an over-the-counter market (Level 2), and carrying value of debt instruments (carrying value excludes the equity component of the Company's Notes classified in equity) were as follows:

	September 30, 2021		December 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible senior notes	\$ 114,224	\$ 105,637	\$ 192,587	\$ 184,308

In connection with the issuance of the Notes, the Company entered into capped call transactions with certain counterparties affiliated with the initial purchasers and others. The capped call transactions are expected to reduce potential dilution of earnings per share upon conversion of the Notes. Under the capped call transactions, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock underlying the Notes, with an initial strike price of approximately \$53.17 per share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$89.98. The cost of the purchased capped calls of \$33,024 was recorded to stockholders' deficit and will not be re-measured provided it continues to meet the conditions for equity classification.

In connection with the repurchase of the Notes described above, the Company terminated a portion of the capped call transactions which resulted in \$98 of cash payments to the Company during the three months ended September 30, 2021, which were recorded in additional paid-in capital. During the three months ended September 30, 2020, an immaterial amount of payments to the Company in cash was made to the Company in connection with termination of capped calls and was recorded in addition paid-in capital.

Based on the closing price of our common stock of \$11.10 on September 30, 2021, the last trading day of the quarter, the if-converted value of the Notes was less than the principal amount.

8. Revolving Line of Credit

The Company entered into a credit facility with Silicon Valley Bank providing for a revolving line of credit agreement on March 3, 2020. This agreement replaced the Company's previous agreement with Silicon Valley Bank, which expired on February 20, 2020. The three-year agreement has a borrowing limit of \$50,000, with the ability for the Company to increase it to up to \$100,000. Interest is payable monthly. Advances under the agreement bear interest at (a) the higher of (i) the prime rate as published in the Wall Street Journal or (ii) the federal funds effective rate plus 0.50%, plus (b) an applicable margin ranging from (0.50%) to 0.50% based on the Company's Average Daily Usage ("ADU") of the credit facility in the preceding month. The Company also is charged for amounts unused under this arrangement at a rate ranging from 0.00% to 0.40% based on the Company's ADU in the preceding month. Any outstanding principal is due at the end of the term.

The obligations of the Company under the credit facility are secured by a first priority lien (subject to certain permitted liens) in substantially all of the personal property assets of the Company and its subsidiaries pursuant to the terms of a Guarantee and Collateral Agreement, dated March 3, 2020 and the other security documents.

The credit facility requires the Company to maintain a Consolidated Adjusted Quick Ratio ("AQR") of (i) Consolidated Quick Assets to (ii) Consolidated Current Liabilities minus the current portion of Deferred Revenue of at least 1.25 to 1.00 as of the last day of any fiscal quarter, and, if the AQR is less than 2.00 to 1.00, a Minimum Consolidated EBITDA of at least \$1.00 for any such fiscal quarter calculated on a trailing 12-month basis. The Company also has agreed to fiscal year dollar limits on its capital expenditures. If an event of default occurs, the lender would be entitled to take various actions, including the acceleration of amounts due under the credit facility and all actions permitted to be taken by a secured creditor.

There were no amounts outstanding under the Company's revolving line of credit as of September 30, 2021 and December 31, 2020. The amount available to borrow was \$50,000 and the interest rate was 2.75% as of September 30, 2021. No amounts were borrowed or repaid under the credit facility during the nine months ended September 30, 2021. The Company borrowed and repaid \$10,000 under the credit facility during the nine months ended September 30, 2020.

9. Commitments

Supplemental cash flow information related to the Company's operating and finance leases was as follows:

	Nine Months Ended September 30, 2021	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Financing cash flows from finance leases	\$	3,902
Operating cash flows from finance leases	\$	2,598
Operating cash flows from operating leases	\$	362
ROU Assets Obtained in Exchange for New Lease Obligations		
Finance lease liabilities	\$	478
Operating lease liabilities	\$	-

As of September 30, 2021, the Company had no additional significant operating or finance leases that had not yet commenced.

In April 2021, the Company entered into a non-cancellable sublease agreement for part of one building on its headquarters campus. The sublease term expires May 31, 2028 and may be renewed at the option of the sublessee through November 30, 2031. Because market conditions and value have declined since the Company entered into its lease, in part due to the COVID-19 pandemic, payments to the Company under the sublease are less than its current obligation for the asset. Accordingly, the Company recorded an impairment loss of the financing lease ROU asset of \$4,003 based on the excess of the carrying amount over the calculated fair value of the sublease. This impairment expense was included in operating expenses in the Company's consolidated statements of operations and comprehensive loss for the period ended September 30, 2021.

10. Redeemable Preferred Stock

On June 4, 2020, the Company issued and sold 1,777,778 shares of its newly created series of preferred stock, par value of \$0.001 per share, designated as "Series A Convertible Preferred Stock" (the "Preferred Stock") to BuildGroup LLC (the "Buyer") at a purchase price of \$45 per share, resulting in total gross proceeds for the Company of approximately \$80,000. A member of the Company's Board of Directors is the Chief Executive Officer of the Buyer. The Buyer also has a second representative on the Board.

The Preferred Stock ranks senior to the Company's common stock with respect to dividends and distributions on liquidation, winding-up and dissolution. Each share of the Preferred Stock has an initial stated value of \$45 per share. Holders of shares of the Preferred Stock are entitled to a dividend equal to 8.00% per annum (the "Regular Dividends"), payable quarterly, beginning on June 30, 2020. The Regular Dividends are payable in cash or in kind, at the Company's option. In the event a Regular Dividend is paid in kind, the stated value of each share of the Preferred Stock will be increased by an amount equal to the accrued Regular Dividend not paid in cash. As of September 30, 2021, the Company had paid all dividends on the Preferred Stock in cash. Holders of the Preferred Stock are also entitled to participate in and receive any dividends declared or paid on the common stock on an as-converted basis, and no dividends may be paid to holders of the common stock unless full participating dividends are concurrently paid to the holders of the Preferred Stock.

Each holder of the Preferred Stock has the right, at its option, to convert its shares of the Preferred Stock, in whole or in part, into fully paid and non-assessable shares of the common stock, at any time and from time to time. The number of shares of the common stock into which a share of the Preferred Stock will convert at any time is equal to the quotient obtained by dividing its stated value then

in effect plus any accumulated and unpaid Regular Dividends by its conversion price of \$15.00. The conversion price is subject to customary anti-dilution adjustments, including in the event of any stock split, stock dividend, recapitalization or similar events. At closing, before payment of any dividends in kind, the 1,777,778 shares of the Preferred Stock were convertible into 5,333,334 shares of common stock.

The Company may, at its option, redeem the outstanding shares of the Preferred Stock following the fourth anniversary of its issuance. Redemption by the Company is subject to certain liquidity conditions as well as conditions connected with the trading price of its common stock. Upon redemption by the Company, the Company will pay the holder of the Preferred Stock 105% of the initial stated value of such share plus any increase in the stated value from the initial stated value plus accumulated and unpaid Regular Dividends. If the Company undergoes a change of control as defined in the purchase agreement, the Company must redeem all of the then-outstanding shares of the Preferred Stock for cash consideration equal to the greater of the amount due for redemption as described above and the amount such holder of shares of the Preferred Stock would have received in respect of the number of shares of the Common Stock that would be issuable upon conversion of such share of the Preferred Stock.

