

Benefitfocus,Inc.  
Form DEF 14A  
April 21, 2017  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**SCHEDULE 14A**  
**(RULE 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(A) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to §240.14a-12.

**BENEFITFOCUS, INC.**

**(Name of Registrant as Specified in its Charter)**

**N/A**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

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Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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Table of Contents

**Notice of June 2, 2017  
Annual Meeting and  
2017 Proxy Statement**

**Table of Contents**

**100 Benefitfocus Way  
Charleston, South Carolina 29492**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 2, 2017**

To the Stockholders of Benefitfocus, Inc.:

Notice is hereby given that the Annual Meeting of Stockholders of Benefitfocus, Inc. will be held on June 2, 2017, at our principal executive offices located at 100 Benefitfocus Way, Charleston, South Carolina 29492 at 9:00 AM EDT. The meeting is called for the following purposes:

1. To elect the three Class I directors named in the Proxy Statement for a three-year term expiring in 2020 or until their successors have been elected and qualified;
2. To approve the Benefitfocus, Inc. Amended and Restated 2012 Stock Plan; and
3. To consider and take action upon such other matters as may properly come before the meeting or any adjournment or postponement thereof.

These matters are more fully described in the Proxy Statement accompanying this Notice.

If you were a stockholder of record of Benefitfocus common stock as of the close of business on April 5, 2017, you are entitled to receive this Notice and vote at the Annual Meeting of Stockholders and any adjournments or postponements thereof, provided that the board of directors may fix a new record date for an adjourned meeting. Our stock transfer books will not be closed. A list of the stockholders entitled to vote at the meeting may be examined at our principal executive offices in Charleston, South Carolina during ordinary business hours for the 10-day period preceding the meeting for any purposes related to the meeting.

We are pleased to take advantage of the Securities and Exchange Commission rules that allow us to furnish these proxy materials (including an electronic Proxy Card for the meeting) and our 2016 Annual Report to Stockholders (including our 2016 Annual Report on Form 10-K) to stockholders via the Internet. On or about April 21, 2017, we mailed to our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our Proxy Statement and 2016 Annual Report to Stockholders and how to vote. We believe that posting these materials on the Internet enables us to provide stockholders with the information they need to vote more quickly, while lowering the cost and reducing the environmental impact of printing and delivering annual meeting materials.

**You are cordially invited to attend the meeting. Whether or not you expect to attend, the board of directors respectfully requests that you vote your stock in the manner described in the Proxy Statement. You may revoke your proxy in the manner described in the Proxy Statement at any time before it has been voted at the meeting.**

By Order of the Board of Directors of Benefitfocus, Inc.,

/s/ Mason R. Holland, Jr.  
Mason R. Holland, Jr.  
Executive Chairman of the Board

Charleston, South Carolina  
Dated: April 21, 2017

**Table of Contents**

**BENEFITFOCUS, INC.**  
**Proxy Statement**  
**for the**  
**Annual Meeting of Stockholders**  
**To Be Held June 2, 2017**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Information Concerning Solicitation and Voting</u>	ii
<u>Questions and Answers About the 2017 Annual Meeting</u>	1
<u>Proposal One Election of Directors</u>	4
<u>Proposal Two Approval of the Benefitfocus, Inc. Amended and Restated 2012 Stock Plan</u>	8
<u>Corporate Governance Matters</u>	17
<u>Director Compensation</u>	22
<u>Audit Committee Report</u>	23
<u>Security Ownership of Certain Beneficial Owners and Management</u>	25
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	27
<u>Executive Compensation</u>	28
<u>Certain Relationships and Related-Party Transactions</u>	35
<u>Compensation Committee Interlocks and Insider Participation</u>	40
<u>Stockholder Proposals</u>	41
<u>Householding Matters</u>	41
<u>Annual Report on Form 10-K</u>	41
<u>Other Matters</u>	42
<u>Directions to the Annual Meeting</u>	43
<u>Exhibit A Benefitfocus, Inc. Amended and Restated 2012 Stock Plan</u>	

**Table of Contents**

**BENEFITFOCUS, INC.**

**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD JUNE 2, 2017**

**Information Concerning Solicitation and Voting**

This Proxy Statement is furnished to the holders of our common stock in connection with the solicitation of proxies on behalf of the board of directors for use at the Annual Meeting of Stockholders to be held on June 2, 2017 at 9:00 AM EDT at our principal executive offices located at 100 Benefitfocus Way, Charleston, South Carolina 29492, or for use at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Only stockholders of record at the close of business on April 5, 2017 are entitled to notice of and to vote at the meeting.

In accordance with the rules of the Securities and Exchange Commission, instead of mailing a printed copy of our proxy materials to each stockholder of record, we are furnishing proxy materials, including the Notice, this Proxy Statement, our 2016 Annual Report to Stockholders, including financial statements, and a Proxy Card for the meeting, by providing access to them on the Internet to save printing costs and benefit the environment. These materials were first available on the Internet on April 21, 2017. We mailed a Notice of Internet Availability of Proxy Materials on or about April 21, 2017 to our stockholders of record and beneficial owners as of April 5, 2017, the record date for the meeting. This Proxy Statement and the Notice of Internet Availability of Proxy Materials contain instructions for accessing and reviewing our proxy materials on the Internet and for voting by proxy over the Internet. You will need to obtain your own Internet access if you choose to access the proxy materials and/or vote over the Internet. If you prefer to receive printed copies of our proxy materials, the Notice of Internet Availability of Proxy Materials contains instructions on how to request the materials by mail. You will not receive printed copies of the proxy materials unless you request them. If you elect to receive the materials by mail, you may also vote by proxy on the Proxy Card or Voter Instruction Card that you will receive in response to your request.

Each holder of our common stock is entitled to one vote for each share held as of the record date with respect to all matters that may be considered at the meeting. Stockholder votes will be tabulated by persons appointed by the board of directors to act as inspectors of election for the meeting.

We bear the expense of soliciting proxies. Our directors, officers, or employees may also solicit proxies personally or by telephone, telegram, facsimile, or other means of communication. We do not intend to pay additional compensation for doing so. In addition, we might reimburse banks, brokerage firms, and other custodians, nominees, and fiduciaries representing beneficial owners of our common stock, for their expenses in forwarding soliciting materials to those beneficial owners.





**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE 2017 ANNUAL MEETING**

**Q: Who may vote at the meeting?**

**A:** The board of directors set April 5, 2017 as the record date for the meeting. If you owned shares of our common stock at the close of business on April 5, 2017, you may attend and vote at the meeting. Each stockholder is entitled to one vote for each share of common stock held on all matters to be voted on. As of April 5, 2017, there were 30,801,642 shares of our common stock outstanding and entitled to vote at the meeting.

**Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

**A:** If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, a stockholder of record. As a stockholder of record, you have the right to vote in person at the meeting. You will need to present a form of personal photo identification in order to be admitted to the 2017 annual meeting of stockholders.

If your shares are held in a brokerage account or by another nominee or trustee, you are considered the beneficial owner of shares held in street name. In that case, the Notice of Internet Availability of Proxy Materials or proxy materials have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instructions included in the Notice of Internet Availability or proxy materials.

**Q: What is the quorum requirement for the meeting?**

**A:** A majority of our outstanding shares of capital stock entitled to vote as of the record date must be present at the meeting in order for us to hold the meeting and conduct business. This is called a quorum. Your shares will be counted as present at the meeting if you:

Are present and entitled to vote in person at the meeting; or

Properly submitted a Proxy Card or Voter Instruction Card.

If you are present in person or by proxy at the meeting, but withhold your vote or abstain from voting on any or all proposals, your shares are still counted as present and entitled to vote. The proposals listed in this Proxy Statement identify the votes needed to approve the proposed actions.

**Q: What proposals will be voted on at the meeting?**

**A:** The two proposals to be voted on at the meeting are as follows:

1. To elect the three Class I directors named in the Proxy Statement for a three-year term expiring in 2020 or until their successors have been elected and qualified; and
2. To approve the Benefitfocus, Inc. Amended and Restated 2012 Stock Plan.

We will also consider any other business that properly comes before the meeting. As of the record date, we are not aware of any other matters to be submitted for consideration at the meeting. If any other matters are properly brought before the meeting, the proxy named in the Proxy Card or Voter Instruction Card will vote the shares it represents using its best judgment.

**Q: Can I access these proxy materials on the Internet?**

**A:** Yes. The Notice of Annual Meeting, Proxy Statement, and 2016 Annual Report to Stockholders (including the 2016 Annual Report on Form 10-K), are available for viewing, printing, and downloading at

**Table of Contents**

*www.proxyvote.com*. Our Annual Report on Form 10-K for the year ended December 31, 2016 is also available under the *Company Investors Finances Annual Meeting Materials* section of our website at *www.benefitfocus.com* and through the SEC's EDGAR system at *http://www.sec.gov*. All materials will remain posted on *www.proxyvote.com* at least until the conclusion of the meeting.

**Q: How may I vote my shares in person at the meeting?**

**A:** If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to vote in person at the meeting. You will need to present a form of personal photo identification in order to be admitted to the meeting. If your shares are held in a brokerage account or by another nominee or trustee, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you are also invited to attend the meeting. Because a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, nominee, or trustee that holds your shares, giving you the right to vote the shares at the meeting.

**Q: How can I vote my shares without attending the meeting?**

**A:** If your common stock is held by a broker, bank, or other nominee, they should send you instructions that you must follow in order to have your shares voted. If you hold shares in your own name, you may vote by proxy in any one of the following ways:

Via the Internet by accessing the proxy materials on the secured website *www.proxyvote.com* and following the voting instructions on that website;

Via telephone by calling toll free 1-800-690-6903 and following the recorded instructions; or

By requesting that printed copies of the proxy materials be mailed to you pursuant to the instructions provided in the Notice of Internet Availability and completing, dating, signing and returning the Proxy Card that you receive in response to your request.

The Internet and telephone voting procedures are designed to authenticate stockholders' identities by use of a control number to allow stockholders to vote their shares and to confirm that stockholders' instructions have been properly recorded. Voting via the Internet or telephone must be completed by 11:59 PM EDT on June 1, 2017. Of course, you can always come to the meeting and vote your shares in person. If you submit or return a Proxy Card without giving specific voting instructions, your shares will be voted as recommended by the board of directors, as permitted by law.

**Q: How can I change my vote after submitting it?**

**A:** If you are a stockholder of record, you can revoke your proxy before your shares are voted at the meeting by:

Filing a written notice of revocation bearing a later date than the proxy with our Corporate Secretary at 100 Benefitfocus Way, Charleston, South Carolina 29492 at or before the taking of the vote at the meeting;

Duly executing a later-dated proxy relating to the same shares and delivering it to our Corporate Secretary at 100 Benefitfocus Way, Charleston, South Carolina 29492 at or before the taking of the vote at the meeting;

Attending the meeting and voting in person (although attendance at the meeting will not in and of itself constitute a revocation of a proxy); or

If you voted by telephone or via the Internet, voting again by the same means prior to 11:59 PM EDT on June 1, 2017 (your latest telephone or Internet vote, as applicable, will be counted and all earlier votes will be disregarded).

**Table of Contents**

If you are a beneficial owner of shares, you may submit new voting instructions by contacting your bank, broker, or other holder of record. You may also vote in person at the meeting if you obtain a legal proxy from them as described in the answer to a previous question.

**Q: Where can I find the voting results of the meeting?**

**A:** We will announce the preliminary voting results at the meeting. We will publish the results in a Form 8-K filed with the SEC within four business days of the meeting.

**Q: For how long can I access the proxy materials on the Internet?**

**A:** The Notice of Annual Meeting, Proxy Statement, 2016 Annual Report to Stockholders, and Annual Report on Form 10-K for the fiscal year ended December 31, 2016 are also available, free of charge, in PDF and HTML format under the *Company Investors Finances Annual Meeting Material* section of our website at [www.benefitfocus.com](http://www.benefitfocus.com) and will remain posted on this website at least until the conclusion of the meeting.

**Table of Contents****PROPOSAL ONE****ELECTION OF DIRECTORS****Nominees**

Our board of directors currently consists of eight members and is divided into three classes, the members of which each serve for a staggered three-year term or until a successor has been elected and qualified. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting for a full three-year term. Our Class I directors, Shawn A. Jenkins, Joseph P. DiSabato and A. Lanham Napier, have been nominated to fill a three-year term expiring in 2020. The two other classes of directors, who were elected or appointed for terms expiring at the annual meetings in 2018 and 2019, respectively, will remain in office.

If you are a stockholder of record, unless you mark your proxy card to withhold authority to vote, the proxy holder will vote the proxies received by it for the three Class I nominees named below, each of whom is currently a director and each of whom has consented to be named in this Proxy Statement and to serve if elected. In the event that any nominee is unable or declines to serve as a director at the time of the meeting, your proxy will be voted for any nominee designated by the board of directors to fill the vacancy. We do not expect that either nominee will be unable or will decline to serve as a director. If you are a beneficial owner of shares held in street name and you do not provide your broker with voting instructions, your broker may not vote your shares on the election of directors. Therefore, it is important that you vote.

The name of and certain information regarding each Class I nominee as of April 5, 2017 is set forth below, together with information regarding our directors remaining in office. This information is based on data furnished to us by the nominees and directors. There is no family relationship between any director, executive officer or person nominated to become a director or executive officer. The business address for each nominee for matters regarding the Company is 100 Benefitfocus Way, Charleston, South Carolina 29492.

**Class I Director Nominees for Terms Expiring in 2020**

<b>Name</b>	<b>Age</b>	<b>Position(s) with Benefitfocus</b>	<b>Director Since</b>
Shawn A. Jenkins	49	Chief Executive Officer and Director	June 2000
Joseph P. DiSabato	50	Director	February 2007
A. Lanham Napier	46	Director	September 2014

**Class II Directors with Terms Expiring in 2018**

<b>Name</b>	<b>Age</b>	<b>Position(s) with Benefitfocus</b>	<b>Director Since</b>
Mason R. Holland, Jr.	52	Executive Chairman, Director	June 2000
Ann H. Lamont	60	Director	July 2010
Stephen M. Swad	55	Director	December 2013

**Class III Directors with Terms Expiring in 2019**

<b>Name</b>	<b>Age</b>	<b>Position(s) with Benefitfocus</b>	<b>Director Since</b>
Douglas A. Dennerline	58	Director	August 2014
Francis J. Pelzer V	46	Director	May 2013





## Table of Contents

### **Class I Director Nominees**

#### *Shawn A. Jenkins Chief Executive Officer, Director*

Shawn Jenkins, one of our founders, has been our Chief Executive Officer and a member of our board of directors since our founding in June 2000, and in addition to these roles, served as our President from June 2000 to April 2015. Prior to founding Benefitfocus, from 1995 to 2000, he served as Vice President with American Pensions, Inc., leading sales, operations, and technology. From 1994 to 1995, Mr. Jenkins was a program analyst with Rockwell Automation, Inc. (NYSE: ROK). He is a major benefactor of the Medical University of South Carolina (MUSC) Shawn Jenkins Children's Hospital in Charleston. Mr. Jenkins serves on the Advisory Board for the School of Computing at Clemson University, and has previously served on the Medical University of South Carolina Foundation Board of Directors, College of Charleston Board of Governors, and Charleston Southern University Board of Visitors. Mr. Jenkins received an M.B.A. from Charleston Southern University and a B.A. from Geneva College in Beaver Falls, Pennsylvania.

Among other experience, qualifications, attributes and skills, we believe Mr. Jenkins' perspective as one of our founders and as a large stockholder, his extensive leadership and experience as our Chief Executive Officer since our founding, his knowledge of our operations, and oversight of our sales organization bring to our board of directors critical strategic planning and operational leadership that qualify him to serve as one of our directors.

#### *Joseph P. DiSabato Director*

Joe DiSabato has served on our board of directors since February 2007. Mr. DiSabato has been a Managing Director in the Principal Investment Area at The Goldman Sachs Group, Inc., Merchant Banking Division, since 2000. Mr. DiSabato joined Goldman Sachs in 1988 and served as a Financial Analyst until 1991, re-joining as an Associate in 1994. He serves as a director of American Traffic Solutions, Inc., The Endurance International Group Holdings, Inc., Infusion Software, Inc., and Backoffice Associates, LLC. Mr. DiSabato holds an M.B.A. from the Anderson Graduate School of Management at the University of California at Los Angeles and a B.S. from the Massachusetts Institute of Technology.

We believe Mr. DiSabato's experience as a director of various software and technology companies, and his experience with expansion-stage growth companies, brings to our board critical skills related to financial oversight of complex organizations, strategic planning and corporate governance and qualify him to serve as one of our directors.

#### *A. Lanham Napier Director*

Lanham Napier has served as a member of our board of directors since September 2014. He serves on the Company's compensation and nominating and governance committees. Mr. Napier is a Co-Founder of BuildGroup Management LLC. BuildGroup Management LLC is a privately-held company based in Austin, Texas, that operates and invests in emerging software companies in select technology categories. Mr. Napier was formerly the Chief Executive Officer of Rackspace Hosting, Inc. (NYSE: RAX). At various times during his 14 years at Rackspace, he also served in other capacities at the company, including as its President, Chief Financial Officer, and member of its board of directors. Prior to that, Mr. Napier was an analyst of Merrill Lynch & Co., Inc. Mr. Napier holds an M.B.A. from Harvard University and a B.A. in Economics from Rice University.

We believe Mr. Napier's experience as chief executive officer of a public company, familiarity with the software industry and his experience as a director of a software company brings to our board critical skills related to strategic planning and corporate governance and qualifies him to serve on our board.