Unless and until approval of the Company's stockholders is obtained as contemplated by the NASDAQ listing rules, no holder of the Preferred Stock may convert shares of the Preferred Stock into shares of common stock if and to the extent that such conversion would result in the holder beneficially owning in excess of 19.9% of the then-outstanding shares of the common stock.

As long as not less than 60% of the shares of the Preferred Stock originally issued remain outstanding, the holders of a majority of the then-outstanding shares of the Preferred Stock, voting together as a single class, have the right at any election of directors to elect two directors if the Board consists of nine or fewer directors or three directors if the Board consists of 10 directors. At any time, such elected director(s) may be removed with or without cause only by the affirmative vote or written consent of a majority of the holders of the Preferred Stock entitled to elect such director.

Holders of the Preferred Stock generally are entitled to vote with the holders of the shares of the common stock on all matters submitted for a vote of holders of shares of the common stock (voting together with the holders of shares of the common stock as one class) on an as-converted basis, subject to a limitation of ownership of 19.9% of common stock. Additionally, certain matters require the approval of the holders of a majority of the outstanding shares of the Preferred Stock, voting as a separate class.

The Buyer is subject to limitations while it holds at least 10% of the Preferred Stock originally purchased. Furthermore, until the earliest of May 30, 2024 and receipt of a notice of redemption, the Buyer cannot sell, transfer or otherwise dispose of the shares of the Preferred Stock or the underlying shares of the common stock, subject to limited exceptions that include exceptions in the case of transfers to certain permitted transferees.

For so long as the Buyer and its affiliates collectively hold at least 60% of the shares of the Preferred Stock originally purchased by it or the common stock issuable upon conversion thereof, the Company will pay the Buyer a fee of \$400 for the first year following closing and \$200 per year thereafter. These management and oversight fees are expensed over the period incurred.

In the period of issuance, the Company incurred \$807 in issuance costs related to the sale of the Preferred Stock, including \$150 of reimbursement to the Buyer for reasonable fees and out-of-pocket expenses incurred by the Buyer in connection with the transaction. The issuance costs were netted against the proceeds from this transaction.

11. Stock-based Compensation

Restricted Stock Units

During the nine months ended September 30, 2021, the Company granted 2,117,832 restricted stock units, or RSUs, to employees and officers with an aggregate grant date fair value of \$28,376. These RSUs generally vest in equal annual installments over various periods ranging from one to four years from the grant date, subject to continued service to the Company. The Company amortizes the grant date fair value of the stock subject to the RSUs on a straight-line basis over the period of vesting. The weighted-average vesting period for these RSUs is approximately 3.9 years from the date of grant.

The Company granted 699,504 performance RSUs with an aggregate grant date fair value of \$9,693 during the nine months ended September 30, 2021. The aggregate grant date fair value of the performance RSUs assuming target achievement was \$7,349. The number of performance RSUs that will vest will be determined upon the achievement of certain financial targets for 2021, and vesting will then occur in equal annual installments over various periods ranging from less than one year to up to four years from the grant date. The actual number of shares issued upon vesting could range between 0% and 100% of the number of awards granted. The grant date fair value of the stock subject to the performance RSUs is amortized to expense on an accelerated basis over the period of vesting. The weighted-average vesting period for these performance RSUs is approximately 3.2 years from the date of grant.

In May 2021, the Company granted 106,640 performance RSUs with an aggregate derived fair value of \$1,069. The performance RSUs vest in a single installment if the Company's closing stock price is at least \$23.00 for a period of 20 consecutive trading days occurring after the second anniversary of the grant and prior to the fifth anniversary of the grant. If this price-based requirement is met before the third anniversary of the grant date, then the performance RSUs will vest on the third anniversary of the grant date subject to continued service to the Company. If this price-based requirement is met after the third anniversary but prior to the fifth anniversary of the grant date, then the performance RSUs will vest on the date the price requirement is met subject to continued service to the Company. The Company will amortize the aggregate derived fair value of the stock subject to the performance RSUs on a straight-line basis over the derived service period of 2.3 years from the date of grant.

12. Stockholders' Deficit

Common Stock

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

At September 30, 2021, the Company had reserved a total of 10,955,374 of its authorized 95,000,000 shares of common stock for future issuance as follows:

Outstanding stock options	97,553
Restricted stock units	3,642,298
Available for future issuance under stock award plans	1,792,492
Available for future issuance under ESPP	89,697
Issuable upon conversion of Series A Preferred Stock	5,333,334
Total common shares reserved for future issuance	<u>10,955,374</u>

At the Company's annual meeting of stockholders held in June 2021, the stockholders approved an amendment to the Company's Restated Certificate of Incorporation, as amended to increase the total number of authorized shares of common stock reserved for issuance thereunder from 50,000,000 to 95,000,000 shares.

13. Revenue

Disaggregation of Revenue

The following tables provide information about disaggregation of revenue by service line:

Service line:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Subscription	\$ 44,790	\$ 44,989	\$ 134,716	\$ 134,759
Platform	6,157	5,606	19,801	17,739
Total software services	\$ 50,947	\$ 50,595	\$ 154,517	\$ 152,498
Professional services	11,079	12,988	33,476	39,413
Total	\$ 62,026	\$ 63,583	\$ 187,993	\$ 191,911

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers:

	Balance at Beginning of Period	Balance at End of Period
Nine Months Ended September 30, 2021		
Contract assets	\$ 15,105	\$ 7,076
Contract liabilities:		
Deferred revenue	\$ 32,204	\$ 28,764
Nine Months Ended September 30, 2020		
Contract assets	\$ 16,685	\$ 6,792
Contract liabilities:		
Deferred revenue	\$ 38,508	\$ 32,782

The Company recognizes payments from customers based on contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets include amounts related to the Company's contractual right to consideration for completed performance objectives not yet invoiced. Contract liabilities include payments received in advance of performance under the contract and are recognized as revenue when earned under the contract. The Company had no asset impairment charges related to contract assets during the nine months ended September 30, 2021 and 2020.

During the three and nine months ended September 30, 2021, there were no significant changes in the contract assets outside of standard revenue and billing activity.

Revenue recognized during the three and nine months ended September 30, 2021 that was included in the deferred revenue balance at the beginning of the period was \$12,735 and \$26,677, respectively.

The Company recorded favorable adjustments to revenue arising from performance obligations satisfied or partially satisfied in previous periods of \$609 and \$2,713 during the three and nine months ended September 30, 2021, respectively.

Performance Obligations

As of September 30, 2021, the aggregate amount of the Company's performance obligations that are unsatisfied or partially unsatisfied were approximately \$255,000, of which a majority are expected to be satisfied within the next three years. The Company excludes from its population of performance obligations contracts with original durations of one year or less, contract renewal periods that renew automatically, and amounts of variable consideration that are allocated to wholly unsatisfied distinct service that forms part of a single performance obligation and meets certain variable allocation criteria.

14. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2021 was less than one percent, primarily as a result of estimated tax losses for the fiscal year-to-date offset by the increase in the valuation allowance in the net operating loss carryforwards. Current tax expense relates to estimated state income taxes and indefinite life intangibles. The limitation on the utilization of net operating losses in the indefinite life period is limited to 80% of taxable income because of provisions in the Tax Cuts and Jobs Act.

15. Segments and Geographic Information

The Company views its operations and manages its business as one operating segment. Segment information matches the consolidated financial information for the current period and prior periods reported.

16. Related Parties

Series A Preferred Stock

As described in Note 10, the Company sold 1,777,778 shares of Preferred Stock to an entity whose Chief Executive Officer is a member of the Company's Board of Directors. The Company paid dividends of \$1,600 to the Buyer in each of the three months ended September 30, 2021 and 2020, and \$4,800 and \$2,062 for the nine months ended September 30, 2021 and 2020, respectively. Additionally, the Company paid management oversight fees of \$129 to the Buyer for the three months ended September 30, 2020, and \$186 and \$129 to the Buyer for the nine months ended September 30, 2021 and 2020, respectively. There were no management oversight fees paid in the three months ended September 30, 2021. Management oversight fees due to the Buyer were \$50 as of September 30, 2021 and were recorded in "Accrued expenses". There were no management oversight fees due to the Buyer as of December 31, 2020. In connection with this transaction, the Company reimbursed the Buyer \$150 for fees incurred in closing the sale of the Preferred Stock in June 2020. The significant terms of the Preferred Stock are described in Note 10.

Leasing Arrangements

The Company leases its office space at its Charleston, South Carolina headquarters campus under the terms of three non-cancellable leases from entities affiliated with a significant stockholder who was a former executive and Company director. In June 2021, the stockholder resigned as a director and the Company eliminated the office of the executive chairman. As a result, as of July 1, 2021, the Company no longer considers these entities to be related parties. The Company's headquarter campus building leases are accounted for as financing lease ROU assets and lease liabilities on the Consolidated Balance Sheet as of September 30, 2021. The lease agreements have 15-year terms ending on December 31, 2031, with Company options to renew for five additional years. The arrangements provide for 3.0% fixed annual rent increases. For the period January 1, 2021 to June 30, 2021, payments under these agreements were \$1,241. Payments under these agreements were \$2,594 and \$12,525 for the three and nine months ended September 30, 2020, respectively. In March 2020, the Company prepaid rent in the amount of \$3,993 for periods during the first half of 2021, representing an approximately 17% discount on the amounts due. Other amounts due to these former related parties were \$667 as of December 31, 2020, and were recorded in "Accrued expenses".

Other Related Party Expenses

The Company utilizes the services of various companies that are owned and controlled by a significant stockholder who was also a former executive and Company director. In June 2021, the stockholder resigned as a director and the Company eliminated the office of the executive chairman. As a result, as of July 1, 2021, the Company no longer considers these companies to be related parties. The companies provided construction project management services, private air transportation and other services. For the period January 1, 2021 to June 30, 2021, expenses related to these companies were \$37. There were no expenses related to these companies for the three months ended September 30, 2020. For the nine months ended September 30, 2020, expenses related to these companies were \$127. Amounts due to these former related parties were de minimus as of December 31, 2020.

17. Subsequent Events

Leasing Arrangements

Effective October 1, 2021, monthly payments related to a certain building lease on the Company's headquarters campus were reduced by a total of \$4,358 over the remaining lease term ended December 31, 2031. The Company is currently evaluating the impact of this lease modification on its consolidated financial statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements about our ability to retain and hire necessary associates and appropriately staff our operations; statements about our ability to establish and maintain intellectual property rights; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends; and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “will,” “plan,” “project,” “seek,” “should,” “target,” “would,” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors” included in Item 1A of Part II of this Quarterly Report on Form 10-Q, and the risks discussed in our other SEC filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with the financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, as amended for the fiscal year ended December 31, 2020. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" included in Item 1A of Part II of this Quarterly Report on Form 10-Q, and the risks discussed below and in our other SEC filings.

Overview

Benefitfocus provides industry-leading, cloud-based benefits management technology solutions for employers and health plans. The Benefitfocus enrollment platform simplifies how organizations procure benefits and connect to the necessary benefits products and services that improve the lives of their employees and the American workforce. Our core technology solutions facilitate employee benefits administration and enrollment; our solutions enable working Americans and their families to select and engage in the right benefits products and services for themselves; and our data advantage delivers insights to employers, health plans and their advisors to help control healthcare spending and reduce unnecessary expenses.

The Benefitfocus Platform has a multi-tenant architecture and a user-friendly interface designed for employees to access all of their benefits in one place. Our comprehensive solutions support medical benefit plans and non-medical benefits, such as, dental, life, disability insurance, income protection, pet insurance, digital health and financial wellness. Our platform includes functionality designed to help consumers identify and evaluate benefit options available to them. As the number of employer benefits plans has increased, with each plan subject to many different business rules and requirements, interest in the Benefitfocus Platform is growing.

Our economic model includes a transaction-oriented solution, known as our Benefit Catalog, that aligns brokers, carriers and suppliers around the needs of employers and employees. In this model, Benefit Catalog sellers, who are carriers and suppliers, offer their voluntary and specialty benefit products in a "marketplace" alongside the benefits enrollment platform. This marketplace is designed to increase the economic value of the employee and consumer lives on our platform by aligning Benefit Catalog products to consumer needs. In exchange for Benefitfocus delivering employee/consumer access, data-driven analysis and operational efficiencies, seller partners pay us a percentage of the purchases completed on our platform. Carrier agreements generally have terms of two to four years and are typically cancellable upon breach of contract or insolvency. Supplier contracts have terms of one year or less and are generally cancellable upon breach of contract, failure to cure, bankruptcy and termination for convenience.

We classify our revenue into three streams – subscription, platform, and professional services revenue. Subscription and platform revenue are combined and reported as software services revenue.

Subscription revenue primarily consists of monthly subscription fees paid to us by our employer and health plan customers for access to, and usage of, cloud-based benefits software solutions for a specified contract term. Subscription fees are generally charged based on the number of employees or subscribers with access to the solution. Subscription revenue accounted for approximately 72% and 71% of our total revenue during the three-month period ended September 30, 2021 and 2020, respectively, and approximately 72% and 70% of our total revenue during the nine-month period ended September 30, 2021 and 2020, respectively.

Platform revenue includes Benefit Catalog transactional revenue, which is generated from the value of the policies or products enrolled in through our marketplace. Benefit Catalog revenue from insured products is generally recognized over the policy period of the enrolled products. In arrangements where we sell policies to employees of our customers as the broker, we earn insurance broker commissions. Revenue from insurance broker commissions and Benefit Catalog supplier transactions is generally recognized at the time when open enrollment is complete and the orders for policies are transferred to the supplier. Platform revenue accounted for approximately 10% and 9% of our total revenue during the three-month period ended September 30, 2021 and 2020, respectively, and approximately 11% and 9% of our total revenue during the nine-month period ended September 30, 2021 and 2020, respectively.