**Other Directors Not Up for Re-election at this Meeting**

*Douglas A. Dennerline Director*

Doug Dennerline has served as a member of our board of directors since August 2014. He serves on the audit, compensation and nominating and governance committees. He is currently Chief Executive Officer of

## Table of Contents

Alfresco Software, Inc. and was previously President and a director of SuccessFactors, Inc. Prior to joining SuccessFactors, Mr. Dennerline was Executive Vice President of Sales, Americas and EMEA for Salesforce.com, Inc. (NYSE: CRM). Mr. Dennerline holds a B.S. in Business Administration from Arizona State University.

We believe Mr. Dennerline's experience as chief executive officer of a software company and familiarity with the software industry brings to our board of directors important skills. In addition, his experience as a director of a software and technology company brings to our board critical skills related to financial oversight of complex organizations, strategic planning and corporate governance. All of this qualifies him to serve as one of our directors.

### *Mason R. Holland, Jr. Executive Chairman, Director*

Mason Holland, one of our founders, has been our Executive Chairman and a member of our board of directors since our founding in June 2000. Mr. Holland is responsible for the coordination of strategic partnerships with industry leaders and client relations. Mr. Holland founded American Pensions, Inc. in 1988, serving as its Chairman and President from 1988 to 2003. Mr. Holland also has established a number of other business entities throughout his 30 plus year career, including Holland Properties LLC, a real estate development firm, in 1989, and he acquired Eclipse Aerospace, Inc., a jet aircraft manufacturer, in May 2009, for which he served as Chairman and Chief Executive Officer until April 2015. Mr. Holland attended Old Dominion University in Norfolk, Virginia.

We believe Mr. Holland brings to our board of directors valuable perspective and experience as our Executive Chairman and one of our founders and as a large stockholder, as well as knowledge of the benefits industry and experience managing and directing companies through various stages of development, all of which qualify him to serve as one of our directors.

### *Ann H. Lamont Director*

Ann Lamont has served on our board of directors since July 2010. She serves on the compensation and nominating and governance committees and is the chair of the nominating and governance committee. Ms. Lamont has been Managing Partner of Oak HC/FT Partners LLC since 2014 and served as General Partner from 1986 to 2006 and as Managing Partner since 2006 of Oak Investment Partners. She currently leads the healthcare and financial services technology teams at Oak. Prior to joining Oak, Ms. Lamont served as a research associate with Hambrecht & Quist. Ms. Lamont serves on the boards of Accullink, Inc., FreshBooks USA, Inc., Independent Living Systems, LLC, Precision Medicine Group, Inc., Candescant Health, Inc., and xG Health Solutions, Inc. Ms. Lamont also served on the board of Castlight Health, Inc. (NYSE: CSLT) from August 2009 to April 2017. Additionally, in March 2013, Ms. Lamont completed a five-year term on the Stanford University Board of Trustees. Ms. Lamont holds a B.A. in political science from Stanford University.

We believe Ms. Lamont's experience analyzing corporate performance as a venture capitalist and managing her firm's investments in private companies, knowledge of the healthcare and payment services industries, and service on multiple boards of directors bring to our board of directors important skills related to corporate finance, oversight of management and strategic positioning, and qualify her to serve as one of our directors.

### *Francis J. Pelzer V Director*

Frank Pelzer has served as a member of our board of directors since May 2013. He serves on the audit and compensation committees and is the chair of the audit committee. Since 2015, Mr. Pelzer has served as President and Chief Operating Officer of the SAP SE's Business Network & Applications Group, and he was its Chief Financial Officer prior to that, starting in January 2015. From May 2010 to January 2015, Mr. Pelzer served as the Chief

Financial Officer of Concur Technologies, Inc., a provider of web-based and mobile, integrated travel and expense management solutions. From 2004 to May 2010, Mr. Pelzer served as a Director and Vice President in the Software Investment Banking group at Deutsche Bank AG (NYSE: DB). Prior to that,

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**Table of Contents**

Mr. Pelzer was a Vice President with Credit Suisse First Boston and a management consultant with Kurt Salmon Associates, now a part of Accenture plc (NYSE: ACN). Mr. Pelzer serves on the board of directors of Limeade, Inc. and is the chairman of their audit committee. He also serves on the board of directors for two SAP portfolio companies, ClearTrip Pvt. Ltd. and RideCharge, Inc.. Mr. Pelzer graduated with an M.B.A. as an Edward Tuck Scholar with Distinction from the Tuck School of Business at Dartmouth and holds a B.A. from Dartmouth College.

We believe Mr. Pelzer's experience as a chief financial officer of a public company, familiarity with the software industry, accounting standards and public company disclosure requirements, and his ability to serve as our audit committee financial expert, bring to our board of directors important skills and qualify him to serve on our board.

*Stephen M. Swad Director*

Steve Swad has served on our board of directors since December 2013. He serves on the audit and compensation committees and is the chair of the compensation committee. Since January 2016, Mr. Swad has served as Chief Financial Officer of Vox Media, Inc. From February 2012 until April 2015, Mr. Swad served as the President, Chief Executive Officer, and a director of Rosetta Stone Inc. (NYSE: RST), a publicly held language-learning software company. He was previously its Chief Financial Officer beginning in November 2010. Prior to joining Rosetta Stone, Mr. Swad served as the Executive Vice President and Chief Financial Officer of Converse Technology, Inc., beginning in May 2009. Prior to that, he served as Executive Vice President and Chief Financial Officer of Federal National Mortgage Association (Fannie Mae) (NASDAQ: FNMA) from May 2007 until August 2008. He has also held various senior financial management positions with public companies, including AOL Inc. (NYSE: AOL) and Time Warner Inc. (NYSE: TWX) and its subsidiaries. Mr. Swad, a former partner of KPMG LLP, has also served as a Deputy Chief Accountant at the SEC. He served on the board of Eloqua, Inc. from August of 2011 until February 2013, including between August 2012 and February 2013, during which time it was a publicly held company. Mr. Swad holds a B.A. in business administration from the University of Michigan and is a Certified Public Accountant.

Among other experience, qualifications, attributes and skills, we believe Mr. Swad's financial and accounting experience, ability to lead public companies, and familiarity with technology companies bring to our board important skills related to corporate finance and governance, and qualify him to serve on our board.

**Required Vote**

The three Class I director nominees receiving the highest number of affirmative votes of our common stock present or represented and entitled to be voted for them shall be elected as Class I directors. In accordance with Delaware law, votes withheld from any nominee are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but they have no legal effect on the election of directors. Broker non-votes will be not counted for purposes of determining the presence or absence of a quorum. In addition, under applicable NASDAQ Stock Market listing rules, brokers are not permitted to vote shares held for a customer on non-routine matters without specific instructions from the customer. As such, broker non-votes will have no effect on the outcome of this proposal.

**The board of directors unanimously recommends that stockholders vote FOR the three Class I director nominees listed above.**

**Table of Contents**

**PROPOSAL TWO**  
**APPROVAL OF THE**  
**BENEFITFOCUS, INC.**  
**AMENDED AND RESTATED 2012 STOCK PLAN**

Pursuant to the Benefitfocus.com, Inc. 2012 Stock Plan, as amended, ( 2012 Plan ) we may grant long-term equity incentives in the form of stock options, stock bonuses (including restricted stock, restricted stock units or RSUs, and performance restricted stock units or PRSUs), stock purchase rights, and stock appreciation rights, or collectively, stock rights, to employees, consultants, and non-employee directors of our Company. We believe that the effective use of long-term equity incentives is essential to attract, motivate, and retain employees of our Company, to further align participants' interests with those of our stockholders, and to provide participants incentive compensation opportunities that are competitive with those offered by other companies in the same industry and locations as ours.

In this Proposal Two, we are asking our stockholders to approve the Benefitfocus, Inc. Amended and Restated 2012 Stock Plan (the Restated Plan ). The full text of the Restated Plan is attached as Exhibit A to this Proxy Statement.

The Restated Plan increases the total number of shares of common stock reserved for issuance under the 2012 Plan to 9,244,525 shares. The Restated Plan also decreases the annual limit on the number of shares that may be granted to any employee in calendar year to 1,000,000. As of April 5, 2017, of the 6,544,525 shares of the Company's common stock originally reserved for issuance under the 2012 Plan, only 58,889 shares remained available for future grant. The board of directors believes that the increase in the share reserve is necessary for the Company to continue to attract and retain the highest caliber of employees, link incentive awards to Company performance, encourage employee ownership in the Company and align the interests of employees and directors with those of the Company's stockholders. Increasing the 2012 Plan's share reserve will allow the Company to continue to provide a variety of equity awards as part of the Company's compensation program, an important tool for motivating, attracting and retaining talented employees and for creating stockholder value. It supports the Company's balanced approach to employee compensation, wherein the Company uses a mix of components, including equity awards, to facilitate management decisions that favor longer-term stability. If the additional shares are not approved, the board believes that the remaining shares of common stock reserved for issuance under the 2012 Plan will be insufficient to accomplish the purposes of the 2012 Plan.

To further align the interests of the Company and its stockholders, our board recently adopted stock ownership guidelines for officers. Under these guidelines, the Company's Chief Executive Officer is required to hold Company common stock worth at least five (5) times his annual base salary. Our President is required to hold stock worth three (3) times his annual base salary and our other officers subject to Section 16 of the Securities Exchange Act of 1934 one (1) time his or her annual base salary. All of these executives are required to achieve the accumulated value requirement within the later of (a) three (3) years from the date the executive assumes or assumed his or her position, and (b) March 23, 2020. For purposes of calculating the number of shares held by an executive, shares that are owned directly are counted along with (a) shares over which the executive has investment or voting power, and (b) shares that may be acquired pursuant to vested, in-the-money options to acquire Company stock. The Company also maintains similar stock ownership guidelines for its directors, which are described under Director Compensation below.

In addition to increasing the total number of shares of common stock reserved for issuance under the 2012 Plan, the Restated Plan lists in Appendix A thereto the business measures that may be used for performance goals for awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code

of 1986, as amended (the Code ). Under Section 162(m) of the Code, compensation paid to Covered Employees (typically high level executives) in excess of \$1 million in any fiscal year is not deductible from a company's taxable income unless it constitutes performance-based compensation (or satisfies another limited exception enumerated in Code Section 162(m)). In order for grants to our high level executives under the

## **Table of Contents**

Restated Plan to constitute performance-based compensation, the material terms of the plan under which such awards may be granted must be disclosed to and periodically approved by the stockholders. The business measures in [Appendix A](#) were most recently approved by the stockholders at our 2014 Annual Meeting.

The Restated Plan also includes a provision clarifying that the Company will not, without approval of the Company's stockholders, amend any award granted under the Plan to reduce its exercise price per share, cancel and regrant an award with a lower exercise price per share than the original price per share of the cancelled award, or cancel any award under the Plan in exchange for cash or the grant of replacement award with an exercise price that is less than the exercise price of the cancelled award. Although the Company has not previously engaged in such repricing or replacement transactions under the Plan, the board of directors believes that it is in the best interest of the Company's stockholders to make clear that the Company will not do so in the future without the approval of the Company's stockholders.

Finally, the Restated Plan makes several administrative changes, including changing all Company references in the document from Benefitfocus.com, Inc. to Benefitfocus, Inc., which accurately reflects the corporate structure of the Company following our pre-IPO September 2013 restructuring in preparation for our initial public offering, or IPO. The Restated Plan also clarifies that all awards of nonstatutory stock options and stock appreciation rights under the Plan must have an exercise that is no less than the fair market value of the Company's stock on the date of grant of such awards. Additionally, the Restated Plan contains language adjusting the tax withholding provisions of the Plan in light of recently-changed accounting standards. The Restated Plan moves the expiration date of the plan from January 31, 2022 to March 23, 2027.

As of April 5, 2017, approximately 1,432 employees and six nonemployee directors were eligible to participate in the Restated Plan. The closing price of the Company's common stock on the Nasdaq Global Market on April 5, 2017 was \$27.60.

## **Required Vote**

Approval of the Restated Plan requires the affirmative vote of a majority of the shares represented at the meeting which are entitled to vote on the proposal. In accordance with Delaware law, abstentions and not broker non-votes will be counted for purposes of determining the presence or absence of a quorum at the meeting. Abstentions will be counted and will have the same effect as a vote against the proposal. However, under applicable NASDAQ Stock Market listing rules, brokers are not permitted to vote shares held for a customer on non-routine matters without specific instructions from the customer. As such, broker non-votes will have no effect on the outcome of this proposal.

**The board of directors unanimously recommends that stockholders vote FOR the Restated Plan.**

## **Summary of the Restated Stock Plan**

Our board adopted the 2012 Plan on January 31, 2012 and our stockholders approved it on November 8, 2012. Our board and stockholders approved an amendment to the 2012 Plan on August 26 and September 13, 2013, respectively, and a second amendment on April 7, 2014 and June 7, 2014, respectively. The Restated Plan was approved by our board on March 23, 2017 and provides for the grant of various stock rights to employees, consultants, and non-employee directors of our Company. Incentive stock options may be granted only to employees of our Company, or our parent company (if any) and any of our subsidiaries, or related corporations. All other stock rights under the Restated Plan may be granted to employees (including officers and employee directors), consultants and non-employee directors.



*Share Reserve and Limitations.* The aggregate number of shares of our common stock that may be issued pursuant to the Restated Plan is 9,244,525, less any shares issued or subject to outstanding options under the Amended and Restated 2000 Stock Option Plan, or 2000 Plan, subject to adjustment as provided in the Restated Plan. The aggregate fair market value of common stock (determined as of the date of the option grant) for which

## **Table of Contents**

incentive stock options may for the first time become exercisable by any individual in any calendar year may not exceed \$100,000. To the extent we are subject to Section 162(m) of the Code, no employee will be eligible to be granted stock rights under the Restated Plan covering more than 1,000,000 shares of our common stock during any calendar year.

If any award granted under the Restated Plan expires or terminates for any reason prior to its full exercise, or if we reacquire any shares issued pursuant to awards, then the shares subject to such award or any shares so reacquired by us will again be available for grants of awards under the Restated Plan. Shares of our common stock which are withheld to pay the exercise price of an award or any related withholding obligations will not be available for issuance under the Restated Plan.

*Administration.* The Restated Plan provides for administration by our board of directors or a committee of the board. The board may increase the size of the committee and appoint additional members, remove members of the committee and appoint new members, fill vacancies on the committee, or remove all members of the committee and directly administer the Restated Plan. Our compensation committee will administer the Restated Plan. Subject to the restrictions of the Restated Plan, the compensation committee will determine to whom we grant incentive awards under the Restated Plan, the terms of the award, including the exercise or purchase price, the number of shares subject to the stock right and the exercisability of the award. All questions of interpretation will be determined by the committee, and its decisions will be final and binding upon all participants, unless otherwise determined by the board.

*Stock Bonuses and Purchase Rights.* The Restated Plan provides for shares of common stock to be awarded or sold under terms determined by the compensation committee to participants as an incentive for the performance of past or future services to us. Stock bonuses include PRSUs, which only vest upon attainment of performance goals established by the compensation committee for a specified performance period, and restricted stock and RSUs, which generally vest equally over a period determined by the compensation committee, subject to the grantee's continued employment or service with us. We expect that all our RSUs will be settled in shares of our common stock.

*Stock Options.* The Restated Plan provides for the grant of incentive stock options within the meaning of Section 422 of the Code, solely to employees, and for the grant of non-statutory stock options to employees, consultants and non-employee directors.

The compensation committee determines the exercise price of options granted under the Restated Plan on the date of grant, and the exercise price must be at least 100% of the fair market value per share at the time of grant; provided that the exercise price of any incentive stock option granted to an employee who owns stock possessing more than 10% of the voting power of our outstanding capital stock must equal at least 110% of the fair market value of the common stock on the date of grant. The aggregate fair market value of common stock (determined as of the date of the option grant) for which incentive stock options may for the first time become exercisable by any individual in any calendar year may not exceed \$100,000.

Options granted to employees, directors, and consultants under the Restated Plan generally become exercisable in increments, based on the optionee's continued employment or service with us. The term of an incentive stock option may not exceed 10 years. Options granted under the Restated Plan, whether incentive stock options or non-statutory options, will generally expire 10 years from the date of grant, except that incentive stock options granted to an employee who owns stock possessing more than 10% of the voting power of our outstanding capital stock will not be exercisable for longer than five years after the date of grant.

*Stock Appreciation Rights.* The Restated Plan provides for the grant of stock appreciation rights, or SARs, pursuant to an SAR agreement adopted by the compensation committee. An SAR may be granted in connection with a stock

option or alone, without reference to any related stock option. The committee will determine the exercise price of an SAR on the date of grant, and the exercise price may not be less than 100% of the fair market value of a share of our common stock on the date of grant.

## **Table of Contents**

The holder of an SAR will have the right to receive, in cash or common stock, all or a portion of the difference between the fair market value of a share of our common stock at the time of exercise of the SAR and the exercise price of the SAR established by the compensation committee, subject to such terms and conditions set forth in the SAR agreement.

*Means of Exercising Stock Options and SARs.* The exercise price of stock options and SARs is payable in cash or by check, or at the discretion of the compensation committee, as follows: (a) by delivery of the grantee's personal recourse note bearing interest payable not less than annually at a market rate that is no less than 100% of the lowest applicable Federal rate, as defined in Section 1274(d) of the Code, (b) through the surrender of shares of our common stock then issuable upon exercise of the award having a fair market value on the date of exercise equal to the aggregate exercise price of the award and/or any related withholding tax obligations, (c) through the delivery of already-owned shares of our common stock having a fair market value on the date of exercise equal to the aggregate exercise price of the award and/or any related withholding tax obligations, (d) delivery of a notice that the grantee has placed a market sell order with a broker with respect to shares of our common stock then issuable upon exercise of the award and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to us in satisfaction of the award exercise price, provided that payment of such proceeds is then made to us upon settlement of the sale, or (e) by any combination of the foregoing, or such other consideration and method of payment for the issuance of shares to the extent permitted by applicable law or the Restated Plan.