Our professional services revenue stream is largely derived from the implementation of our customers onto our platform, which typically includes discovery, configuration and deployment, integration, testing, and training. We also provide customer support services and customized media content that supports our customers' effort to educate and communicate with consumers. Professional services revenue accounted for approximately 18% and 20% of our total revenue during the three-month period ended September 30, 2021 and 2020, respectively, and approximately 18% and 21% of our total revenue during the nine-month period ended September 30, 2021 and 2020, respectively.

Expanding our customer base is a key element of our growth strategy. We believe that our continued innovation and solutions, which extend the functionality of our offerings, provide more robust data analytics capabilities and enhance our ability to quickly respond to evolving market needs. We believe these innovative capabilities will help us attract additional lives to our platform through new employer customers, partners and brokers and increase our revenue from existing customers and relationships.

We believe that there is a substantial market for our services, and we have been investing in our services to further enhance and expand our offerings over the past several years. We continue to invest in technology and services to better serve our customers, which we believe are an important source of growth for our business. Through a best-in-class enrollment experience, as well as modernizing our enrollment platform, we believe we will drive better customer retention. As we have invested in growth, we have had operating

losses in each of the last ten years. Although our operating results have improved, we could incur operating losses in future periods. Due to the nature of our customer relationships, which have been stable in spite of some customer losses over the past years, and our hybrid subscription and transaction-based financial model, we believe that our current investment in growth should lead to increased revenue in the long-term, which may allow us to achieve profitability in the relatively near future. Of course, our ability to achieve profitability will continue to be subject to many factors beyond our control.

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as a pandemic. We continue to actively monitor COVID-19, including the development of COVID-19 variants, and its potential impact on our operations and financial results. In response to the pandemic, we implemented cost management actions in the second quarter of 2020 to maintain our financial health and liquidity through these economic uncertain times. These included actions to reduce our workforce by approximately 17%, renegotiating vendor service contracts and reducing discretionary expenditures such as travel and professional services. These actions also included investing in accelerating automation efforts to gain efficiencies.

During the initial peak of the COVID-19 pandemic in the second quarter of 2020, we experienced sales delays as HR professionals and health plan administrators shifted their focus to other priorities and challenges their businesses face as a result of the pandemic. We believe the financial impacts from COVID-19 are temporary in nature and do not significantly affect our business model and growth strategy in the long-term. Therefore, we did not consider the COVID-19 pandemic to have been a triggering event to accelerate our annual impairments tests.

We evaluated our goodwill and indefinite-lived intangible assets and determined there were no interim triggering events as it was not more likely than not that the fair value of our reporting units would be less than their respective carrying amounts. Additionally, we evaluated our long-lived assets, including our property, plant and equipment, lease right-of-use assets and other intangible assets. During the second quarter 2021, we recorded an impairment loss as a result of subleasing space based on the excess of carrying value over the calculated fair value of the sublease of one of our headquarter building financing lease ROU assets. As we continue to evaluate our real estate footprint and one that assumes fewer of our associates working from the office on a full-time basis, we may incur additional impairments on our ROU assets as we evaluate options to sublet certain locations.

The impact that the evolving COVID-19 pandemic will have on our consolidated financial statements for the remainder of 2021 and beyond continues to remain uncertain and ultimately will be determined by the length and severity of the pandemic, as well as the economic recovery and federal, state and local government actions taken in response. We will continue to evaluate the nature and extent of these potential impacts to our business and consolidated financial statements.

While the ultimate impact of the pandemic on our business and financial results remains uncertain, our business has been particularly impacted by new sales. The longer sales cycles we experienced and slowdown in new sales activity in 2020 and the first half of 2021 negatively impacted growth in subscription revenue and platform revenue from new business in 2021. Demand from our health plan customers has not returned to pre-pandemic levels, noting health plan administrators are burdened with competing priorities, as well as redirecting spend on initiatives such as individual marketplaces instead of group enrollment where we are focused today. Additionally, we've experienced higher seasonal contract labor costs.

However, as a result of the nature of our customer relationships, the stability of our subscription revenue, the cost restructuring actions taken in the second quarter of 2020 as well as the first and second quarters of 2021, and our ongoing investments in automation, we believe we will continue to generate cash flows from operations in the relatively near future. Of course, our ability to generate cash flows from operations is subject to many risks and factors beyond our control.

Key Financial and Operating Performance Metrics

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

Adjusted EBITDA

Adjusted EBITDA represents our losses before net interest and other expenses, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation, transaction and acquisition-related costs expensed, restructuring costs, impairment of goodwill, intangible assets, and long-lived assets, gain or loss on extinguishment of debt and costs not core to our business. We believe that the exclusion of the expenses eliminated in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results. However, adjusted EBITDA is not a measure calculated in accordance with United States generally accepted accounting principles, or GAAP, and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP.

Our use of adjusted EBITDA as an analytical tool has limitations, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are:

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Reconciliation from Net Loss to Adjusted EBITDA:				
Net loss	\$ (18,054)	\$ (4,396)	\$ (35,171)	\$ (27,394)
Depreciation	3,615	3,774	10,682	11,496
Amortization of software development costs	2,268	2,032	6,589	5,278
Amortization of acquired intangible assets	568	568	1,705	1,705
Interest income	(52)	(40)	(163)	(563)
Interest expense	5,556	5,771	16,757	17,524
Income tax expense	42	6	125	17
Stock-based compensation expense	4,595	3,859	10,494	10,859
Transaction and acquisition-related costs expensed	80	18	240	425
Restructuring costs	-	-	4,127	5,616
Impairment of long-lived assets	-	-	4,003	-
Loss (gain) on repurchase of convertible senior notes	7,520	(1,138)	7,520	(1,138)
Costs not core to our business	542	-	4,140	-
Total net adjustments	24,734	14,850	66,219	51,219
Adjusted EBITDA	<u>\$ 6,680</u>	<u>\$ 10,454</u>	<u>\$ 31,048</u>	<u>\$ 23,825</u>

Net Benefit Eligible Lives

We are focused on driving revenue growth from adding lives to our platform and driving incremental transaction revenue. We believe the number of net benefit eligible lives is a key indicator of our market penetration, growth and future revenue. We believe net benefit eligible lives is highly correlated to our subscription revenue and is the foundation of our transaction revenue opportunity. We define a net benefit eligible life as a person with access to a benefits enrollment subscription under standard contracting or a freelancer with access to benefits enrollment, plus their estimated dependents, as of the measurement date. This definition excludes lives from other subscription-related contracts.

	As of September 30,	
	2021	2020
	(in millions)	
Net benefit eligible lives	16.0	18.2

As previously disclosed, in the second quarter of 2021, we terminated our relationship with Shipt, Inc., which decreased the number of net benefit eligible lives in the second quarter of 2021 by approximately 1.9 million, all of which were freelancers. Freelancers generate only platform revenue by purchasing voluntary benefits and other offerings. The participation rate of freelancers on our platform was historically low and had minimum impact to revenue. As of September 30, 2021, there were no freelancers on our platform. Excluding Shipt's participation in the prior period, net benefit eligible lives were down slightly compared to the prior period. This downward trend is expected to continue for the year primarily driven by lower levels of renewals with certain health plans.

Software Services Revenue Retention Rate

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

Our software services revenue retention rate was greater than 95% for the three and nine months ended September 30, 2021, and greater than 90% for both the three and nine months ended September 30, 2020. The lower retention rates in the prior year are primarily the result of the impact on revenue from the renegotiation of a certain customer contract. Excluding this customer, our software revenue retention rate exceeded 95% for all periods. We expect our software revenue retention rate for the full year to continue at or near current rates.

Components of Operating Results

Revenue

We derive the majority of our revenue from monthly subscription fees paid to us by our employer and health plan customers for access to, and usage of, our cloud-based benefits software solutions for a specified contract term. We derive platform revenue from both insurance broker commissions from the sale of voluntary and ancillary benefits policies to employees of our customers and from transaction revenue from life and ancillary insurance carriers and specialty providers. We also derive revenue from professional services fees, which primarily include fees related to the implementation of our customers onto our platform. Our professional services typically include discovery, configuration and deployment, integration, testing, and training.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Subscription	\$ 44,790	\$ 44,989	\$ 134,716	\$ 134,759
Platform	6,157	5,606	19,801	17,739
Total software services	\$ 50,947	\$ 50,595	\$ 154,517	\$ 152,498
Professional services	11,079	12,988	33,476	39,413
Total revenue	\$ 62,026	\$ 63,583	\$ 187,993	\$ 191,911

We recognize revenue when control of these services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Taxes collected from customers relating to services and remitted to governmental authorities are excluded from revenues.

We determine revenue recognition through the following steps:

- Identification of each contract with a customer;

- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, performance obligations are satisfied.

Software Services Revenue

Software services revenue consists of subscription and platform revenue.

Subscription Revenue

Subscription revenue primarily consists of monthly subscription fees paid to us by our customers for access to, and usage of, cloud-based benefits software solutions for a specified contract term. Fees are generally charged based on the number of employees or subscribers with access to the solution.

Subscription revenue is generally recognized on a ratable basis over the contract term beginning on the date the subscription services are made available to the customer. Our subscription service contracts are generally three years.

Subscription revenue also includes fees paid for other services, such as event sponsorships and certain data services.

Platform Revenue

Platform revenue is generated from the value of the policies or products enrolled in through our marketplace. Platform revenue from carriers is generally recognized over the policy period of the enrolled products. In arrangements where we sell policies to employees of our customers as the broker, we earn insurance broker commissions. Revenue from insurance broker commissions and Benefit Catalog supplier transactions is recognized at the point when the orders for the policies are received and transferred to the insurance carrier or supplier and is reduced by constraints for variable consideration associated with collectability, policy cancellation and termination risks.

Professional Services Revenues

Professional services revenue primarily consists of fees related to the implementation of software products purchased by customers. Professional services typically include discovery, configuration and deployment, integration, testing, and training. Fees from consulting services, support services and training are also included in professional services revenue.

We determined that implementation services for certain of our health plan customers significantly modify or customize the software solution and, as such, do not represent a distinct performance obligation. Accordingly, revenue from such implementation services with these health plan customers are generally recognized over the contract term of the associated software services contract, including any extension periods representing a material right. We utilize estimates of hours as a measure of progress to determine revenue for certain types of arrangements.

Revenue from implementation services with employer customers is generally recognized as those services are performed.

Revenue from support and training fees is recognized over the service contract period.

Contracts with Multiple Performance Obligations

Certain of our contracts with customers contain multiple performance obligations. For these contracts, the individual performance obligations are accounted for separately if they are distinct. The transaction price is allocated to the separate performance obligations based on their relative standalone selling prices. We determine the standalone selling prices based on their overall pricing objectives, taking into consideration market conditions and other factors, including the value of their contracts, the software services sold, customer size and complexity, and the number and types of users within the contracts.

Overhead Allocation

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

Cost of Revenue

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

We expense cost of revenue associated with fulfilling performance obligations as we incur the costs. Costs that relate directly to a customer contract that are not related to satisfying a performance obligation are capitalized and amortized to cost of revenue over the estimated period of benefit of the contract asset, which is generally five years.

Subscription and platform revenue are both generated from our platform and result from the same set of assets and activities. As such, we are not able to meaningfully separate and assign costs of revenue to subscription and platform revenue separately.

We expect cost of revenue as a percentage of revenue to decline and gross margins to increase as we realize the full impact of our restructuring activities and increased automation. However, this trend may vary on a quarterly basis.

Operating Expenses

Operating expenses consist of sales and marketing, research and development, and general and administrative expenses. Salaries and personnel-related costs are the most significant component of each of these expense categories. We expect our operating expenses will increase as a percentage of revenue for the remainder of 2021, as we achieve economies of scale and incur additional costs associated with various legal actions described below in general and administrative expenses.

Sales and marketing expense. Sales and marketing expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses, stock-based compensation and commissions, for our sales and marketing associates. Costs to obtain a contract that are incremental, such as sales commissions, are capitalized and amortized to expense over the estimated period of benefit of the asset, which is generally four to five years. Additional expenses include advertising, lead generation, promotional event programs, corporate communications, travel, and allocated overhead. For instance, our most significant promotional event is One Place, which we hold annually.

Research and development expense. Research and development expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses and stock-based compensation, for our research and development associates. Additional expenses include costs related to the development, quality assurance, and testing of new technology, and enhancement of our existing platform technology, consulting, travel, and allocated overhead. We believe continuing to invest in research and development efforts is essential to maintaining our competitive position. We are investing in transforming our development philosophy and practices to that of an agile development organization. We believe this will allow us to more quickly innovate and adapt to changing market conditions and customer needs.

General and administrative expense. General and administrative expense consists primarily of salaries and other personnel-related costs, including benefits, bonuses, and stock-based compensation for administrative, finance and accounting, information systems, legal, and human resource associates. Additional expenses include consulting and professional fees, insurance and other corporate expenses, and travel. We expect our general and administrative expenses to increase in the near-term as we incur professional services expenses in connection with activist shareholder matters, securities class action, and executive employment agreement legal defense, which are not related to our core business.

Restructuring costs. Restructuring costs are comprised of one-time severance charges, continuation of health benefits and outplacement services. During the nine months ended September 30, 2021, we incurred restructuring costs associated with eliminating certain positions in the organization.

Other Income and Expense

Other income and expense consists primarily of interest income and expense and gain (loss) on disposal of property and equipment. Interest income represents interest received on our cash and cash equivalents. Interest expense consists primarily of the interest incurred on outstanding convertible debt and borrowings under our lease arrangements and credit facility. During the third quarter of 2021, we repurchased outstanding senior convertible notes which resulted in a loss. During the third quarter of 2020, we repurchased outstanding senior convertible notes which resulted in a gain.