*Termination of Employment or Affiliation.* The Restated Plan provides that if a grantee ceases to be employed by us other than by reason of death or disability, the grantee may (subject to the instrument granting such stock right) exercise any stock right held by him or her to the extent such stock right could have been exercised on the date of termination of employment until the stock right's specified expiration date. In the event the grantee exercises any incentive stock option after the date that is three months following the date of termination, such incentive stock option will be converted into a non-statutory stock option.

*Death or Disability.* The Restated Plan provides that if a grantee ceases to be employed by us by reason of death, or if a grantee dies within three months of the date his or her employment or other affiliation with us has been terminated, then the grantee's estate, personal representative or beneficiary who acquired the stock right by will or by the laws of descent and distribution may exercise that stock right for shares of our common stock, to the extent the stock right could have been exercised on the date of the grantee's death. Unless otherwise specified in the instrument granting the stock right, the acquirer of the stock right may exercise the stock right within 12 months of the date of the grantee's termination or before the stock right's specified expiration date, whichever is earlier. In the event the acquirer of the stock right exercises any incentive stock option after the date that is 12 months following the date of termination, such incentive stock option will be converted into a non-statutory stock option.

The Restated Plan provides that if a grantee ceases to be employed by us by reason of disability, he or she will have the right to exercise any stock right held by him or her on the date of termination to the extent the stock right could have been exercised on the date of the grantee's termination. Unless otherwise provided by the instrument granting the stock right, the grantee may exercise such stock right within 12 months of the date of termination or before the stock right's specified expiration date, whichever is earlier.

*Transferability.* Except for transfers made by will or the laws of descent and distribution in the event of the holder's death, no stock right may be transferred, pledged or assigned by the holder of the stock right. During a grantee's lifetime, an incentive stock option may be exercised only by such grantee. Non-statutory stock options, SARs, or other awards may be transferred, pledged or assigned by the holder thereof to family members (as defined in the Restated Plan), or by will or the laws of descent and distribution in the event of the holder's death. We are not required to recognize any attempted assignment of such rights by any participant that is not in compliance with the Restated Plan.

*Changes in Capitalization.* In the event of a change in the number of shares of our common stock through a combination or subdivision, or if we issue shares of common stock as a stock dividend, then the number of

## Table of Contents

shares deliverable upon the exercise of outstanding stock rights will be increased or decreased proportionately, and appropriate adjustments will be made in the purchase price per share to reflect such subdivision, combination, or stock dividend. Additionally, in the event of such a subdivision, combination, or stock dividend, the aggregate number of stock rights that have been or subsequently may be granted under the Restated Plan will also be appropriately adjusted.

*Corporate Transactions.* The Restated Plan provides that in the event of our consolidation or merger with or into another corporation or a sale of all or substantially all of our assets, which we refer to as an acquisition, whereby the acquiring entity or our successor does not agree to assume the incentive awards or replace them with substantially equivalent incentive awards, all outstanding options, stock bonuses, SARs, or other stock rights will vest and will become immediately exercisable in full and, if not exercised on the date of the acquisition, will terminate on such date regardless of whether the participant to whom such stock rights have been granted remains in our employ or service or in the employ or service of any acquiring or successor entity. In the event of an acquisition in which the acquiring entity agrees to assume the incentive awards, and, 60 days prior to the acquisition or 180 days after the acquisition, the holder of an award is terminated as an employee or consultant other than for cause or the holder terminates his or her employment for good reason, then upon such termination any incentive award held by the holder will vest and will become immediately exercisable in full.

In the event of the proposed dissolution or liquidation of our Company, each stock right will terminate immediately prior to the consummation of the proposed action, or at such other time and subject to such other conditions determined by the compensation committee.

*Termination or Amendment.* Our board of directors may terminate, amend or modify the Restated Plan at any time before its expiration, which was January 31, 2022, but the amendment and restatement would reset the expiration date to be March 23, 2027. However, stockholder approval is required to increase the total number of shares that may be issued under the Restated Plan, change the provisions regarding the persons eligible to receive incentive stock options under the plan, change the provisions regarding the exercise price at which shares may be offered pursuant to incentive stock options under the Restated Plan, amend any outstanding award to reduce its exercise price per share or cancel and regrant an award with a lower exercise price per share than the original price per share of the cancelled award, and to extend the expiration date of the Restated Plan.

*Appendix A.* Appendix A of the Restated Plan establishes procedures for our Company to grant high level executives restricted stock and RSUs that will qualify as performance-based compensation within the meaning of Section 162(m) of the Code. It requires the compensation committee (which currently consists entirely of outside directors within the meaning of Section 162(m)) to grant and administer performance-based awards of restricted stock and RSUs for our high level executives, though it may also grant such executives other forms of restricted stock and RSUs.

Performance-based restricted stock and RSUs, in addition to meeting the regular requirements of the Restated Plan for the grant of stock bonuses, including a maximum grant per employee of 1,000,000 shares of common stock per Performance Period (a period measured by the fiscal year or years), will be structured so that they will vest only upon attainment of performance goals established by the compensation committee for a specified Performance Period. The compensation committee will establish the performance goals within 90 days of the beginning of the first fiscal year of our Company included in the Performance Period. The performance goals will be based upon one or more objectively determinable business measures, which may be applied with respect to our Company, any business unit, or, if applicable, any covered employee, and may be measured on absolute terms or relative to a peer-group or other market measure basis.

The business measures that may be used to establish the performance goals are limited to one or more of the following:

corporate operating profit;

business unit operating profit;

revenue;

**Table of Contents**

net revenue;

new business authorizations;

backlog;

customer cancellation rate;

total shareholder return;

stock price increase;

return on equity;

return on capital;

earnings per share;

gross profit;

adjusted gross profit (profit before depreciation and amortization expense, as well as stock-based compensation expense);

EBIT, or earnings before interest and taxes;

EBITDA, or earnings before interest, taxes, depreciation and amortization;

adjusted EBITDA, or earnings before net interest and other expense, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense and expense related to the impairment of goodwill;

ongoing earnings;



cash flow (including operating cash flow, free cash flow, discounted cash flow return on investment, and cash flow in excess of costs of capital);

EVA, or economic value added;

economic profit, or net operating profit after tax, less a cost of capital charge;

SVA, or shareholder value added;

net income;

net loss (maximum);

operating income;

pre-tax profit margin;

performance against business plan;

customer service;

corporate governance quotient or rating;

market share;

employee satisfaction;

safety;

employee engagement;

supplier diversity;

workforce diversity;

operating margins;

credit rating;

dividend payments;

**Table of Contents**

expenses;

retained earnings;

completion of acquisitions, divestitures and corporate restructurings;

construction projects;

new technology, service or product development;

environmental efforts; and

individual goals based on objective business criteria underlying the goals listed above and which pertain to individual effort as to achievement of those goals or to one or more business criteria in the areas of litigation, human resources, information services, production, support services, facility development, government relations, market share or management.

Under IRS rules, once the stockholders have approved these business measures, they may be used as the basis for performance goals for restricted stock and RSU awards that meet the conditions of Section 162(m) of the Code only until the first stockholders meeting that occurs in the fifth calendar year following the calendar year in which the measures were approved, in other words 2022, if approved at the 2017 stockholder meeting.

Following the applicable Performance Period and after receiving the financial and other necessary data for the applicable Performance Period, the compensation committee will determine whether and to what extent the performance goals for the performance-based restricted stock or RSU award have been met. If the performance goals are entirely or partially met, the compensation committee will determine, based entirely upon the objectively determined achievement of the performance goals, the number of performance-based shares of restricted stock or RSUs of the award that are vested. The compensation committee, in its sole discretion, may decrease, but may not increase, the number of shares of restricted stock and RSUs that are vested. In the case of RSUs, our Company will then grant the executive shares of our common stock equal to the number of vested performance-based RSUs at the determination date. However, a condition for payment is that the executive be in the employ of our Company (or on military or family medical leave) at the payment date, although that condition may be waived by the compensation committee in its discretion.

The above description of the Restated Plan is a summary of some, but not all, of the essential provisions of the Restated Plan, and is qualified by reference to the full text of the Restated Plan included in Exhibit A to this Proxy Statement.

**Summary of Federal Income Tax Consequences Relating to the Restated Plan**

The following summary is intended only as a general guide to certain U.S. federal income tax consequences under current law of participation in the Restated Plan and does not attempt to describe all possible federal, state, local, foreign or other tax consequences of such participation or tax consequences based on a participant's particular

circumstances. Furthermore, the tax consequences are complex and subject to change, and a taxpayer's particular situation may be such that some variation of the described rules is applicable. Participants should, therefore, consult their own tax advisors with respect to such matters.

*Stock Bonuses.* Stock bonuses under the Restated Plan comprise restricted stock and RSUs and performance-based restricted stock and RSUs. A grantee of restricted stock generally will recognize ordinary income equal to the difference between the fair market value of the shares on the determination date and their purchase price, if any. The determination date is the date on which the participant acquires the shares unless they are subject to a substantial risk of forfeiture and are not transferable, in which case the determination date is the earlier of (i) the date on which the shares become transferable, or (ii) the date on which the shares are no longer subject to a substantial risk of forfeiture. If the determination date will be after the date on which the participant acquires the shares, the grantee may elect, pursuant to Section 83(b) of the Code, to have the date of acquisition be the determination date by filing an election with the Internal Revenue Service, or IRS, no later than 30 days after the date the shares are acquired. Upon the taxable disposition of shares acquired pursuant to a restricted

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**Table of Contents**

stock award, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will generally be taxed as capital gain or loss; however, for any shares returned to the Company pursuant to a forfeiture provision, a grantee's loss may be computed based only on the purchase price (if any) of the shares and may not take into account any income recognized by reason of a Code Section 83(b) election. No taxable income is recognized upon receipt of RSUs or performance-based RSUs. In general, the grantee will recognize ordinary income in the year in which the performance-based RSUs vest and performance-based RSUs are settled in an amount equal to the fair market value of any shares of our common stock received. If the grantee is an employee, such ordinary income generally is subject to withholding of income and employment taxes.

*Incentive Stock Options.* A grantee recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. If a grantee holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the option was granted and more than one year after the date the option was exercised for those shares, any gain or loss on a disposition of those shares (a "qualifying disposition") will be a long-term capital gain or loss. Upon such a qualifying disposition, we will not be entitled to any income tax deduction.

If a grantee disposes of shares within two years after the date of grant or within one year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the option exercise date and the exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. To the extent the grantee recognizes ordinary income by reason of a disqualifying disposition, generally we will be entitled to a corresponding income tax deduction in the tax year in which the disqualifying disposition occurs, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the exercise date of an incentive stock option is treated as an adjustment in computing the grantee's alternative minimum taxable income for the year of exercise and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to participants subject to the alternative minimum tax.

*Nonstatutory Stock Options.* Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special tax status. A grantee generally recognizes no taxable income as the result of the grant of such an option unless the option (and not the underlying stock) has a readily ascertainable fair market value at such time or is issued with an exercise price less than the fair market value at the time of the grant. Upon exercise of a nonstatutory stock option, the grantee normally recognizes ordinary income in the amount of the difference between the option exercise price and the fair market value of the shares purchased. If the grantee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Generally, we will be entitled to an income tax deduction in the tax year in which such ordinary income is recognized by the participant, except to the extent such deduction is limited by applicable provisions of the Code.

Upon the disposition of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss.

*Stock Appreciation Rights.* A grantee recognizes no taxable income upon the receipt of an SAR. Upon the exercise of an SAR, the grantee will recognize ordinary income in an amount equal to the excess of the fair market value of the

underlying shares of common stock on the exercise date over the exercise price. If the grantee is an employee, such ordinary income generally is subject to withholding of income and employment

**Table of Contents**

taxes. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the grantee in connection with the exercise of the SAR, except to the extent such deduction is limited by applicable provisions of the Code.

*Potential Limitation on Deductions.* Compensation of persons who are our Covered Employees is subject to the tax deduction limits of Section 162(m) of the Code. Awards that qualify as performance-based compensation are exempt from Section 162(m), thereby permitting us to claim the full federal tax deduction otherwise allowed for such compensation. The Amendment is intended to allow us to make grants that qualify as exempt under Section 162(m).

In accordance with U.S. Treasury Regulations issued under Section 162(m), compensation attributable to stock options and SARs will qualify as performance-based compensation if (i) such awards are approved by a compensation committee composed solely of outside directors, (ii) the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, (iii) the per-employee limitation is approved by the stockholders, and (iv) the exercise or strike price of the award is no less than the fair market value of the stock on the date of grant. Compensation attributable to other stock-based awards, including RSUs, will qualify as performance-based compensation, provided that (i) the award is approved by a compensation committee composed solely of outside directors, (ii) the award is vested or is settled, as applicable, only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the compensation committee certifies in writing prior to the settlement of the award that the performance goal has been satisfied, and (iv) prior to settlement of the award, the stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

The foregoing is only a summary, based on the current Code and Treasury Regulations thereunder, of the U.S. federal income tax consequences to the participant and our Company with respect to the grant and exercise of options and the grant or receipt of other awards under the Restated Plan. The summary does not purport to be complete, and it does not address the tax consequences of the participant's death, any tax laws of any municipality, state or foreign country in which a participant might reside, or any other laws other than U.S. federal income tax laws.

**Equity Incentive Plans**

The following table sets forth the indicated information as of December 31, 2016 with respect to our equity compensation plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
<b>Equity compensation plans approved by security holders</b>			
2016 Employee Stock Purchase Plan	3,965	\$ 28.22	146,035
2012 Stock Plan, as amended	1,789,660	\$ 1.90	809,059

Amended and Restated 2000 Stock Option Plan	405,710	\$	6.13	
<b>Total</b>	2,199,335	\$	4.78	955,094

Our equity compensation plans consist of the Benefitfocus, Inc. 2016 Employee Stock Purchase Plan, 2012 Plan, and 2000 Plan, which were approved by our stockholders. We do not have any equity compensation plans or arrangements that have not been approved by our stockholders.



**Table of Contents**

**CORPORATE GOVERNANCE MATTERS**

**Information about the Board**

The board of directors currently comprises eight members, divided into three classes as follows: Class I, consisting of Messrs. DiSabato, Jenkins and Napier; Class II, consisting of Messrs. Holland and Swad and Ms. Lamont; and Class III, consisting of Messrs. Dennerline and Pelzer. Upon the expiration of the term of office for each class of directors, each director in such class will be elected for a term of three years and will serve until a successor is duly elected and qualified or until his or her earlier death, resignation or removal. Any additional directorships resulting from an increase in the number of directors or a vacancy may be filled by the directors then in office or the stockholders (as provided in our bylaws). Because only one-third of our directors will be elected at each annual meeting, two consecutive annual meetings of stockholders could be required for the stockholders to change a majority of the board.

As Executive Chairman, Mr. Holland has authority to, among other things, call and preside over meetings of the board of directors, set meeting agendas, and determine materials to be distributed to the board. Accordingly, Mr. Holland has substantial ability to shape the work of the board. Mr. Holland, as a co-founder of our Company, possesses detailed and in-depth knowledge of the issues, opportunities, and challenges facing our Company and our business, and is well positioned to develop agendas that ensure the board's time and attention are focused on critical matters.

We have historically separated the position of Executive Chairman and that of Chief Executive Officer, currently Mr. Jenkins, who is also a co-founder of our Company. While our board of directors believes the separation of these positions has served our Company well, and intends to maintain this separation where appropriate and practicable, the board does not believe that it is appropriate to prohibit one person from serving as both Chairman and Chief Executive Officer. We believe our leadership structure is appropriate given the size of our Company in terms of the number of employees and the historical experience and understanding of our Company and industry of each of Messrs. Holland and Jenkins.

**Director Independence**

Our board of directors has established an audit committee, compensation committee, and nominating and governance committee. Our audit committee consists of independent directors Messrs. Pelzer (Chair), Dennerline and Swad. Our compensation committee consists of independent directors Messrs. Swad (Chair), Dennerline, Napier and Pelzer, and Ms. Lamont. Our nominating and governance committee consists of independent directors Ms. Lamont (Chair), and Messrs. Dennerline and Napier. The audit committee, compensation committee, and nominating and governance committee were established in May 2013 in anticipation of our IPO.

Our board has undertaken a review of the independence of our directors and has determined that Messrs. Dennerline, Pelzer and Swad are independent within the meaning of the NASDAQ Stock Market listing rules and meet the additional test for independence for audit committee members imposed by SEC regulation and the NASDAQ Stock Market listing rules.

**Family Relationships**

There is no family relationship between any director, executive officer or person nominated to become a director or executive officer of our Company.

**Executive Sessions of Non-Employee Directors**

In order to promote open discussion among non-employee directors, our board of directors has a policy of regularly conducting executive sessions of non-employee directors at scheduled meetings and at such other times requested by a non-employee director.

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**Table of Contents**

**Selection of Nominees for the Board of Directors**

The nominating and governance committee of our board of directors is responsible for establishing the criteria for recommending which directors should stand for re-election to the board and the selection of new directors to serve on the board. In addition, the committee is responsible for establishing the procedures for our stockholders to nominate candidates to the board. The committee has not formulated any specific minimum qualifications for director candidates, but has determined certain desirable characteristics, including strength of character, mature judgment, career specialization, relevant technical skills and independence. The Nominating and Governance Committee Charter calls for the committee to consider diversity to be an additional desirable characteristic in potential nominees.

Our bylaws permit any stockholder of record to nominate directors. Stockholders wishing to nominate a director must deliver written notice of the nomination either by personal delivery or by U.S. certified mail, postage prepaid, to the Corporate Secretary (i) with respect to an election to be held at an annual meeting of stockholders, not more than 90 and not less than 60 days before the meeting at which directors are to be elected, and (ii) with respect to an election to be held at a special meeting of stockholders called for the purpose of the election of directors, not later than the close of business on the tenth business day following the date on which notice of such meeting is first given to stockholders.