Income Tax Expense

Income tax expense consists of U.S. federal and state income taxes. We incurred minimal income tax expense for the three and nine months ended September 30, 2021 and 2020.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Except for utilizing the deferment of employer social security payments, we did not utilize CARES Act to have a material impact on our financial results.

Results of Operations

Consolidated Statements of Operations Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 62,026	\$ 63,583	\$ 187,993	\$ 191,911
Cost of revenue ⁽¹⁾	31,247	30,113	87,870	94,422
Gross profit	30,779	33,470	100,123	97,489
Operating expenses:				
Sales and marketing ⁽¹⁾	12,669	12,405	34,481	39,863
Research and development ⁽¹⁾	11,062	11,439	32,997	34,252
General and administrative ⁽¹⁾	12,156	9,424	39,592	29,320
Restructuring costs	—	—	4,127	5,616
Total operating expenses	35,887	33,268	111,197	109,051
(Loss) income from operations	(5,108)	202	(11,074)	(11,562)
Other income (expense):				
Interest income	52	40	163	563
Interest expense	(5,556)	(5,771)	(16,757)	(17,524)
(Loss) gain on repurchase of convertible senior notes	(7,520)	1,138	(7,520)	1,138
Other income	120	1	142	8
Total other expense, net	(12,904)	(4,592)	(23,972)	(15,815)
Loss before income taxes	(18,012)	(4,390)	(35,046)	(27,377)
Income tax expense	42	6	125	17
Net loss	\$ (18,054)	\$ (4,396)	\$ (35,171)	\$ (27,394)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 511	\$ 1,304	\$ 1,475	\$ 2,604
Sales and marketing	963	766	2,470	2,240
Research and development	589	785	1,210	1,717
General and administrative	2,532	1,004	5,339	4,298

The following table sets forth our consolidated statements of operations data as a percentage of revenue for each of the periods indicated (as a percentage of revenue⁽¹⁾):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	50.4	47.4	46.7	49.2
Gross profit	49.6	52.6	53.3	50.8
Operating expenses:				
Sales and marketing	20.4	19.5	18.3	20.8
Research and development	17.8	18.0	17.6	17.8
General and administrative	19.6	14.8	21.1	15.3
Restructuring costs	-	-	2.2	2.9
Total operating expenses	57.9	52.3	59.1	56.8
(Loss) income from operations	(8.2)	0.3	(5.9)	(6.0)
Other income (expense):				
Interest income	0.1	0.1	0.1	0.3
Interest expense	(9.0)	(9.1)	(8.9)	(9.1)
(Loss) gain on repurchase of convertible senior notes	(12.1)	1.8	(4.0)	0.6
Other income	0.2	-	0.1	-
Total other expense, net	(20.8)	(7.2)	(12.8)	(8.2)
Loss before income taxes	(29.0)	(6.9)	(18.6)	(14.3)
Income tax expense	0.1	-	0.1	-
Net loss	(29.1) %	(6.9) %	(18.7) %	(14.3) %

(1) Rounding may impact the summation of amounts.

Comparison of Three Months Ended September 30, 2021 and 2020

Revenue

	Three Months Ended September 30,				Period-to-Period Change	
	2021		2020			
	Amount	Percentage of Revenue ⁽¹⁾	Amount	Percentage of Revenue ⁽¹⁾	Amount	Percentage ⁽¹⁾
	(in thousands)					
Subscription	\$ 44,790	72.2 %	\$ 44,989	70.8 %	\$ (199)	(0.4) %
Platform	6,157	9.9	5,606	8.8	551	9.8
Total software services	\$ 50,947	82.1 %	\$ 50,595	79.6 %	\$ 352	0.7 %
Professional services	11,079	17.9	12,988	20.4	(1,909)	(14.7)
Total revenue	\$ 62,026	100.0 %	\$ 63,583	100.0 %	\$ (1,557)	(2.4) %

(1) Rounding may impact the summation of amounts.

Subscription revenue remained relatively flat year over year. The slight decrease of \$0.2 million was primarily driven by the renegotiation of a certain customer contract.

Platform revenue increased \$0.6 million primarily due to increased volume on the platform and new products from Benefit Catalog primarily from insurance carriers and specialty products recognized over the policy period.

Professional services revenue decreased \$1.9 million, primarily due to continued lower levels of demand from custom requests from health plan customers.

Cost of Revenue

	Three Months Ended September 30,				Period-to-Period Change	
	2021		2020			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(in thousands)					
Cost of revenue	\$ 31,247	50.4 %	\$ 30,113	47.4 %	\$ 1,134	3.8 %

The increase in cost of revenue was attributable to increased computer infrastructure costs of \$1.0 million, seasonal contract labor of \$0.4 million, and depreciation expense of \$0.2 million attributable to higher amortization of capitalized internally developed software costs in prior periods. These increases were partially offset by decreases in stock-based compensation and other personnel-related costs of \$0.8 million due to headcount reductions. Cost of revenue included \$0.5 million and \$1.3 million of stock-based

compensation expense for the three-month periods ended September 30, 2021 and 2020, respectively and \$5.0 million and \$4.8 million of depreciation and amortization for the three-month periods ended September 30, 2021 and 2020, respectively.

Gross Profit

	Three Months Ended September 30,						
	2021			2020			
	Amount	Percentage of Revenue		Amount	Percentage of Revenue	Period-to-Period Change	
	(in thousands)						
						Amount	Percentage
Software services	\$ 32,163	63.1 %	\$ 32,477	64.2 %	\$ (314)	(1.0) %	
Professional services	(1,384)	(12.5)	993	7.6	(2,377)	(239.4)	
Gross profit	\$ 30,779	49.6	\$ 33,470	52.6	\$ (2,691)	(8.0)	

The decrease in software services gross profit was driven by an \$0.4 million, or 0.7% increase in software services revenue that was more than offset by an increase in cost of revenue of \$0.7 million. The increase in the software services cost of revenue was driven by \$0.9 million in higher data storage costs and third-party software costs including the costs to terminate a software license contract, as well as \$0.2 million in increased depreciation expense partially offset by decreased salary and personnel-related costs and professional services totaling \$0.5 million. Software services cost of revenue included \$0.3 million and \$0.7 million of stock-based compensation expense for the three months ended September 30, 2021 and 2020, respectively, and \$4.2 million and \$4.0 million of depreciation and amortization for the three months ended September 30, 2021 and 2020, respectively.

The decrease in professional services gross profit was driven by a \$1.9 million, or 14.7% decrease in professional services revenue and an increase in professional services cost of revenue of \$0.5 million. The increase in professional services cost of revenue is primarily attributable to increases in seasonal contract labor wages partially offset by decreases in salary and personnel-related costs. Professional services cost of revenue included approximately \$0.2 million and \$0.6 million of stock-based compensation expense for the three months ended September 30, 2021 and 2020, respectively. In addition, professional services cost of revenue included \$0.8 million of depreciation and amortization in both of the three-month periods ended September 30, 2021 and 2020.