Any such notice must set forth the following: (A) the name and address, as they appear on the Company's books, of (i) the stockholder who intends to make the nomination and the name and residence address of the person or persons to be nominated, and (ii) any Stockholder Associated Person (as defined below); (B) (i) any material interest in the director nomination of such stockholder or any Stockholder Associated Person, individually or in the aggregate, (ii) as to the stockholder or any Stockholder Associated Person, their holdings of our stock and whether the stockholder has entered into transactions to manage risk with respect to such stock, (iii) as to the stockholder and any Stockholder Associated Person, the name and address of such stockholder and Stockholder Associated Person, as they appear on the Company's stock ledger, and current name and address, if different, and (iv) to the extent known by the stockholder, the name and address of any other stockholder supporting the nominee for election as a director; (C) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (D) a description of all arrangements or understandings between the stockholder and any Stockholder Associated Person and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (E) such other information regarding each nominee proposed by such stockholder as would be required to be disclosed in solicitations of proxies for election of directors, or as would otherwise be required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or the Exchange Act, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A had the nominee been nominated by the board of directors; and (F) the written consent of each nominee to be named in a proxy statement and to serve as director of the Company if so elected. Our bylaws define "Stockholder Associated Person" as (A) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (B) any beneficial owner of our shares of stock owned of record or beneficially by such stockholder and (C) any person controlling, controlled by or under common control with such Stockholder Associated Person.

Our nominating and governance committee will evaluate a nominee recommended by a stockholder in the same manner in which the committee evaluates nominees recommended by other persons as well as its own nominee recommendations.

**Information Regarding Meetings of the Board and Committees**

During 2016, our board of directors held six meetings. During 2016, our board's three permanent committees, the audit committee, compensation committee and nominating and governance committee, collectively held 14 meetings.

**Table of Contents**

All of our directors attended at least 75% of the aggregate of all meetings of the board of directors and the committees on which he or she served during 2016. We do not have a formal written policy with respect to directors' attendance at our annual meetings of stockholders. In 2016, director Mason R. Holland, Jr. attended the annual meeting of stockholders.

**Board Committees*****Committees of our Board of Directors***

In May 2013, our board of directors adopted written charters for each of its permanent committees, all of which are available under *Overview* in the *Company Investors Corporate Governance* section of our website at [www.benefitfocus.com](http://www.benefitfocus.com). The following table provides membership information of our directors in each committee of our board as of April 5, 2017.

	Audit Committee	Compensation Committee	Nominating & Governance Committee
Mason R. Holland, Jr. (Executive Chairman) <sup>(1)</sup>			
Douglas A. Dennerline			
Joseph P. DiSabato			
Ann H. Lamont			
A. Lanham Napier			
Francis J. Pelzer V			
Stephen M. Swad			

= Committee Chair

= Member

(1) Mr. Holland served on our nominating and governance committee until July 1, 2016.

***Audit Committee***

Our audit committee consists of Messrs. Pelzer (Chair), Dennerline, and Swad. Each of Messrs. Pelzer, Dennerline and Swad satisfy the independence requirements of Rule 5605(a)(2) and Rule 5605(c)(2) of the NASDAQ Stock Market listing rules and SEC Rule 10A-3. Our audit committee met seven times during our 2016 fiscal year. Our audit committee is responsible for, among other things:

appointing, terminating, compensating, and overseeing the work of any accounting firm engaged to prepare or issue an audit report or other audit, review or attest services;

reviewing and approving, in advance, all audit and non-audit services to be performed by the independent auditor, taking into consideration whether the independent auditor's provision of non-audit services to us is compatible with maintaining the independent auditor's independence;

reviewing and discussing the adequacy and effectiveness of our accounting and financial reporting processes and controls and the audits of our financial statements;

establishing and overseeing procedures for the receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by our employees regarding questionable accounting or auditing matters;

investigating any matter brought to its attention within the scope of its duties and engaging independent counsel and other advisors as the audit committee deems necessary;

determining compensation of the independent auditors and of advisors hired by the audit committee and ordinary administrative expenses;

**Table of Contents**

reviewing and discussing with management and the independent auditor the annual and quarterly financial statements prior to their release;

monitoring and evaluating the independent auditor's qualifications, performance, and independence on an ongoing basis;

reviewing reports to management prepared by the internal audit function, as well as management's response;

reviewing and assessing the adequacy of the formal written charter on an annual basis;

reviewing and approving related-party transactions for potential conflict of interest situations on an ongoing basis; and

handling such other matters that are specifically delegated to the audit committee by our board from time to time.

Our board of directors has affirmatively determined that Mr. Pelzer is designated as the audit committee financial expert and that he meets the definition of an independent director for purposes of serving on an audit committee under the NASDAQ Stock Market listing rules. The designation does not impose on Mr. Pelzer any duties, obligations or liabilities that are greater than those generally imposed on members of our audit committee and our board of directors.

*Compensation Committee*

Our compensation committee consists of Messrs. Swad (Chair), Dennerline, Napier and Pelzer, and Ms. Lamont. Each of Messrs. Swad, Dennerline, Napier and Pelzer and Ms. Lamont satisfy the independence requirements of Rule 5605(a)(2) and Rule 5605(d)(2) of the NASDAQ Stock Market listing rules. Our compensation committee met five times during our 2016 fiscal year. Our compensation committee is responsible for, among other things:

reviewing and approving the compensation, employment agreements and severance arrangements, and other benefits of all of our executive officers and key employees;

reviewing and approving, on an annual basis, the corporate goals and objectives relevant to the compensation of the executive officers, and evaluating their performance in light thereof;

reviewing and making recommendations, on an annual basis, to the board with respect to director compensation;

reviewing any analysis or report on executive compensation required to be included in the annual proxy statement and periodic reports pursuant to applicable federal securities rules and

regulations, and recommending the inclusion of such analysis or report in our proxy statement and period reports;

reviewing and assessing, periodically, the adequacy of the formal written charter; and

such other matters that are specifically delegated to the compensation committee by our board from time to time.

Pursuant to its written charter, our compensation committee has the authority to engage the services of outside advisors as it deems appropriate to assist it in the evaluation of the compensation of our directors, principal executive officer or other executive and non-executive officers, and in the fulfillment of its other duties. Additionally, our compensation committee has the authority to review and approve the compensation of our other officers and employees and may delegate its authority to review and approve the compensation of other non-executive officer employees to specified executive officers. Our compensation committee engaged Compensia, Inc. as its compensation consultants in 2016, as more fully described in Executive Compensation Employment Agreements .



## **Table of Contents**

### *Nominating and Governance Committee*

Our nominating and governance committee consists of Ms. Lamont (Chair), and Messrs. Dennerline and Napier. Our nominating and governance committee met twice during our 2016 fiscal year. It is responsible for, among other things:

identifying and screening candidates for our board, and recommending nominees for election as directors;

establishing procedures to exercise oversight of the evaluation of the board and management;

developing and recommending to the board a set of corporate governance guidelines, as well as reviewing these guidelines and recommending any changes to the board;

reviewing the structure of the board's committees and recommending to the board for its approval directors to serve as members of each committee, and where appropriate, making recommendations regarding the removal of any member of any committee;

developing and reviewing our code of conduct, evaluating management's communication of the importance of our code of conduct, and monitoring compliance with our code of conduct;

reviewing and assessing the adequacy of the formal written charter on an annual basis; and

generally advising our board on corporate governance and related matters.

### **Risk Oversight**

While our Company's senior management has responsibility for the management of risk, our board of directors plays an important role in overseeing this function. Our board of directors regularly reviews our market and business risks during its meetings and, since its formation, each of its committees began overseeing risks associated with its respective area of responsibility. In particular, our audit committee oversees risk related to our accounting, tax, financial and public disclosure processes. It also assesses risks associated with our financial assets. Our compensation committee oversees risks related to our compensation and benefit plans and policies to ensure sound pay practices that do not cause risks to arise that are reasonably likely to have a material adverse effect on our Company. Our nominating and governance committee seeks to minimize risks related to our governance structure by implementing sound corporate governance principles and practices. Each of our committees reports to the full board of directors as appropriate on its efforts at risk oversight and on any matter that rises to the level of a material or enterprise level of risk.

### **Code of Conduct**

We have adopted a code of ethics relating to the conduct of our business by all of our employees, officers, and directors, as well as a code of conduct specifically for our principal executive officer and senior financial officers. We have also adopted a corporate communications policy for our employees and directors establishing guidelines for the disclosure of information related to our Company to the investing public, market analysts, brokers, dealers, investment advisors, the media, and any persons who are not our employees or directors. Additionally, we have adopted an insider trading policy to establish guidelines for our employees, officers, directors, and consultants regarding transactions in our securities and the disclosure of material nonpublic information related to our Company. Each of these policies is posted under *Overview* in the *Company Investors Corporate Governance* section of our website at [www.benefitfocus.com](http://www.benefitfocus.com).

### **Communications with the Board of Directors**

Stockholders who wish to communicate with members of our board of directors, including the independent directors individually or as a group, may send correspondence to them in care of our Corporate Secretary at our principal executive offices at 100 Benefitfocus Way, Charleston, South Carolina 29492. Such communication will be forwarded to the intended recipient(s). We currently do not intend to have our Corporate Secretary screen this correspondence, but we may change this policy if directed by the board due to the nature or volume of the correspondence.

**Table of Contents****DIRECTOR COMPENSATION**

In June 2014, our board of directors established a compensation program for our Company's independent directors not serving as a designee of an investor under our Second Amended and Restated Voting Agreement, or the Voting Agreement. Each such director will receive an annual retainer of \$150,000, payable at the director's election either 50% in cash and 50% in RSUs, or 100% in RSUs. We also will pay such directors the following cash fees for each quarter they chair one of the board committees: audit, \$6,250; compensation, \$2,500; and any other committee, \$1,875.

Our Company maintains stock ownership guidelines for directors. The guidelines require our Company's non-employee directors, not serving as a designee of an investor under the Voting Agreement, to own stock in our Company with a cash value of \$225,000 or 3,750 shares, whichever is less. Such director need not own the requisite number of shares until he or she has completed three years of service as a director of our Company. If the ownership requirement is not met after the director has completed three years of service as a director of our Company, then all payments made to him by our Company will be entirely in the form of RSUs until the required ownership level is reached. For purposes of calculating the number of shares held by a director, shares that are owned directly are counted along with (a) shares over which the director has investment or voting power, and (b) shares that may be acquired pursuant to vested, in-the-money options to acquire Company stock. Shares used to achieve the minimum director ownership requirement may not be pledged, used as security, or otherwise encumbered by a director.

The following table sets forth the total compensation paid to each of our non-employee directors in 2016.

Name	Fees Earned or Paid in		Stock Awards	Total
	Cash			
	(\$)	(\$)	(\$)	(\$)
Douglas A. Dennerline	-	\$ 160,302 <sup>(1)</sup>		\$160,302
Joseph P. DiSabato	-	-		-
Ann H. Lamont	-	-		-
A. Lanham Napier	\$75,000	\$ 80,132 <sup>(2)</sup>		\$155,132
Francis J. Pelzer V	\$25,000	\$ 160,302 <sup>(1)(3)</sup>		\$185,302
Stephen M. Swad	\$10,000	\$ 160,302 <sup>(1)</sup>		\$170,302

- (1) On June 6, 2016, our board of directors approved grants of RSUs to each of Messrs. Dennerline, Pelzer, and Swad for 4,277 shares of our common stock with an aggregate grant date fair value for each director of \$160,302, computed in accordance with FASB ASC Topic 718. These grants of RSUs vest on the earlier of June 3, 2017 or the 2017 annual meeting of stockholders of our Company, subject to the director's continued service on our board.
- (2) On June 6, 2016, our board of directors approved a grant of RSUs to Mr. Napier for 2,138 shares of our common stock with an aggregate grant date fair value of \$80,132, computed in accordance with FASB ASC Topic 718. This grant of RSUs vests on the earlier of June 3, 2017 or the 2017 annual meeting of stockholders of our Company, subject to Mr. Napier's continued service on our board.
- (3) Mr. Pelzer also holds an option to purchase 50,000 shares of our common stock, granted to him in 2013 for service on our board. On December 31, 2016, 44,791 shares subject to this option were vested.

The compensation earned by Mr. Jenkins as an employee in 2016, 2015 and 2014 is included in Executive Compensation Summary Compensation Table. Mr. Holland is an executive officer (but not a named executive officer)

who serves as a director and did not receive additional compensation for service provided as a director in 2016, 2015 or 2014.

Table of Contents**AUDIT COMMITTEE REPORT**

Our audit committee has (1) reviewed and discussed with management the audited financial statements for the year ended December 31, 2016, (2) discussed with Ernst & Young LLP, or EY, our independent registered public accounting firm, the matters required to be discussed by Auditing Standards No. 16, as adopted by the Public Company Accounting Oversight Board, and (3) received the written disclosures and the letter from EY concerning applicable requirements of the Public Company Accounting Oversight Board regarding EY's communications with the audit committee concerning independence, and has discussed with EY its independence. Based upon these discussions and reviews, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is filed with the SEC.

Our audit committee is currently composed of the following three directors: Messrs. Pelzer (Chair), Dennerline and Swad. All are independent directors as defined in Rule 5605(a)(2) of the NASDAQ Stock Market listing rules and Section 10A(m)(3) of the Exchange Act. The board of directors has determined that Mr. Pelzer is an audit committee financial expert as such term is defined in Item 407(D) of Regulation S-K promulgated by the SEC. Our audit committee operates under a written charter adopted by the board, a copy of which is available under *Overview* in the *Company Investors Corporate Governance* section of our website at [www.benefitfocus.com](http://www.benefitfocus.com).

EY has served as our independent registered public accounting firm since 2007 and audited our consolidated financial statements for the years ended December 31, 2006 through December 31, 2016.

**Summary of Fees**

The audit committee has adopted a policy for the pre-approval of all audit and permitted non-audit services that may be performed by our independent registered public accounting firm. Under this policy, each year, at the time it engages an independent registered public accounting firm, the audit committee pre-approves the engagement terms and fees and may also pre-approve detailed types of audit-related and permitted tax services, subject to certain dollar limits, to be performed during the year. All other permitted non-audit services are required to be pre-approved by the audit committee on an engagement-by-engagement basis.

The following table summarizes the aggregate fees billed for professional services rendered to us by EY in 2015 and 2016. A description of these various fees and services follows the table.

	<b>2015</b>	<b>2016</b>
Audit Fees	\$ 1,240,139	\$ 1,018,719
Audit-Related Fees		
Tax Fees		
All Other Fees		

**Audit Fees**

The aggregate fees billed to us by EY in connection with the annual audit of our financial statements, for the review of our financial statements included in our Quarterly Report on Form 10-Q and Annual Report on Form 10-K and for other services normally provided in connection with statutory and regulatory filings, were \$1,240,139 and \$1,018,719 for the years ended December 31, 2015 and 2016, respectively. The decrease in audit fees in 2016 relates primarily to the decrease in filings associated with Company transactions in 2016.

**Audit-Related Fees**

No aggregate audit-related fees were billed to us by EY for the years ended December 31, 2015 or 2016.

**Table of Contents**

**Tax Fees**

No tax fees were billed to us by EY for the years ended December 31, 2015 or 2016.

**All Other Fees**

No other fees were billed to us by EY for the years ended December 31, 2015 or 2016.

THE AUDIT COMMITTEE OF

THE BOARD OF DIRECTORS

Francis J. Pelzer V (Chair)

Douglas A. Dennerline

Stephen M. Swad

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 5, 2017 unless otherwise noted below for the following:

each person or entity known to own beneficially more than 5% of our outstanding common stock as of the date indicated in the corresponding footnote;

each of the named executive officers named in the Summary Compensation table;

each director; and

all current directors and executive officers as a group.

Applicable percentage ownership is based on 30,801,642 shares of our common stock outstanding as of April 5, 2017, unless otherwise noted below, together with applicable options for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC, based on factors including voting and investment power with respect to shares. Common stock subject to options currently exercisable, or exercisable within 60 days after April 5, 2017, and RSUs vesting within 60 days after April 5, 2017, are deemed outstanding for the purpose of computing the percentage ownership of the person holding those securities, but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated, the address for each listed stockholder is c/o Benefitfocus, Inc., 100 Benefitfocus Way, Charleston, South Carolina 29492.

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percentage Beneficially Owned
Joseph P. DiSabato <sup>(1)</sup>	6,242,946	20.3%
Mason R. Holland, Jr. <sup>(2)</sup>	2,663,671	8.6%
Shawn A. Jenkins	2,637,994	8.6%
Ann H. Lamont <sup>(3)</sup>	630,378	2.0%
Francis J. Pelzer V <sup>(4)</sup>	65,636	*
Raymond A. August	64,624	*
Stephen M. Swad <sup>(5)</sup>	33,340	*
Douglas A. Dennerline <sup>(6)</sup>	18,096	*
A. Lanham Napier <sup>(7)</sup>	17,381	*
Jeffrey M. Laborde	0	*
Dennis B. Story	0	*
All directors and executive officers as a group (11 individuals)	12,377,996	40.1%
<b>5% or Greater Stockholders:</b>		
The Goldman Sachs Group, Inc. <sup>(1)</sup>	6,242,946	20.3%
BAMCO, Inc. <sup>(8)</sup>	4,251,416	13.8%



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Marsh & McLennan Companies, Inc. <sup>(9)</sup>	3,398,339	10.8%
FMR, LLC <sup>(10)</sup>	3,000,401	9.7%

\* Less than 1%.