Operating Expenses

	Three Months Ended September 30,						
	2021			2020			
	Amount	Percentage of Revenue		Amount	Percentage of Revenue	Period-to-Period Change	
	(in thousands)						
						Amount	Percentage
Sales and marketing	\$ 12,669	20.4 %	\$ 12,405	19.5 %	\$ 264	2.1 %	
Research and development	11,062	17.8	11,439	18.0	(377)	(3.3)	
General and administrative	12,156	19.6	9,424	14.8	2,732	29.0	

The \$0.3 million increase in sales and marketing expense was primarily attributable to increases in marketing events, travel and advertising costs as a result of a return to live in-person events in the third quarter 2021.

The decrease in research and development expense is primarily attributable to a decrease in personnel-related costs and external development and engineering consulting of \$1.4 million offset by a decrease of \$0.7 million in capitalized internally developed software costs and a \$0.3 million increase in third-party software costs.

The increase in general and administrative expense was primarily attributable to \$1.5 million in non-cash stock-based compensation expense, \$0.8 million in professional fees primarily related to costs incurred associated with securities class action, \$0.8 million in salary and personnel-related costs and contract labor, partially offset by reduced professional fees of \$0.4 million.

Comparison of Nine Months Ended September 30, 2021 and 2020

Revenue

	Nine Months Ended September 30,						
	2021			2020			
	Amount	Percentage of Revenue ⁽¹⁾		Amount	Percentage of Revenue ⁽¹⁾	Period-to-Period Change	
	(in thousands)						
						Amount	Percentage ⁽¹⁾
Subscription	\$ 134,716	71.7 %	\$ 134,759	70.2 %	\$ (43)	(0.0) %	
Platform	19,801	10.5	17,739	9.2	2,062	11.6	
Total software services	\$ 154,517	82.2 %	\$ 152,498	79.5 %	\$ 2,019	1.3 %	
Professional services	33,476	17.8	39,413	20.5	(5,937)	(15.1)	
Total revenue	\$ 187,993	100.0 %	\$ 191,911	100.0 %	\$ (3,918)	(2.0) %	

(1) Rounding may impact the summation of amounts.

Subscription revenue was flat year over year. While we experienced improvements in returns and allowances over the prior period, those improvements were offset by the impact of the renegotiation of a certain customer contract.

Platform revenue increased from growth in premiums, additional volume on the platform and new products from Benefit Catalog primarily from insurance carriers and specialty products recognized over the policy period. As discussed above in "Components of Operating Results – Revenue", we recognize platform revenue from carriers and specialty products over the policy period and we recognize commissions revenue at a point in time.

The decrease in professional services revenue was attributable to a decrease in implementation revenue and lower levels of demand from custom requests from health plan customers.

We expect total revenue to continue to be less in 2021 compared to 2020 primarily due to the effects of lower revenues associated with our health plan customers, primarily in professional services due to lower levels of demand for custom requests from health plan customers and due to the impacts of the COVID-19 pandemic, including a slowed sales cycle in 2020. As previously discussed, we experienced longer sales cycles in 2020 and a slowdown in new sales activity which will negatively impact subscription and platform revenue in future periods. Additionally, we expect revenue from health plan customers to continue to decline in 2021 as some customers might renew their agreements with a lower minimum number of covered employees.

Cost of Revenue

	Nine Months Ended September 30,									
	2021				2020				Period-to-Period Change	
	Amount	Percentage of Revenue		Amount	Percentage of Revenue		Amount	Percentage		
	(in thousands)									
Cost of revenue	\$ 87,870	46.7 %		\$ 94,422	49.2 %		\$ (6,552)	(6.9) %		

The decrease in cost of revenue was attributable to decreases in salaries, stock-based compensation and other personnel-related costs of \$7.2 million, costs related to professional services of \$1.3 million, and travel-related expenses of \$0.2 million as a result of our restructuring actions. These decreases were partially offset by increased depreciation expense of \$1.0 million attributable to an increase in depreciation of capitalized internally developed software costs and \$1.2 million in product and computer infrastructure costs. Cost of revenue included \$1.5 million and \$2.6 million of stock-based compensation expense for the nine months ended September 30, 2021 and 2020, respectively, and \$14.7 million and \$13.7 million of depreciation and amortization for the nine months ended September 30, 2021 and 2020, respectively.

Gross Profit

	Nine Months Ended September 30,									
	2021				2020				Period-to-Period Change	
	Amount	Percentage of Revenue		Amount	Percentage of Revenue		Amount	Percentage		
	(in thousands)									
Software services	\$ 100,245	64.9 %		\$ 96,413	63.2 %		\$ 3,832	4.0 %		
Professional services	(122)	(0.4)		1,076	2.7		(1,198)	(111.3)		
Gross profit	\$ 100,123	53.3		\$ 97,489	50.8		\$ 2,634	2.7		

The increase in software services gross profit was driven by a \$2.0 million, or 1.3%, increase in software services revenue and a decrease in software services cost of revenue of \$1.8 million. The decrease in software services cost of revenue was driven by decreased salary and personnel-related costs and professional services of \$4.6 million offset by a \$1.3 million increase in amortization of capitalized internally developed software and \$1.5 million in higher data storage costs and third-party software costs including the costs to terminate a software license contract. Software services cost of revenue included \$0.8 million and \$1.5 million of stock-based compensation expense for the nine months ended September 30, 2021 and 2020, respectively, and \$12.4 million and \$11.3 million of depreciation and amortization for the nine months ended September 30, 2021 and 2020, respectively.

The decrease in professional services gross profit was driven by a \$5.9 million, or 15.1%, decrease in professional services revenue partially offset by a decrease in professional services cost of revenue of \$4.7 million. The decrease in the professional services costs of revenue was attributed to reducing our cost structure to align with the decrease in demand for professional services including decreases in salary and personnel-related costs due to headcount reductions and decreased use of seasonal contract labor. Professional services cost of revenue included \$0.7 million and \$1.1 million of stock-based compensation expense for the nine months ended September 30, 2021 and 2020, respectively. In addition, professional services cost of revenue included \$2.3 million and \$2.5 million of depreciation and amortization in the nine months ended September 30, 2021 and 2020, respectively.

We expect professional services margins on an annual basis to be lower than the prior year due to fewer large implementation projects and increased labor costs associated with our seasonal contract labor, slightly offset by shifting to higher margin professional services work.

Operating Expenses

	Nine Months Ended September 30,						Period-to-Period Change	
	2021		2020		Amount	Percentage		
	Amount	Percentage of Revenue	Amount	Percentage of Revenue				
	(in thousands)							
Sales and marketing	\$ 34,481	18.3 %	\$ 39,863	20.8 %	\$ (5,382)	(13.5) %		
Research and development	32,997	17.6	34,252	17.8	(1,255)	(3.7)		
General and administrative	39,592	21.1	29,320	15.3	10,272	35.0		
Restructuring costs	4,127	2.2	5,616	2.9	(1,489)	(26.5)		

The decrease in sales and marketing expense was primarily attributable to a \$4.4 million decrease in salaries and personnel-related costs, including professional fees, a \$0.5 million decrease in travel-related costs, and a \$0.4 million decrease in the cost of marketing events and advertising expense resulting from our restructuring actions. These decreases were partially offset by an \$0.6 million increase in commissions expense. The decrease in salaries and personnel-related costs was primarily driven by decreased headcount. The decrease in travel-related costs was driven by travel restrictions imposed in response to the pandemic. The cost of marketing events decreased in part because of lower costs incurred with our annual user conference, One Place, which was planned as a digital event in the current year compared to the prior year when it was planned as an in-person event.