- (1) Based solely on a Schedule 13D/A filed with the SEC on August 13, 2015 by The Goldman Sachs Group, Inc. Consists of (i) 801,341 shares of common stock held directly by GS Capital Partners VI Parallel, L.P., (ii) 2,423,887 shares of common stock held directly by GS Capital Partners VI Offshore Fund, L.P., (iii) 2,914,149 shares of common stock held directly by GS Capital Partners VI Fund, L.P., and (iv) 103,569 shares of common stock held directly by GS Capital Partners VI GmbH & CO. KG, collectively the Goldman Funds. Affiliates of Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. are the general partner, managing general partner, managing partner, managing member or member of each of the Goldman Funds. Goldman, Sachs & Co. is a direct and indirect wholly owned subsidiary of The Goldman Sachs Group, Inc. Goldman, Sachs & Co. is the investment manager of the Goldman Funds. Mr. DiSabato is a managing director of Goldman, Sachs & Co. The address of the Goldman Funds and Mr. DiSabato is 200 West Street, New York, New York 10282.

**Table of Contents**

- (2) Includes 2,649,099 shares held by the Holland Family Trust, five shares held by Mr. Holland as custodian for his minor son. Mr. Holland and his wife share voting and investment control over the shares held by the Holland Family Trust.
- (3) Consists of 630,378 shares of common stock held directly by Oak Investment Partners XII, Limited Partnership. Ms. Lamont is a Managing Partner of Oak Investment Partners.
- (4) Includes 50,000 shares issuable upon the exercise of options exercisable on or before 60 days after April 5, 2017 and 4,277 shares held upon the vesting of RSUs within 60 days after April 5, 2017.
- (5) Consists of 24,726 shares held by the Stephen M Swad Revocable Living Trust and 8,614 shares held upon the vesting of RSUs within 60 days after April 5, 2017.
- (6) Includes 8,766 shares held upon the vesting of RSUs within 60 days after April 5, 2017.
- (7) Includes 6,627 shares held upon the vesting of RSUs within 60 days after April 5, 2017.
- (8) Based solely on a Schedule 13G/A filed with the SEC on February 16, 2016 by BAMCO, Inc. ( BAMCO ). Consists of 4,251,416 shares of common stock held by BAMCO. Baron Capital Management, Inc. ( BCM ) and BAMCO are subsidiaries of Baron Capital Group, Inc. ( BCG ). Baron Growth Fund ( BGF ) is an advisory client of BAMCO. Ronald Baron owns a controlling interest in BCG. The address of BAMCO, BCM, BCG, BGF and Mr. Baron is 767 Fifth Avenue, 49<sup>th</sup> Floor, New York, New York 10153.
- (9) Based solely on a Schedule 13G filed with the SEC on March 6, 2015 by Marsh & McLennan Companies, Inc. Consists of 3,398,339 shares of common stock held directly by Marsh & McLennan Companies, Inc. ( MMC ). MMC directly owns all of the outstanding shares of capital stock of Mercer Consulting Group, Inc. ( Mercer Consulting ). Mercer Consulting, in turn, directly owns all of the outstanding equity interests of Mercer LLC ( Mercer ), and Mercer directly owns the shares of the Company. Each of MMC, Mercer Consulting and Mercer may therefore be deemed to have shared voting and dispositive power over such shares. Includes a warrant for the purchase of up to 580,813 shares of common stock of the Company issued to Mercer by the Company. The address of Marsh & McLennan Companies, Inc. is 1166 Avenue of the Americas, New York, New York 10036.
- (10) Based solely on a Schedule 13G/A filed with the SEC on February 10, 2017 by FRM LLC ( FRM ). Consists of 3,000,401 shares of common stock held by FMR and certain of FMR 's subsidiaries. FMR is a parent holding company and its subsidiaries, Fiam LLC, Fidelity Management & Research (Hong Kong) Limited and FMR Co., Inc. beneficially own shares of the Company. Abigail P. Johnson is a Director, the Chairman and the Chief Executive Officer of FMR and the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210.



**Table of Contents**

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our executive officers, directors, and persons who beneficially own more than 10% of a registered class of our common stock or other equity securities to file with the SEC certain reports of ownership and reports of changes in ownership of our securities. Executive officers, directors and stockholders who hold more than 10% of our outstanding common stock are required by the SEC to furnish us with copies of all required forms filed under Section 16(a). Based solely on a review of this information and written representations from these persons that no other reports were required, we believe that, during the prior fiscal year all of our executive officers, directors, and to our knowledge, 10% stockholders complied with the filing requirements of Section 16(a) of the Exchange Act, except for Mr. Jenkins, who filed a Form 4 on January 14, 2016 to report an equity grant on January 11, 2016 and Mr. Restivo, who filed a Form 4 on April 5, 2017 to report an equity grant on April 1, 2016.

**Table of Contents**

**EXECUTIVE COMPENSATION**

The following discussion and analysis of compensation arrangements of our named executive officers for 2016 should be read together with the compensation tables and related disclosures on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we may adopt in the future might differ materially from currently planned programs summarized in this discussion.

The discussion below includes a review of our compensation decisions with respect to 2016 for our named executive officers, including our principal executive officer and our two other most highly compensated executive officers. Our named executive officers for 2016 were:

Shawn A. Jenkins, who serves as our Chief Executive Officer, or CEO, and is our principal executive officer;

Raymond A. August, who serves as our President and Chief Operating Officer;

Jeffrey M. Laborde, who will serve as our Chief Financial Officer through April 30, 2017; and

Dennis B. Story, who served as our Chief Financial Officer from July 1, 2016 to July 25, 2016 (SEC rules require us to include Mr. Story because of his equity grant in 2016, even though none of that vested).

**Key Elements of Our Compensation Program for 2016**

In 2016, we compensated our named executive officers through a combination of base salary, annual bonus payments, and long-term equity incentives in the form of RSUs. In the past, we have granted our executive officers options. Our executive officers are also eligible for our standard benefits programs, which include:

health, vision and dental insurance;

life insurance;

short- and long-term disability insurance;

health savings account contributions; and

a 401(k) plan with a defined matching of contributions.

We do not use specific formulas or weightings in determining the allocation of the various compensation elements. Instead, the compensation for each of our named executive officers has been designed to provide a combination of

fixed and at-risk compensation that is tied to the achievement of our short- and long-term objectives. We believe that this approach achieves the primary objectives of our compensation program.

### **Management Incentive Bonus Programs**

In June 2014, our stockholders approved the Benefitfocus, Inc. Management Incentive Bonus Program, which is designed to provide a long-term framework for performance-based bonus plans going forward, continue to reward high level executives of our Company based on their responsibilities and for their contributions to the successful achievement of certain corporate goals and objectives, and to share the success and risks of our Company based upon the achievement of business goals. This program also permits bonus awards to be structured to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Our named executive officers and other members of our management team participate in our management incentive bonus programs. The foundation of grants made under these programs is the achievement by our Company of consolidated revenues. In 2016, the bonus earned pursuant to the bonus program then in place was a

**Table of Contents**

function of a percentage of bonus earned, or PBE (based on achieving annual revenue targets), multiplied by the target bonus amount, or TBA (the executive's annual base salary, multiplied by a designated bonus target percent, or BTP). Participants could elect to receive half of their TBA in PRSUs, a percentage of which would vest upon the achievement of annual revenue goals and non-GAAP net income (loss) goals during the period of January 1, 2016 to December 31, 2016. In 2016, Messrs. Jenkins and August made the PRSU election and were granted 9,385 and 7,671 PRSUs respectively, of which 8,835 and 7,222 vested. Messrs. Jenkins and August also earned cash bonuses in 2016 of \$278,154 and \$227,366, respectively, based on the annual revenue target achieved, and BTPs of 100% each. Mr. Laborde, who did not make the PRSU election, earned a cash bonus of \$112,977, based on the annual revenue target achieved and a BTP of 75%. Mr. Laborde's bonus was prorated for his four months of service in 2016. Mr. Story did not earn a bonus under the program.

**Summary Compensation Table**

The following table sets forth summary compensation information for our named executive officers for the fiscal years ended December 31, 2016, 2015 and 2014.

Name and principal position	Year	Salary (\$)(1)	Stock awards (\$)(2)	Non-equity	All other	Total (\$)
				incentive plan compensation(\$)	compensation (\$)	
Shawn A. Jenkins <i>Chief Executive Officer</i>	2016	\$ 590,892	\$ 2,992,494	\$ 278,154	\$ 17,466 <sup>(3)</sup>	\$ 3,879,006
	2015	\$ 590,892	\$ 1,681,903	\$ 709,366	\$ 16,866 <sup>(4)</sup>	\$ 2,999,027
	2014	\$ 561,723	\$ 1,688,379	\$ 531,993	\$ 15,991 <sup>(5)</sup>	\$ 2,798,086
Raymond A. August <sup>(6)</sup> <i>President and Chief Operating Officer</i>	2016	\$ 483,000	\$ 1,244,482	\$ 227,366	\$ 118,888 <sup>(7)</sup>	\$ 2,073,736
	2015	\$ 483,000	\$ 2,503,998	\$ 579,842	\$ 107,701 <sup>(8)</sup>	\$ 3,674,541
Jeffrey M. Laborde <sup>(10)</sup> <i>Chief Financial Officer</i>	2016	\$ 157,744	\$ 2,390,938	\$ 112,977	\$ 3,780 <sup>(11)</sup>	\$ 2,665,439
Dennis B. Story <sup>(12)</sup> <i>Former Chief Financial Officer</i>	2016	\$ 16,667	\$ 4,484,504	\$ 0	\$ 0	\$ 4,501,171

(1) Reflects base salary earned during the fiscal year covered.

(2) The reported amounts represent the aggregate grant date fair value of awards of RSUs and PRSUs computed in accordance with FASB ASC Topic 718, excluding the estimate of forfeitures. The reported amounts for PRSUs also assume target performance goals will be achieved and are consistent with the estimate of aggregate compensation cost recognized over the service period determined as of the grant date under FASB ASC Topic 718. For 2016, the grant date fair value of PRSUs at maximum payout potential are \$1,546,007, \$254,370, \$381,538, and \$435,674 for Messrs. Jenkins, August, Laborde and Story, respectively.

- (3) Includes \$7,044 in medical insurance premiums, \$327 in life insurance premiums, \$664 in disability insurance premiums, \$1,200 in health savings account contributions, \$281 in athletic club membership contributions, and \$7,950 in 401(k) plan matching contributions.
- (4) Includes \$6,444 in medical insurance premiums, \$327 in life insurance premiums, \$664 in disability insurance premiums, \$1,200 in health savings account contributions, \$281 in athletic club membership contributions, and \$7,950 in 401(k) plan matching contributions.
- (5) Includes \$6,411 in medical insurance premiums, \$98 in life insurance premiums, \$354 in disability insurance premiums, \$1,200 in health savings account contributions, \$128 in athletic club membership contributions, and \$7,800 in 401(k) plan matching contributions.
- (6) Mr. August joined our Company on August 11, 2014 and his annual salary in 2014 was prorated from that date.
- (7) Includes \$101,703 in relocation allowance, \$7,044 in medical insurance premiums, \$327 in life insurance premiums, and \$664 in disability insurance premiums, \$1,200 in health savings account contributions, and \$7,950 in 401(k) plan matching contributions.



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**Table of Contents**

- (8) Includes \$90,158 in relocation allowance, \$6,444 in medical insurance premiums, \$327 in life insurance premiums, and \$664 in disability insurance premiums, \$1,200 in health savings account contributions, \$958 in executive health program costs, and \$7,950 in 401(k) plan matching contributions.
- (9) Includes \$1,880 in medical insurance premiums, \$34 in life insurance premiums, and \$144 in disability insurance premiums.
- (10) Jeffrey M. Laborde joined our Company on September 15, 2016 and will serve as our Chief Financial Officer until April 30, 2017, the effective date of his resignation. At that time and pursuant to the terms of his employment agreement, Mr. Laborde will forfeit all his unvested equity awards. As a result, Mr. Laborde's actual realized compensation from us in 2016 was \$274,501.
- (11) Includes \$109 in life insurance premiums, \$221 in disability insurance premiums and, \$3,450 in 401(k) plan matching contributions.
- (12) Dennis B. Story served as our Chief Financial Officer from July 1, 2016 until his resignation, effective July 25, 2016. At that time and pursuant to the terms of his employment agreement, Mr. Story forfeited all his unvested equity awards. As a result, Mr. Story's actual realized compensation from us in 2016 was \$16,667.

**Employment and Consulting Agreements**

We have entered into employment agreements with Messrs. Jenkins, Holland, August and Laborde. The compensation committee of our board of directors engaged Compensia, Inc. as its compensation consultant in 2016, to, among other things, continue its review and analysis of our compensation program, including our executives' employment agreements and 2012 Plan. We paid Compensia, Inc. \$63,765 in fees to conduct its review.

***Employment Agreements with Shawn Jenkins and Mason Holland***

In January 2007, we entered into employment agreements with Shawn Jenkins, our Chief Executive Officer, and Mason Holland, our Executive Chairman, which set forth the terms and conditions of their employment. Pursuant to the agreements, we granted Mr. Jenkins and Mr. Holland, each of whom we refer to as an Executive, options to acquire 847,458 shares of our common stock and 423,729 shares of our common stock, respectively. Each agreement continues for terms of three years, which will be extended automatically each day, for an additional day, so that the remaining term continues to be three years in length. Either we or the Executive may at any time fix the term to a finite term of three years. Under the terms of each agreement, we must pay Messrs. Jenkins and Holland salaries at rates of not less than \$400,000 and \$200,000 per year, respectively. The board will review each Executive's salary at least annually and must increase each Executive's salary by at least 5% per year. Any increase in excess of 5% in any given year must be approved by the board members designated by GS Capital Partners VI Parallel, L.P., or the Goldman Board Designee, currently Joe DiSabato. We may not decrease either Executive's base salary under these agreements.

Each Executive is eligible to participate in any management incentive programs we establish, and each Executive may receive incentive compensation based upon achievement of targeted levels of performance and other criteria established by the board or compensation committee (which in each case requires the approval of at least one of the Goldman Board Designees). In the event we achieve the annual financial targets approved by the board (which

approval must include at least one Goldman Board Designee), each of Messrs. Jenkins and Holland will be entitled to an annual bonus in an amount at least equal to his then-current base salary. If we exceed our financial targets by 10% for the year, Mr. Jenkins will earn an additional bonus amount equal to 50% of his then-current base salary.

If we terminate an Executive's employment due to his death or disability, we must pay to him, or his estate, his accrued compensation and, in the case of Mr. Jenkins, an amount equal to the average of the annual bonuses paid or payable to him during the three full fiscal years preceding the date of termination, pro-rated for

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**Table of Contents**

the number of days the Executive was employed in the fiscal year in which his employment was terminated, which amount we refer to as the Prorated Bonus Amount. If we terminate an Executive's employment for cause (as defined below) or an Executive resigns for any reason other than adequate justification, we must pay such Executive all accrued compensation.

If an Executive resigns for adequate justification (as defined below), or if we terminate an Executive's employment for any reason other than (i) due to his death or disability, or (ii) for cause, including in connection with a change in control of our Company, we must pay such Executive his accrued compensation and a pro rata share of his annual bonus, if such bonus is awarded. Additionally, we must pay such Executive each month, for a period of 36 months, one-twelfth (1/12) of the sum of, (i) his then-current base salary, and (ii) a pro rata share of his annual bonus, if such bonus is awarded. Furthermore, we must continue providing life insurance, disability, medical, dental, and hospitalization benefits to the Executive (which amount will be reduced to the extent the Executive receives these benefits from a subsequent employer). Finally, the restrictions on any outstanding incentive awards held by the Executive, including stock options, will lapse and such awards will become fully vested and immediately exercisable.

Under each agreement, adequate justification is defined as: (A) an uncured material failure of the Company to comply with the agreement; (B) any non-voluntary, Company-imposed relocation of the Executive outside Charleston, South Carolina; (C) a change in control of our Company that results in a material diminution in the Executive's responsibilities; or (D) the removal of the Executive, in the case of Mr. Jenkins, from the position of Chief Executive Officer or, in the case of Mr. Holland, from the position of Chairman of our board of directors, in each case except as otherwise provided in the respective agreement. Under each agreement, termination for cause is defined as: (i) a conviction of the Executive of, or entering a plea of no contest by the Executive with respect to, having committed a felony; (ii) abuse of controlled substances or alcohol, or acts of dishonesty or moral turpitude by the Executive that are detrimental to the Company; (iii) acts or omissions by the Executive that he knew, or should reasonably have known, would substantially damage the business of the Company; (iv) negligence by the Executive in the performance of, or disregard by the Executive of, his obligations under the agreement or otherwise relating to his employment, or a breach by the Executive of the agreement, which negligence, disregard or breach continues uncured after receiving notice from the Company; or (v) failure by the Executive to obey the reasonable and lawful orders and policies of the board that are consistent with the provisions of the agreement.

In the event the Executive, during the 24 months following the termination of his employment, becomes employed by a company that engages, in whole or part, in the same or substantially the same business as ours, the Executive will forfeit any remaining severance payments.

***Employment Agreement with Raymond A. August***

In July 2014, we entered into an employment agreement with Raymond A. August. Under the agreement, we agreed to pay Mr. August a base salary of \$460,000 per year for 2014. Mr. August's base salary as of December 31, 2016 was \$483,000. Annual compensation reviews and adjustments to Mr. August's compensation occur on or around the time we perform our annual budget process. We also agreed to pay Mr. August a bonus amount of up to 100% of his then-current base pay, subject to adjustment, upon achievement of the Company's annual targets. Pursuant to the agreement, we granted Mr. August 175,000 RSUs in 2014 with a five-year vesting period beginning on October 1, 2015 and grant him annual RSU awards of up to 200% of his base pay with a four-year vesting periods, subject to continued employment.

In the event we terminate Mr. August's employment without cause at any time prior to a change in control, we will provide Mr. August: (i) severance payments at a rate equal to his base salary then in effect for a period of 12 months following his termination date, (ii) a portion of his targeted annual bonus, and (iii) an insurance premium in an amount

equal to that which was paid on his behalf prior to the termination of his employment.

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**Table of Contents**

In the event we or our acquirer terminates Mr. August's employment without cause at the time of, or within 12 months following, a change in control of our Company, we or our acquirer will provide Mr. August: (i) severance payments at a rate equal to his base salary then in effect for a period of 12 months following his termination date, (ii) a portion of his targeted annual bonus, (iii) immediate acceleration of outstanding RSUs granted to him in 2014, and (iv) specified insurance premiums during the period he receives severance payments. If he resigns due to a decrease in his base salary or targeted annual bonus, a change in his position with the Company, or a change in his duties and responsibilities to the Company, and provided he resigns within three months of the occurrence of, and without having consented to, such event, Mr. August will be entitled to receive the same severance benefits he would have been eligible to receive were his employment terminated by us without cause.

If we terminate Mr. August's employment with or without cause, after completion of any period during which his eligibility for a bonus is to be determined, or a Bonus Period, but prior to the date when such bonus is to be paid, Mr. August will be entitled to receive such bonus at the time it would have been paid but for the termination of his employment. If we terminate Mr. August's employment without cause prior to the completion of a Bonus Period, he will be entitled to receive a portion of the bonus at the time it would have been paid but for the termination of his employment, prorated for the portion of the Bonus Period that he was employed by the Company.

Under the employment agreement, cause is defined as any determination by our board of any of the following: (i) Mr. August's violation of any applicable material law or regulation respecting the business of the Company, (ii) Mr. August's commission of a felony or a crime involving moral turpitude, (iii) any act of dishonesty, fraud or misrepresentation in relation to his duties to the Company, (iv) Mr. August's uncured failure to perform in any material respect his duties under the agreement, (v) Mr. August's failure to attempt in good faith to implement a clear and reasonable directive from our board or to comply with any of our policies and procedures which failure is material and occurs after written notice from our board, (vi) any act of gross misconduct that is materially and demonstrably injurious to the Company, or (vii) Mr. August's breach of his fiduciary responsibility.

***Employment Agreement with Jeffrey M. Laborde***

In September 2016, we entered into an employment agreement with Jeffrey M. Laborde. Under the agreement, we agreed to pay Mr. Laborde a base salary of \$400,000 per year. Mr. Laborde is also eligible to receive a target bonus of up to 75% of his then-current base pay, subject to adjustment, upon achievement of the Company's annual targets. Pursuant to the agreement, we granted Mr. Laborde 53,208 RSUs in 2016 with a four-year vesting period beginning August 7, 2016, subject to continued employment. We also granted Mr. Laborde 9,836 PRSUs in 2016, which vest upon the achievement of adjusted EBITDA and compounded annual revenue growth rate goals for the two year period ending December 31, 2017, as determined by the board of directors and subject to continued employment.

On February 21, 2017, Mr. Laborde submitted his resignation as Chief Financial Officer of the Company, effective April 30, 2017. Pursuant to the terms of his employment agreement, upon his resignation without cause, Mr. Laborde will forfeit all his unvested equity awards.

**Table of Contents****Outstanding Equity Awards as of December 31, 2016**

The following table lists the outstanding equity awards held by our named executive officers as of December 31, 2016:

Name	Number of shares or units of stock that have not vested (#)	Stock awards		
		Market value of shares or units of stock that have not vested (\$)(12)	Equity incentive plan awards: number of unearned units (#)	Equity incentive plan awards: market value of unearned units (\$)(12)
Shawn A. Jenkins <i>Chief Executive Officer</i>	17,624 <sup>(1)</sup>	\$ 523,433		
	35,186 <sup>(2)</sup>	\$ 1,045,024		
			28,000 <sup>(3)</sup>	\$ 831,600
	56,078 <sup>(4)</sup>	\$ 1,664,517	9,385 <sup>(5)</sup>	\$ 278,735
Raymond A. August <i>President and Chief Operating Officer</i>	105,000 <sup>(6)</sup>	\$ 3,118,500		
	19,171 <sup>(2)</sup>	\$ 569,379		
			28,000 <sup>(3)</sup>	\$ 831,600
	30,559 <sup>(4)</sup>	\$ 907,602	7,671 <sup>(7)</sup>	\$ 227,829
Jeffrey M. Laborde <sup>(8)</sup> <i>Chief Financial Officer</i>	53,208 <sup>(9)</sup>	\$ 1,580,278		
			8,430 <sup>(10)</sup>	\$ 250,371
Dennis B. Story <sup>(11)</sup> <i>Former Chief Financial Officer</i>				

- (1) The shares subject to this grant of RSUs vest in four equal annual installments beginning on April 1, 2015, subject to continued employment.
- (2) The shares subject to this grant of RSUs vest in four equal annual installments beginning on April 1, 2016, subject to continued employment.
- (3) Messrs. Jenkins and August were granted 40,000 PRSUs on January 11, 2016 and November 6, 2015, respectively, that vest upon the achievement of adjusted EBITDA and compounded annual revenue growth rate goals during the period of January 1, 2015 through December 31, 2017. The amount reported represents the number of PRSUs that had not yet been paid out and their corresponding value, assuming target performance goals will be achieved.

- (4) The shares subject to this grant of RSUs vest in four equal annual installments beginning on April 1, 2017, subject to continued employment.
  
- (5) The amount reported represents the number of PRSUs granted to Mr. Jenkins in lieu of 50% of his TBA as previously described and assumes target performance goals will be achieved. The PRSUs vest upon the achievement of annual revenue goals and non-GAAP net income (loss) goals during the period of January 1, 2016 through December 31, 2016. 8,835 of the PRSUs vested in 2017.
  
- (6) The shares subject to this grant of RSUs vest in five equal annual installments beginning on October 1, 2015, subject to continued employment.
  
- (7) The amount reported represents the number of PRSUs granted to Mr. August in lieu of 50% of his TBA as previously described and assumes target performance goals will be achieved. The PRSUs vest upon the achievement of annual revenue goals and non-GAAP net income (loss) goals during the period of January 1, 2016 through December 31, 2016. 7,222 of the PRSUs vested in 2017.
  
- (8) Pursuant to Mr. Laborde's employment agreement, all of Mr. Laborde's equity awards will be forfeited upon the effective date of his resignation.
  
- (9) The shares subject to these RSUs were to vest in four equal annual installments beginning on August 7, 2017, subject to continued employment.

**Table of Contents**

- (10) Mr. Laborde was granted 9,836 PRSUs on September 15, 2016. The PRSUs were to vest upon the achievement of adjusted EBITDA and compounded annual revenue growth rate goals during the period of January 1, 2015 through December 31, 2017, subject to continued employment. The amount of PRSUs reported and corresponding value assume target performance goals would have been achieved.
- (11) All of Mr. Story's equity awards were forfeited on the effective date of his resignation.
- (12) Based on \$29.70 per share which was the closing price of our common stock on the Nasdaq Global Market on December 30, 2016, the last trading day of that fiscal year.



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**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS**

The following is a summary of each transaction or series of similar transactions since January 1, 2016, to which we were or are a party in which:

the amount involved exceeded or exceeds \$120,000; and

any of our directors or executive officers, any holder of 5% of our capital stock or any member of their immediate family had or will have a direct or indirect material interest.

**Landlord Daniel Island Executive Center, LLC and DIEC II, LLC**

We lease real property from Daniel Island Executive Center, LLC for use as our corporate headquarters in Charleston, South Carolina under two lease agreements. Pursuant to an amendment to each lease executed on December 12, 2016, both lease agreements expire on December 31, 2031. The initial term of the leases will reset to be co-terminus with certain new leases the Company may enter into with Daniel Island Executive Center, LLC or DIEC II, LLC. Under the two leases, an aggregate of \$81.2 million of lease payments are due over the remainder of the terms as of December 31, 2016. We made payments related to these agreements in the amount of \$4.7 million for the year ended December 31, 2016.

Pursuant to a lease agreement with DIEC II, LLC and subsequent amendment executed on December 12, 2016, we have extended our campus in Charleston, South Carolina with a Customer Success Center and, at our option and under a new lease, can have a two-story welcome center built. The lease agreement for the Customer Success Center expires December 31, 2031. The initial term of the lease will reset to be co-terminus with certain new leases the Company may enter into with Daniel Island Executive Center, LLC or DIEC II, LLC. Under the lease, an aggregate of \$76.3 million of lease payments are due over the remainder of the term as of December 31, 2016. We made payments related to this agreement in the amount of \$4.5 million for the year ended December 31, 2016.

On December 12, 2016, the Company also executed a lease agreement with DIEC II, LLC, which requires DIEC, LLC to construct a building of approximately 145,800 square feet on Daniel Island Executive Center II for the Company to expand its campus to accommodate anticipated future growth. The target commencement date of the Lease is July 1, 2019 and the Lease would run for 15 years. Once the lease has commenced, an aggregate of \$75.8 million of lease payments will be due over the course of the 15 year initial term. Pursuant to the terms of the lease, we agreed to commence construction on or about April 1, 2018 and can also terminate the lease prior to that time, subject to reimbursing the landlord for its reasonable, documented, and pre-agreed out-of-pocket costs with respect to the lease and building to date. If we delay beginning construction past December 31, 2018, the landlord may terminate the lease.

Daniel Island Executive Center, LLC and DIEC II, LLC are South Carolina limited liability companies. The Holland Family Trust, with which Mason Holland (our Executive Chairman of the board and a significant stockholder) is affiliated, owns a supermajority interest in Daniel Island Executive Center. The Shawn Arthur Jenkins Living Trust, with which Shawn Jenkins (our CEO and a significant stockholder) is affiliated, owns the remaining minority interest in Daniel Island Executive Center. The Holland Family Trust and Shawn Arthur Jenkins Living Trust own DIEC II equally.

**Indemnification Agreements**

Our certificate of incorporation and our bylaws provide that we shall indemnify our directors and officers to the fullest extent permitted by law. In addition, as permitted by the laws of the State of Delaware, we have entered into indemnification agreements with each of our directors. Under the terms of our indemnification agreements, we are required to indemnify each of our directors, to the fullest extent permitted by the laws of the State of Delaware, if the indemnitee acted in good faith and in a manner the indemnitee reasonably believed to be in or not opposed to the best interests of our Company, and with respect to any criminal proceeding, had no

## **Table of Contents**

reasonable cause to believe the indemnitee's conduct was unlawful. We must indemnify our officers and directors against any and all (A) costs and expenses (including attorneys' and experts' fees, expenses and charges) actually and reasonably paid or incurred in connection with investigating, defending, being a witness in or participating in, or preparing to investigate, defend, be a witness in or participate in, and (B) judgments, fines, penalties and amounts paid in settlement in connection with, in the case of either (A) or (b), any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, by reason of the fact that (x) such person is or was a director or officer, employee, agent or fiduciary of our Company or (y) such person is or was serving at our request as a director, officer, employee or agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefits plan or other enterprise. The indemnification agreements will also require us, if so requested, to advance within 30 days of such request any and all costs and expenses that such director or officer incurred, provided that such person will return any such advance if it is ultimately determined that such person is not entitled to be indemnified for such costs and expenses. Our bylaws also require that such person return any such advance if it is ultimately determined that such person is not entitled to indemnification by us as authorized by the laws of the State of Delaware.

We are not required to provide indemnification under our indemnification agreements for certain matters, including: (1) indemnification in connection with certain proceedings or claims initiated or brought voluntarily by the indemnitee; (2) indemnification related to disgorgement of profits made from the purchase or sale of securities of our Company under Section 16(B) of the Exchange Act, or similar provisions of state statutory or common law; (3) indemnification that is finally determined, under the procedures and subject to the presumptions set forth in the indemnification agreements, to be unlawful; or (4) indemnification for liabilities for which the director has received payment under any insurance policy for such person's benefit, our certificate of incorporation or bylaws or any other contract or otherwise, except with respect to any excess amount beyond the amount so received by such director or officer. The indemnification agreements will require us, to the extent that we maintain an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of our Company or of any other corporation, partnership, joint venture, trust, employee benefits plan or other enterprise that such person serves at the request of our Company, to cover such person by such policy or policies to the maximum extent available.

## **Employment Agreements**

We have entered into employment agreements with certain of our executive officers that provide for salary, bonus and severance compensation. For more information regarding these employment agreements, see [Executive Compensation](#) [Employment Agreements](#) .

## **Equity Issued to Executive Officers and Directors**

We have granted RSUs to our executive officers and directors in 2016, as more fully described in [Executive Compensation](#) [Outstanding Equity Awards as of December 31, 2016](#) and [Management Director Compensation](#) .

## **Subsidiary of The Goldman Sachs Group**

Due to the size of its voting and economic interest in our Company, we are deemed to be controlled by The Goldman Sachs Group and are therefore considered to be a non-bank subsidiary of The Goldman Sachs Group under the Bank Holding Company Act of 1956 (the BHC Act). The BHC Act imposes regulations and requirements on The Goldman Sachs Group and on any company that is deemed to be controlled by The Goldman Sachs Group under the BHC Act and the regulations of the Board of Governors of the Federal Reserve System, or the Federal Reserve. We will remain subject to this regulatory regime until The Goldman Sachs Group is no longer deemed to control us for purposes of the BHC Act.

As a controlled non-bank subsidiary of The Goldman Sachs Group, we are restricted from engaging in activities that are not permissible under the BHC Act, or the rules and regulations promulgated thereunder.

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## **Table of Contents**

Additionally, we are subject to examination by the Federal Reserve and required to provide information and reports for use by the Federal Reserve under the BHC Act. We may also be subject to regulatory oversight and examination because we are a technology service provider to regulated financial institutions. We have agreed to certain covenants primarily for the benefit of The Goldman Sachs Group that are intended to facilitate its compliance with the BHC Act, but that may impose certain obligations on our Company, as further described below.

## **Corporate Governance**

In connection with our IPO, we entered into the Voting Agreement. Under this agreement, each Key Holder, as defined therein, agrees to vote his, her, or its shares in favor of:

two individuals nominated by GS Capital Partners VI Parallel, L.P. (currently Mr. DiSabato only) for as long as The Goldman Sachs Group and its affiliates hold 10% or more of the fully diluted equity interest in our Company;

one individual nominated by Oak Investment Partners (currently Ms. Lamont) for as long as Oak Investment Partners holds 5% or more of the fully diluted equity interest in our Company; and

for each of Messrs. Holland and Jenkins for as long as each holds shares equal to or in excess of 50% of the number of shares each beneficially held upon entering into this agreement.

Additionally, each Key Holder agrees not to vote for the removal of the foregoing directors unless such removal is directed or approved by the party that nominated such director. As of August 5, 2016, Oak Investment Partners fell below 5% of the fully diluted equity interest in our Company.

In connection with our IPO, we also entered into a Second Amended and Restated Investors' Rights Agreement (the Investor Rights Agreement) with the Key Holders. On February 24, 2015, in connection with an equity investment by Mercer LLC in our Company, as more fully described below, we amended the Investor Rights Agreement to, among other things, add Mercer as a Key Holder under the Investor Rights Agreement only. Pursuant to the Investor Rights Agreement, as amended, the Key Holders have the right, subject to various conditions and limitations, to include their shares in registration statements relating to our securities. The holders of at least 66  $\frac{2}{3}$ % of the then outstanding shares subject to these registration rights have the right to demand that we register such shares under the Securities Act of 1933, as amended, or Securities Act, with respect to shares having an aggregate offering price of at least \$5,000,000, and subject to other limitations. In addition, these holders are entitled to piggyback registration rights with respect to the registration under the Securities Act of shares of common stock. In the event that we propose to register any shares of common stock under the Securities Act either for our account or for the account of other security holders, the holders of shares having piggyback registration rights are entitled to receive notice of such registration and to include shares in any such registration, subject to limitations. Further, at any time after we become eligible to file a registration statement on Form S-3, the holders of at least 5% of the shares subject to these registration rights may require us to file registration statements under the Securities Act on Form S-3 with respect to shares of common stock having an aggregate offering price, net of selling expenses, of at least \$5,000,000. To the extent that we qualify as a well-known seasoned issuer, or WKSI, at the time a requisite number of holders demand the registration of shares subject to these registration rights, we will file an automatic shelf registration statement covering the shares for which registration is demanded if so requested by the holders of such shares. These registration rights are subject to conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares of

common stock held by such security holders to be included in such registration.

Additionally, because of The Goldman Sachs Group's status as a bank holding company under the BHC Act, we are subject to certain covenants in the Investor Rights Agreement, as amended, for the benefit of The Goldman Sachs Group (and in certain instances Mercer) that are intended to facilitate compliance with the BHC Act. These covenants address the right to conduct audits on, and access certain information of, our Company; the right to review the policies and procedures that we implement to comply with the laws and regulations that relate to our activities; notice rights of certain events and business activities and the obligation to cooperate to mitigate

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**Table of Contents**

potential adverse consequences resulting therefrom. These covenants will remain in effect as long as the Federal Reserve deems us to be a subsidiary of The Goldman Sachs Group under the BHC Act.

**Mercer LLC Investment**

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

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

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

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

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

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

Right of First Offer. We have granted the Investor a right of first offer with respect to certain new issuances of our equity securities, as have our majority stockholder and other large stockholders with respect to sales of their shares of our common stock pursuant to a Right of First Offer Agreement. In general, we and the applicable stockholders are required to offer the Investor the right to purchase any shares of our common stock or other equity securities of our Company that we or such stockholders propose to issue or sell, at a price we or the



## **Table of Contents**

stockholders, as applicable, specify, and if the Investor declines to purchase such shares or other securities at such price, we or the stockholders may issue or sell such securities to one or more third parties at a price no less than the price offered to the Investor. These rights of first offer are subject to the limitation on acquisitions of additional shares of common stock by the Investor under the standstill restrictions described above, and are also subject to certain other exceptions, including only applying to 50% of shares or other securities proposed to be sold by any stockholder in a registered offering or certain other similar forms of sales. These rights of first offer will remain in effect until the Termination Date, subject to certain exceptions.