The decrease in research and development expense is primarily attributable to a decrease in personnel-related costs and external development and engineering consulting of \$5.4 million resulting from our restructuring actions, partially offset by a \$3.6 million decrease in capitalized internally developed software costs.

The increase in general and administrative expense was primarily attributable to a \$4.0 million impairment charge related to a sublease of part of one of our leased buildings on our headquarter campus and a \$7.2 million increase in professional fees primarily related to costs incurred associated with activist shareholder matters, securities class action and executive employment agreement legal defense partially offset by a \$0.4 million decrease in salaries and personnel-related costs and a \$0.3 million decrease in travel-related costs.

Current period restructuring costs are the result of a reduction to our workforce in January 2021 and the elimination of the office of the executive chairman in June 2021, comprised of one-time severance charges, continuation of health benefits and outplacement services.

Critical Accounting Policies and Significant Judgments and Estimates

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

During the nine months ended September 30, 2021, there were no material changes to our accounting policies that are critical to the process of making significant judgments and estimates in the preparation of our consolidated financial statements, which are disclosed in our Annual Report on Form 10-K, as amended for the year ended December 31, 2020.

Liquidity and Capital Resources

Sources of Liquidity

As of September 30, 2021, our primary sources of liquidity were our cash and cash equivalents and marketable securities totaling \$94.5 million, \$20.4 million in accounts receivables, net of allowances, and our \$50.0 million revolving line of credit, the terms of which are described in Note 8 to the financial statements included in this report.

Our cash flow from operations has improved in recent years and was positive for the nine months ended September 30, 2021, and the year ended December 31, 2020. Cash flow from operations may fluctuate between positive and negative due to the timing of payments and collections of cash on both a quarterly and annual basis. Net cash outflows from investing and financing activities for the nine months ended September 30, 2021 were used to repurchase convertible senior notes with an aggregate principal amount of \$100.2 million, thereby improving the Company's capital structure.

Based on our current level of operations and restructured costs, we believe our future cash flow from operating activities and existing balances of cash and marketable securities, and revolving line of credit will be sufficient to meet our cash requirements for at least the next 12 months.

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

Operating and Capital Expenditure Requirements and Contractual Obligations

There have been no material changes to our operating and capital expenditure requirements and contractual obligations during the nine-months ending September 30, 2021.

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)". The update simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and the number of embedded conversion features that could be recognized separately from the primary contract. This ASU also enhances transparency and improves disclosures for convertible instruments and earnings per share guidance. It will be effective for the Company beginning January 1, 2022. This ASU permits the use of either the modified retrospective or fully retrospective method of transition. The Company is currently evaluating the impact of the adoption of ASU 2020-06 on its consolidated financial statements but anticipates that it will result in a reduction in non-cash interest expense related to its convertible senior notes.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Borrowings under our revolving line of credit bear interest at rates that are variable. Increases in the Prime Rate would increase the revolving line of credit.

Interest Rate Sensitivity

We are subject to interest rate risk in connection with borrowings under the revolving line of credit, which are subject to a variable interest rate. At September 30, 2021, we had no amounts outstanding under the revolving line of credit.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

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

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

Based on their evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that as of September 30, 2021 our disclosure controls and procedures were designed to, and were effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures as of September 30, 2021.

(b) Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION.

Item 1. LEGAL PROCEEDINGS

As previously disclosed in our Annual Report on Form 10-K, as amended for the period ended December 31, 2020, on March 2, 2021, Benefitfocus, Inc., The Goldman Sachs Group, Inc., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI Offshore Fund, L.P., GS Capital Partners VI Fund, L.P., GS Capital Partners VI GMBH & Co. KG, Mercer LLC, Marsh & McLennan Companies, Inc., Mercer Consulting Group, Inc., Mason R. Holland, Jr., Raymond A. August, Jonathon E. Dussault, Douglas A. Dennerline, Joseph P. DiSabato, A. Lanham Napier, Francis J. Pelzer V, Stephen M. Swad, Ana M. White, J.P. Morgan Securities LLC, Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Piper Jaffray & Co., Raymond James & Associates, Inc., Wedbush Securities, Inc., and First Analysis Securities Corporation were named as defendants in a purported class-action lawsuit filed by the City of Pittsburgh Comprehensive Municipal Pension Trust Fund in the Supreme Court of the State of New York, County of New York. The complaint alleges violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933. The complaint asserts claims on behalf of a class of persons who acquired our common stock in or traceable to our secondary public offering commenced on or about March 1, 2019. The complaint alleges that defendants violated the federal securities laws by, among other things, making misrepresentations about our commercial relationships and failing to disclose certain material adverse facts, trends or uncertainties or significant risks that made the secondary public offering speculative and risky. The amended complaint seeks rescission or rescissory damages and compensatory damages, costs and fees incurred in the action.

On September 28, 2021, our Motion to Dismiss was denied. On October 5, 2021, we filed a notice of appeal. We do not believe the complaint has merit and plan to vigorously contest and defend against the complaint.

Item 1A. RISK FACTORS.

There have been no material changes to the risk factors associated with our business previously disclosed in "Item 1A. Risk Factors", in our Annual Report on Form 10-K, as amended for the period ended December 31, 2020.

Item 6. EXHIBITS.

Exhibit Number	Exhibit Title	Incorporated by Reference (Unless Otherwise Indicated)			Filing Date
		Form	File	Exhibit	
31.1	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
32.1	Certification of the President and Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	Filed herewith
101.INS	Inline XBRL Instance Document – the Instance Document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL Document.	—	—	—	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	—	—	—	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	—	—	—	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	—	—	—	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	—	—	—	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	—	—	—	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	—	—	—	Filed herewith

SIGNATURES

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 thereunto duly authorized.

Date: November 4, 2021

Benefitfocus, Inc.

By: /s/ Alpana Wegner

Alpana Wegner

Chief Financial Officer

(Principal financial and accounting officer)

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Matthew Levin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Benefitfocus, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Matthew Levin
Matthew Levin
President and Chief Executive Officer
(Principal executive officer)

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Alpana Wegner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Benefitfocus, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Alpana Wegner
Alpana Wegner
Chief Financial Officer
(Principal financial and accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Matthew Levin, President and Chief Executive Officer (principal executive officer) of Benefitfocus, Inc. (the "registrant"), and Alpana Wegner, Chief Financial Officer (principal financial and accounting officer) of the registrant, each hereby certifies that, to the best of their knowledge:

1. The registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2021, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition of the registrant at the end of the period covered by the Report and results of operations of the registrant for the periods covered by the Report.

Date: November 4, 2021

/s/ Matthew Levin
Matthew Levin
President and Chief Executive Officer
(Principal executive officer)

/s/ Alpana Wegner
Alpana Wegner
Chief Financial Officer
(Principal financial and accounting officer)