In connection with the Securities Purchase Agreement, we entered into an amendment of the Mercer Exchange Software as a Service Agreement, as amended to date, (the Alliance Agreement), with Mercer Health & Benefits LLC, an affiliate of the Investor ( Mercer Health ). The amendment to the Alliance Agreement, among other things, expanded certain terms and conditions of the existing relationship between our Company and Mercer Health. Revenue from Mercer was approximately \$26.7 million for the year ended December 31, 2016.

## **Procedures for Approval of Related-Party Transactions**

Our audit committee, pursuant to its written charter, is responsible for reviewing and approving or ratifying any related-party transaction reaching a certain threshold of significance. In the course of its review and approval or ratification of a related-party transaction, the committee, among other things, considers, consistent with Item 404 of Regulation S-K, the following:

the nature and amount of the related person's interest in the transaction;

the material terms of the transaction, including, without limitation, the amount and type of transaction; and

any other matters the audit committee deems appropriate.

Any member of the audit committee who is a related person with respect to a transaction under review will not be permitted to participate in the deliberations or vote regarding approval or ratification of the transaction. However, such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

**Table of Contents**

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Our compensation committee consists of Messrs. Swad (Chair), Dennerline, Napier and Pelzer, and Ms. Lamont. None of our executive officers serves as a member of the board of directors or compensation committee (or other committee performing equivalent functions) of another entity that has one or more executive officers serving on our board of directors or compensation committee. No interlocking relationship exists between any member of the board of directors or any member of the compensation committee (or other committee performing equivalent functions) of any other company.

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**Table of Contents**

**STOCKHOLDER PROPOSALS**

Stockholders may present proposals for action at meetings of stockholders only if they comply with the proxy rules established by the SEC, applicable Delaware law and our bylaws. We have not received any stockholder proposals for consideration at our 2017 annual meeting of stockholders.

Under SEC Rule 14a-8, in order for a stockholder proposal to be included in our proxy solicitation materials for the 2018 annual meeting of stockholders, it must be delivered to our principal executive offices located at 100 Benefitfocus Way, Charleston, South Carolina 29492 by December 22, 2017; provided, however, that if the date of the 2018 annual meeting is more than 30 days before or 60 days after June 2, 2018, notice by the stockholder must be delivered not later than the close of business no earlier than the 120<sup>th</sup> day prior to the 2018 annual meeting or the later of (1) the 90<sup>th</sup> day prior to the 2018 annual meeting or (2) the 10<sup>th</sup> day following the first public announcement of the date of the 2018 annual meeting.

Our bylaws permit any stockholder of record to nominate directors. Stockholders wishing to nominate a director must deliver written notice of the nomination either by personal delivery or by U.S. certified mail, postage prepaid, to the Corporate Secretary (i) with respect to an election to be held at an annual meeting of stockholders, not more than 90 and not less than 60 days before the meeting at which directors are to be elected, and (ii) with respect to an election to be held at a special meeting of stockholders called for the purpose of the election of directors, not later than the close of business on the 10<sup>th</sup> business day following the date on which notice of such meeting is first given to stockholders. Stockholder notices must set forth the specific information as more fully described in our bylaws and in Corporate Governance Selection of Nominees for the Board of Directors .

Management s proxy holders for the next annual meeting of stockholders will have discretion to vote proxies given to them on any stockholder proposal of which our Company does not have notice prior to March 7, 2018.

**HOUSEHOLDING MATTERS**

The SEC has adopted rules that permit companies to deliver a single Notice of Internet Availability or a single copy of proxy materials to multiple stockholders sharing an address unless a company has received contrary instructions from one or more of the stockholders at that address. This means that only one copy of the Annual Report, this Proxy Statement and Notice may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of the Notice of Internet Availability and/or Proxy Statement either now or in the future, please contact our Corporate Secretary either by calling 1-843-849-7476 or by mailing a request to Attn: Corporate Secretary, 100 Benefitfocus Way, Charleston, South Carolina 29492. Upon written or oral request to the Corporate Secretary, the Company will provide a separate copy of the Annual Report and this Proxy Statement and Notice. In addition, stockholders at a shared address who receive multiple Notices of Internet Availability or multiple copies of proxy statements may request to receive a single Notice of Internet Availability or a single copy of proxy statements in the future in the same manner as described above.

**ANNUAL REPORT ON FORM 10-K**

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the SEC is accessible free of charge on our website at [www.benefitfocus.com](http://www.benefitfocus.com) under *Company Investors Finances Annual Meeting Materials* . The Annual Report on Form 10-K contains audited consolidated balance sheets of our Company as of December 31, 2016, 2015, and 2014, and the related consolidated statements of operations and comprehensive loss, changes in stockholders equity (deficit) and cash flows for each of the three years in the period ended December 31, 2016. **You can request a copy of our Annual Report on Form 10-K free of charge by calling 1-843-849-7476 or sending an**

**e-mail to [ir@benefitfocus.com](mailto:ir@benefitfocus.com). Please include your contact information with the request.**

**Table of Contents**

**OTHER MATTERS**

The audit committee of our board of directors has selected the independent registered public accounting firm of Ernst & Young LLP, or EY, to audit our consolidated financial statements for the fiscal year ending December 31, 2017. EY has audited our financial statements annually since 2006. A representative of EY is expected to be present at the 2017 annual meeting of stockholders with the opportunity to make a statement if they desire to do so and to respond to appropriate questions. EY has advised us that it does not have, and has not had, any direct or indirect financial interest in our Company or its subsidiaries that impairs its independence under SEC rules. Notwithstanding the selection of EY, our audit committee, in its discretion, may appoint a different independent registered public accounting firm at any time, if it believes doing so would be in the best interests of our Company and our stockholders.

Other than those matters set forth in this Proxy Statement, we do not know of any additional matters to be submitted at the meeting. If any other matters properly come before the annual meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the board of directors recommends.

THE BOARD OF DIRECTORS

Dated: April 21, 2017

**Table of Contents**

**DIRECTIONS TO THE ANNUAL MEETING**

**Benefitfocus, Inc.**

**100 Benefitfocus Way**

**Charleston, South Carolina 29492**

**From the Airport**

Follow the signs out of the airport to I-526 East. Follow I-526 East to Exit 24 (Daniel Island). Take your first right onto Fairchild Street. Take your first left onto Benefitfocus Way. Once you turn left onto Benefitfocus Way, you will pass the Benefitfocus Design & Engineering Building on your right and continue straight to reach our principal executive offices at 100 Benefitfocus Way.

**From Downtown Charleston**

Go north on Meeting Street toward I-26. Follow the road under the overpass and bear left onto I-26 West. Take I-26 West to I-526 East. Continue on I-526 East and take Exit 24 (Daniel Island). Take your first right onto Fairchild Street. Take your first left onto Benefitfocus Way. Once you turn left onto Benefitfocus Way, you will pass the Benefitfocus Design & Engineering Building on your right and continue straight to reach our principal executive offices at 100 Benefitfocus Way.

**From South of Charleston**

Take Highway 17 North to Charleston. When entering Charleston city limits, watch for sign: North Charleston 526E Right Lane. Stay in the right lane and continue on I-526 East. Follow I-526 East and take Exit 24 (Daniel Island). Take your first right onto Fairchild Street. Take your first left onto Benefitfocus Way. Once you turn left onto Benefitfocus Way, you will pass the Benefitfocus Design & Engineering Building on your right and continue straight to reach our principal executive offices at 100 Benefitfocus Way.

**From North of Charleston**

Take Highway 17 South to Charleston. Turn right onto I-526 West. Take Exit 24 (Daniel Island). Turn right onto Island Park Drive. Turn Right onto River Landing Drive. Take your first left onto Fairchild Street. Take your first left onto Benefitfocus Way. Once you turn left onto Benefitfocus Way, you will pass the Benefitfocus Design & Engineering Building on your right and continue straight to reach our principal executive offices at 100 Benefitfocus Way.

**From West of Charleston**

Take I-26 East to Charleston. Exit onto I-526 East. Continue on I-526 East to Exit 24 (Daniel Island). Take your first left onto Fairchild Street. Take your first left onto Benefitfocus Way. Once you turn left onto Benefitfocus Way, you will pass the Benefitfocus Design & Engineering Building on your right and continue straight to reach our principal executive offices at 100 Benefitfocus Way.



Table of Contents

Exhibit A

**BENEFITFOCUS, INC.**

**AMENDED AND RESTATED 2012 STOCK PLAN**

**Approved by the Board: March 23, 2017**

**Approved by the Stockholders: , 2017**

1. Purpose. This Amended and Restated 2012 Stock Plan (the *Plan* ) is intended to provide incentives:

(a) to employees of Benefitfocus, Inc., a Delaware corporation (the *Company* ), or its parent (if any) or any of its present or future subsidiaries (collectively, *Related Corporations* ), by providing them with opportunities to purchase Common Stock (as defined below) of the Company pursuant to options granted hereunder that qualify as incentive stock options ( *ISOs* ) under Section 422 of the Internal Revenue Code of 1986, as amended, or any successor statute (the *Code* );

(b) to directors, employees and consultants of the Company and Related Corporations by providing them with opportunities to purchase Common Stock of the Company pursuant to options granted hereunder that do not qualify as ISOs (Nonstatutory Stock Options, or *NSOs* );

(c) to employees and consultants of the Company and Related Corporations by providing them with bonus awards of Common Stock of the Company ( *Stock Bonuses* ); and

(d) to employees and consultants of the Company and Related Corporations by providing them with opportunities to make direct purchases of Common Stock of the Company ( *Purchase Rights* ); and

(e) to employees and consultants of the Company and Related Corporations by providing them with the right to receive, without payment to the Company, a number of shares of Common Stock, cash, or any combination thereof determined pursuant to a formula specified herein ( *SARs* ).

Both ISOs and NSOs are referred to hereafter individually as *Options*, and Options, Stock Bonuses, Purchase Rights and SARs are referred to hereafter collectively as *Stock Rights*. As used herein, the terms parent and subsidiary mean parent corporation and subsidiary corporation, respectively, as those terms are defined in Section 424 of the Code.

2. Administration of the Plan.

(a) The Plan shall be administered by (i) the Board of Directors of the Company (the *Board* ) or (ii) a committee consisting of directors or other persons appointed by the Board (the *Committee* ). The appointment of the members of, and the delegation of powers to, the Committee by the Board shall be consistent with applicable laws and regulations (including, without limitation, the Code, Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the *Exchange Act* ), or any successor rule thereto ( *Rule 16b-3* ), and any applicable state law (collectively, the *Applicable Laws* ). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.



(b) Subject to ratification of the grant or authorization of each Stock Right by the Board (if so required by an Applicable Law), and subject to the terms of the Plan, the Committee, if so appointed, shall have the authority, in its discretion, to:

(i) determine the employees of the Company and Related Corporations (from among the class of employees eligible under Section 3 to receive ISOs) to whom ISOs may be granted, and to determine (from among the classes of individuals and entities eligible under Section 3 to receive NSOs, Stock Bonuses, Purchase Rights and SARs) to whom NSOs, Stock Bonuses, Purchase Rights and SARs may be granted;

**Table of Contents**

- (ii) determine the time or times at which Options, Stock Bonuses, Purchase Rights or SARs may be granted (which may be based on performance criteria);
- (iii) determine the number of shares of Common Stock subject to any Stock Right granted by the Committee;
- (iv) determine the option price of shares subject to each Option, which price shall not be less than the minimum price specified in Section 6 hereof, as appropriate, the purchase price of shares subject to each Purchase Right and the exercise price of each SAR, and to determine the form of consideration to be paid to the Company for exercise of such Option or purchase of shares with respect to a Purchase Right;
- (v) determine whether each Option granted shall be an ISO or NSO;
- (vi) determine (subject to Section 7) the time or times when each Option shall become exercisable and the duration of the exercise period;
- (vii) determine whether restrictions such as repurchase options are to be imposed on shares subject to Options, Stock Bonuses and Purchase Rights and the nature of such restrictions, if any;
- (viii) approve forms of agreement for use under the Plan;
- (ix) determine the Fair Market Value (as defined in Section 6(d) below) of a Stock Right or the Common Stock underlying a Stock Right;
- (x) accelerate vesting on any Stock Right or to waive any forfeiture restrictions, or to waive any other limitation or restriction with respect to a Stock Right;
- (xi) modify or amend each Stock Right (subject to Section 8(d) of the Plan) including the discretionary authority to extend the post-termination exercisability period of Stock Rights longer than is otherwise provided for by terms of the Plan or the Stock Right;
- (xii) construe and interpret the Plan and Stock Rights granted hereunder and prescribe and rescind rules and regulations relating to the Plan; and
- (xiii) make all other determinations necessary or advisable for the administration of the Plan.

If the Committee determines to issue a NSO, it shall take whatever actions it deems necessary, under Section 422 of the Code and the regulations promulgated thereunder, to ensure that such Option is not treated as an ISO. The interpretation and construction by the Committee of any provisions of the Plan or of any Stock Right granted under it shall be final unless otherwise determined by the Board. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Stock Right granted under it.

(c) The Committee may select one of its members as its chairman, and shall hold meetings at such times and places as it may determine. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it may deem necessary. The Committee shall have the power to act by written consent in lieu of a meeting and to meet telephonically. Acts by a majority of the Committee, approved in person at a meeting or in writing, shall be the valid acts of the Committee. All references in this Plan to the Committee shall mean the Board if no Committee has been appointed.

(d) Those provisions of the Plan that make express reference to Rule 16b-3 shall apply to the Company only at such time as the Company's Common Stock is registered under the Exchange Act, and then only to such persons as are required to file reports under Section 16(a) of the Exchange Act (a **Reporting Person** ).

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**Table of Contents**

(e) To the extent that Stock Rights are to be qualified as performance-based compensation within the meaning of Section 162(m) of the Code, the Plan shall be administered by a committee consisting of two or more outside directors as determined under Section 162(m) of the Code.

3. Eligible Employees and Others.

(a) Eligibility. ISOs may be granted to any employee of the Company or any Related Corporation. Those officers of the Company who are not employees may not be granted ISOs under the Plan. NSOs, Stock Bonuses, Purchase Rights and SARs may be granted to any director, employee or consultant of the Company or any Related Corporation. Granting of any Stock Right to any individual or entity shall neither entitle that individual or entity to, nor disqualify him or her from, participation in any other grant of Stock Rights.

(b) Special Rule for Grant of Stock Rights to Reporting Persons. The selection of a director or an officer who is a Reporting Person (as the terms director and officer are defined for purposes of Rule 16b-3) as a recipient of a Stock Right, the timing of the Stock Right grant, the exercise price, if any, of the Stock Right and the number of shares subject to the Stock Right shall be determined either (i) by the Board or (ii) by a committee of the Board that is composed solely of two or more Non-Employee Directors having full authority to act in the matter. For the purposes of the Plan, a director shall be deemed to be a **Non-Employee Director** only if such person is defined as such under Rule 16b-3(b)(3), as interpreted from time to time.

(c) Annual Limitation for Employees. To the extent the Company is subject to Section 162(m) of the Code, no employee shall be eligible to be granted Stock Rights covering more than 1,000,000 shares of Common Stock during any calendar year. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 13 below.

4. Stock. The stock subject to Stock Rights shall be authorized but unissued shares of Common Stock of the Company, no par value per share, or such shares of the Company's capital stock into which such class of shares may be converted pursuant to any reorganization, recapitalization, merger, consolidation or the like (the **Common Stock**), or shares of Common Stock reacquired by the Company in any manner. The aggregate number of shares that may be issued pursuant to the Plan is 9,244,525 shares of Common Stock, less any shares issued or subject to outstanding Options under the Company's Amended and Restated 2000 Stock Option Plan (the **2000 Plan**), subject to adjustment as provided herein. Any such shares may be issued as ISOs, NSOs or Stock Bonuses, or to persons or entities making purchases pursuant to Purchase Rights or exercises pursuant to SARs, so long as the number of shares so issued does not exceed such aggregate number, as adjusted. For avoidance of doubt, the maximum aggregate number of shares that may be issued pursuant to ISOs under the Plan is 9,244,525 shares of Common Stock, less any shares issued or subject to outstanding Options under the 2000 Plan, subject to adjustment as provided herein. To the extent that cash in lieu of shares of Common Stock is delivered upon the exercise of an SAR pursuant to Section 15, the Company shall be deemed, for purposes of applying the limitation on the number of shares, to have issued the greater of the number of shares of Common Stock which it was entitled to issue upon such exercise or on the exercise of any related Option. If any Option or SAR granted under the Plan or under the 2000 Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, or if the Company shall reacquire any shares issued pursuant to Stock Rights, the unpurchased shares subject to such Options and SARs and any shares so reacquired by the Company shall again be available for grants of Stock Rights under the Plan. Shares of Common Stock which are withheld to pay the exercise price of an Option and/or any related withholding obligations shall not be available for issuance under the Plan.

5. Granting of Stock Rights. Stock Rights may be granted under the Plan at any time after the Effective Date, as set forth in Section 16, and prior to 10 years thereafter. The date of grant of a Stock Right under the Plan will be the date

specified by the Board or Committee at the time it grants the Stock Right; provided, however, that such date shall not be prior to the date on which the Board or Committee acts. The Board or Committee shall have the right, with the consent of the optionee, to convert an ISO granted under the Plan to an NSO pursuant to Section 17.

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**Table of Contents****6. Minimum Price: ISO Limitations.**

(a) The price per share specified in the agreement relating to each NSO, Stock Bonus, Purchase Right or SAR granted under the Plan shall be established by the Board or Committee, taking into account any noncash consideration to be received by the Company from the recipient of Stock Rights, provided, however, that with respect to NSOs and SARs, the exercise price per share specified in the agreement relating to each NSO and SAR granted under the Plan shall not be less than the Fair Market Value per share of the Common Stock on the date of such grant.

(b) The price per share specified in the agreement relating to each ISO granted under the Plan shall not be less than the Fair Market Value per share of the Common Stock on the date of such grant. In the case of an ISO to be granted to an employee owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Related Corporation, the price per share specified in the agreement relating to such ISO shall not be less than 110% of the Fair Market Value per share of such Common Stock on the date of the grant.

(c) To the extent that the aggregate Fair Market Value (determined at the time an ISO is granted) of Common Stock for which ISOs granted to any employee are exercisable for the first time by such employee during any calendar year (under all stock option plans of the Company and any Related Corporation) exceeds \$100,000; or such higher value as permitted under Code Section 422 at the time of determination, such Options will be treated as NSOs, provided that this Section shall have no force or effect to the extent that its inclusion in the Plan is not necessary for Options issued as ISOs to qualify as ISOs pursuant to Section 422 of the Code. The rule of this Section 6(c) shall be applied by taking Options in the order in which they were granted.

(d) ***Fair Market Value*** on any date means (i) if the Common Stock is readily tradable on an established securities market (as defined in Section 1.897-1(m) of the final regulations issued by the United States Treasury pursuant to the Code (the ***Treasury Regulations*** ), the closing sales price of the Common Stock on the trading day immediately preceding such date on the securities exchange having the greatest volume of trading in the Common Stock during the thirty-day period preceding the day the value is to be determined or, if such exchange was not open for trading on such date, the next preceding date on which it was open; (ii) if the Common Stock is not traded on an established securities market (as defined in Section 1.897-1(m) of the Treasury Regulations), the fair market value as determined in good faith by the Board of the Committee by application of a reasonable valuation method consistently applied and taking into consideration all available information material to the value of the company; factors to be considered may include, as applicable, the value of tangible and intangible assets of the Company, the present value of future cash-flows of the Company, the market value of stock or equity interests in similar corporations which can be readily determined through objective means (such as through trading prices on an established securities market or an amount paid in an arm's length private transaction), and other relevant factors such as control premiums or discounts for lack of marketability. For purposes of the foregoing sentence, a valuation prepared in accordance with any of the methods set forth in Section 1.409A-1(b)(5)(iv)(B)(2) of the Treasury Regulations, consistently used, shall rebuttably be presumed to result in a reasonable valuation. This paragraph is intended to comply with the definition of fair market value contained in Section 1.409A-1(b)(5)(iv) of the Treasury Regulations, and should be interpreted consistently therewith.

**7. Option Duration.** Subject to earlier termination as provided in Sections 9 and 10, each Option shall expire on the date specified by the Board or Committee, but not more than:

(a) 10 years from the date of grant in the case of NSOs;

(b) 10 years from the date of grant in the case of ISOs generally; and

(c) five years from the date of grant in the case of ISOs granted to an employee owning stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Related Corporation.

**Table of Contents**

Subject to earlier termination as provided in Sections 9 and 10, the term of each ISO shall be the term set forth in the original instrument granting such ISO, except with respect to any part of such ISO that is converted into an NSO pursuant to Section 17.

8. Exercise of Options. Subject to the provisions of Section 9 through Section 12 of the Plan, each Option granted under the Plan shall be exercisable as follows:

(a) the Option shall either be fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the Board or Committee may specify;

(b) once an installment becomes exercisable it shall remain exercisable until expiration or termination of the Option, unless otherwise specified by the Board or Committee;

(c) each Option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable; and

(d) the Board or Committee shall have the right to accelerate the date of exercise of any installment of any Option, provided that the Board or Committee shall not accelerate the exercise date of any installment of any ISO granted to any employee (and not previously converted into an NSO pursuant to Section 17) without the prior consent of such employee if such acceleration would violate the annual vesting limitation contained in Section 422 of the Code, as described in Section 6(c).

Notwithstanding anything to the contrary in this Agreement, any Option with an exercise price less than the Fair Market Value of Common Stock on the date of grant of such Option must be exercised no later than March 15<sup>th</sup> of the year following the calendar year in which the Option vests.

9. Termination of Employment. If a grantee ceases to be employed by the Company and all Related Corporations other than by reason of death or disability as defined in Section 10, unless otherwise specified in the instrument granting such Stock Right, the grantee shall have the continued right to exercise any Stock Right held by him or her, to the extent of the number of shares with respect to which he or she could have exercised it on the date of termination until the Stock Right's specified expiration date; provided, however, in the event the grantee exercises any ISO after the date that is three months following the date of termination of employment, such ISO will automatically be converted into an NSO subject to the terms of the Plan. Employment shall be considered as continuing uninterrupted during any bona fide leave of absence (such as those attributable to illness, military obligations or governmental service) provided that the period of such leave does not exceed 90 days or, if longer, any period during which such grantee's right to reemployment with the Company is guaranteed by statute or by contract. A bona fide leave of absence with the written approval of the Company shall not be considered an interruption of employment under the Plan, provided that such written approval contractually obligates the Company or any Related Corporation to continue the employment of the grantee after the approved period of absence; and provided that the foregoing approval requirement shall not apply to a leave of absence guaranteed by statute or contract. ISOs granted under the Plan shall not be affected by any change of employment within or among the Company and Related Corporations, so long as the optionee continues to be an employee of the Company or any Related Corporation.

For purposes of this Plan, a change in status from employee to a consultant, or from a consultant to employee, will not constitute a termination of employment, provided that a change in status from an employee to consultant may cause an ISO to become an NSO under the Code.



NOTHING IN THE PLAN SHALL BE DEEMED TO GIVE ANY GRANTEE OF ANY STOCK RIGHT THE RIGHT TO BE RETAINED IN EMPLOYMENT OR OTHER SERVICE BY THE COMPANY OR ANY RELATED CORPORATION FOR ANY PERIOD OF TIME OR TO AFFECT THE AT-WILL NATURE OF ANY EMPLOYEE S EMPLOYMENT.

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**Table of Contents**

10. Death; Disability.

(a) If a grantee ceases to be employed by the Company and all Related Corporations by reason of death, or if a grantee dies within three months of the date his or her employment or other affiliation with the Company has been terminated, any Stock Right held by him or her may be exercised to the extent of the number of shares with respect to which he or she could have exercised said Stock Right on the date of death, by his or her estate, personal representative or beneficiary who has acquired the Stock Right by will or by the laws of descent and distribution (the *Successor Grantee*), unless otherwise specified in the instrument granting such Stock Right, prior to the earlier of (i) one year after the date of termination or (ii) the Stock Right's specified expiration date; provided, however, that a Successor Grantee shall be entitled to ISO treatment under Section 421 of the Code only if the deceased optionee would have been entitled to like treatment had he or she exercised such Option on the date of his or her death; and provided further in the event the Successor Grantee exercises an ISO after the date that is one year following the date of termination by reason of death, such ISO will automatically be converted into a NSO subject to the terms of the Plan.

(b) If a grantee ceases to be employed by the Company and all Related Corporations by reason of disability, he or she shall continue to have the right to exercise any Stock Right held by him or her on the date of termination until, unless otherwise specified in the instrument granting such Stock Right, the earlier of (i) one year after the date of termination or (ii) the Stock Right's specified expiration date; provided, however, in the event the grantee exercises an ISO after the date that is one year following the date of termination by reason of disability, such ISO will automatically be converted into a NSO subject to the terms of the Plan. For the purposes of the Plan, the term *disability* shall mean permanent and total disability as defined in Section 22(e)(3) of the Code.

(c) The provisions of subsections (a) and (b) of this Section 10 regarding the exercise period of a Stock Right may be waived, extended or further limited, in the discretion of the Board or Committee, in an instrument granting a Stock Right that is not an ISO.

11. Transferability and Assignability of Stock Rights.

(a) Unless approved by the Committee, no ISO granted under this Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. An ISO may be exercised during the lifetime of the optionee only by the optionee.

(b) Unless approved by the Committee, no NSO, Purchase Right or SAR may be transferable by the grantee except (i) to the grantee's family members or (ii) by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. For purposes of the Plan, a grantee's family members shall be deemed to consist of his or her spouse, parents, children, grandparents, grandchildren and any trusts created for the benefit of such individuals. A family member to whom any such Stock Right has been transferred pursuant to this Section 11(b) shall be hereinafter referred to as a *Permitted Transferee*. A Stock Right shall be transferred to a Permitted Transferee in accordance with the foregoing provisions, and subject to all the provisions of the Stock Right Agreement and this Plan, by the execution by the grantee and the transferee of an assignment in writing in such form approved by the Board or the Committee. The Company shall not be required to recognize the rights of a Permitted Transferee until such time as it receives a copy of the assignment from the grantee.

12. Terms and Conditions of Stock Rights. Stock Rights shall be evidenced by instruments (which need not be identical) in such forms as the Board or Committee may from time to time approve. Such instruments shall conform to the terms and conditions set forth in Sections 6 through 11 and Section 15 hereof and may contain such other provisions as the Board or Committee deems advisable that are not inconsistent with the Plan, including restrictions

(or other conditions deemed by the Board or Committee to be in the best interests of the Company) applicable to the exercise of Options or to shares of Common Stock issuable upon exercise of Options. In granting any NSO, the Board or Committee may specify that such NSO shall be subject to the

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**Table of Contents**

restrictions set forth herein with respect to ISOs, or to such other termination and cancellation provisions as the Board or Committee may determine. The Board or Committee may from time to time confer authority and responsibility on one or more of its own members and/or one or more officers of the Company to execute and deliver such instruments. The proper officers of the Company are authorized and directed to take any and all action necessary or advisable from time to time to carry out the terms of such instruments.

13. **Adjustments.** Upon the occurrence of any of the following events, the rights of a recipient of a Stock Right granted hereunder shall be adjusted as hereinafter provided, unless otherwise provided in the written agreement between the recipient and the Company relating to such Stock Right.

(a) If the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of outstanding Stock Rights shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price (if any) per share to reflect such subdivision, combination or stock dividend.

(b) If the Company is to be consolidated with or acquired by another entity in a merger, sale of all or substantially all of the Company's assets or otherwise (an **Acquisition**), unless otherwise provided by the Board or Committee, in its sole discretion, the Board or Committee or the board of directors of any entity assuming the obligations of the Company hereunder (the **Successor Board**) shall, as to outstanding Stock Rights, make appropriate provision for the continuation of such Stock Rights by either assumption of such Stock Rights or by substitution of such Stock Rights with an equivalent award. For Stock Rights that are so assumed or substituted, in the event of a termination of grantee's employment or consulting relationship by the Company or its successor other than For Cause (as defined below) or by grantee for Good Reason (as defined below) within 60 days prior to and 180 days after an Acquisition, all Stock Rights held by such grantee shall become vested and immediately and fully exercisable and all forfeiture restrictions shall be waived. If the Board, the Committee, or the Successor Board does not make appropriate provisions for the continuation of such Stock Rights by either assumption or substitution, unless otherwise provided by the Board or Committee in its sole discretion, Stock Rights shall become vested and fully and immediately exercisable and all forfeiture restrictions shall be waived and all Stock Rights not exercised at the time of the closing of such Acquisition shall terminate notwithstanding anything to the contrary in Section 9 hereof.

For purposes of this Plan, **For Cause** shall mean the termination of a grantee's status as an employee, a director or consultant (as applicable) for any of the following reasons, as determined by the Committee in its sole discretion; provided, that, with respect to an employee that is party to an agreement with the Company where a termination for cause is defined in such agreement, the definition in such agreement shall govern the determination under this Section 13: (i) a grantee who is a consultant and who commits a material breach of any consulting, noncompetition, confidentiality or similar agreement with the Company or a subsidiary, as determined under such agreement; (ii) a grantee who is an employee or a consultant and who is convicted (including a trial, plea of guilty or plea of nolo contendere) for committing an act of fraud, embezzlement, theft, or other act constituting a felony; (iii) a grantee who is an employee or a consultant and who willfully engages in gross misconduct or willfully violates a Company or a subsidiary policy in any material respect; or (iv) a grantee who is a Company employee and who commits a material breach of any noncompetition, confidentiality or similar agreement with the Company or a subsidiary, as determined under such agreement.

For purposes of this Plan, a termination for **Good Reason** shall mean the resignation of an employee within 30 days after the following actions: (i) without the express written consent of employee, the Company assigns duties which are materially inconsistent with employee's position, duties and status; (ii) any action by the Company which results in a material diminution in the position, duties or status of employee or any transfer or proposed transfer of employee for

any extended period to a location more than 35 miles away from such employees' principal place of employment, except for a transfer or proposed transfer for strategic reallocations of the personnel reporting to employee; or (iii) the Company reduces the base annual salary of employee, as the same may hereafter be increased from time to time.

**Table of Contents**

(c) In the event of a transaction, including without limitation, a recapitalization or reorganization of the Company (other than a transaction described in subsection (b) above) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, an optionee or grantee upon exercising a Stock Right shall be entitled to receive for the purchase price paid upon such exercise the securities he or she would have received if he or she had exercised the Stock Right immediately prior to such recapitalization or reorganization.

(d) In the event of the proposed dissolution or liquidation of the Company, each Stock Right will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Board or Committee.

(e) Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Stock Right. No adjustments shall be made for dividends paid in cash or in property other than Common Stock of the Company.

(f) No fractional shares shall be issued under the Plan and any optionee who would otherwise be entitled to receive a fraction of a share upon exercise of a Stock Right shall receive from the Company cash in lieu of such fractional shares in an amount equal to the Fair Market Value of such fractional shares, as determined in the sole discretion of the Board or Committee.

(g) Upon the happening of any of the foregoing events described in subsections (a), (b) or (c) above, the class and aggregate number of shares set forth in Section 4 hereof that are subject to Stock Rights that previously have been or subsequently may be granted under the Plan shall also be appropriately adjusted to reflect the events described. The Board or Committee or the Successor Board shall determine the specific adjustments to be made under this Section 13 and, subject to Section 2, its determination shall be conclusive.

**14. Means of Exercising Stock Rights.**

(a) Except as otherwise provided in this Plan or the instrument evidencing the Stock Right, a Stock Right (or any part or installment thereof) shall be exercised by giving written notice to the Company at its principal office address to the attention of its President. Such notice shall identify the Stock Right being exercised and specify the number of shares as to which such Stock Right is being exercised, accompanied by full payment of the exercise price therefor, if any, payable as follows (a) in United States dollars in cash or by check, (b) at the discretion of the Board or Committee, by delivery of the grantee's personal recourse note bearing interest payable not less than annually at a market rate that is no less than 100% of the lowest applicable Federal rate, as defined in Section 1274(d) of the Code, (c) at the discretion of the Board or Committee, through the surrender of shares of Common Stock then issuable upon exercise of the Stock Right having a Fair Market Value on the date of exercise equal to the aggregate exercise price of the Stock Right and/or any related withholding tax obligations, (d) at the discretion of the Board or the Committee, through the delivery of already-owned shares of Common Stock having a Fair Market Value on the date of exercise equal to the aggregate exercise price of the Stock Right and/or any related withholding tax obligations, (e) at the discretion of the Board or Committee, delivery of a notice that the grantee has placed a market sell order with a broker with respect to shares of Common Stock then issuable upon exercise of the Stock Right and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Stock Right exercise price, provided that payment of such proceeds is then made to the Company upon settlement of the sale, or (f) at the discretion of the Board or Committee, by any combination of (a), (b), (c), (d) or (e), or such other consideration and method of payment for the issuance of shares to the extent permitted by applicable law or the Plan. If the Board or Committee exercises its discretion to permit payment of the exercise price of an ISO by means of the methods set

forth in clauses (b), (c), (d), (e) or (f) of the preceding sentence, the term of exercise shall be evidenced by the terms set forth in the written agreement evidencing the grant of the Stock Right. The shares of Common Stock delivered by a grantee pursuant to clause (d) above must have been held by grantee for a period of not less than one year prior to the exercise of the Stock Right, unless otherwise determined by the Board or the

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**Table of Contents**

Committee. The holder of a Stock Right shall not have the rights of a stockholder with respect to the shares covered by the Stock Right until the date of issuance of a stock certificate for such shares. Except as expressly provided above in Section 13 with respect to changes in capitalization and stock dividends, no adjustment shall be made for dividends or similar rights for which the record date is before the date such stock certificate is issued.

(b) The Company shall not be required to issue or deliver any certificate for shares of Common Stock issued upon the exercise of any Stock Right granted hereunder or any portion thereof, prior to fulfillment of all of the following conditions:

(i) the admission of such shares to listing on all stock exchanges on which the Common Stock is listed, if any;

(ii) the completion of any registration or other qualification of such shares which the Board or Committee shall deem necessary or advisable under any federal or state law or under the rulings or regulations of the United States Securities and Exchange Commission (the *SEC*) or any other governmental regulatory body, or the determination by the Company, with the advice of legal counsel, that exemptions are available from such registration and qualification;

(iii) the obtaining of any approval or other clearance from any federal or state governmental agency or body which the Board or Committee shall determine to be necessary or advisable; and

(iv) the lapse of such reasonable period of time following the exercise of the Option as the Board or Committee from time to time may establish for reasons of administrative convenience.

Stock certificates issued and delivered to grantees shall bear such restrictive legends as the Company shall deem necessary or advisable pursuant to applicable federal and state securities laws. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Common Stock pursuant to Stock Rights shall relieve the Company of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Company shall, however, use its commercially reasonable efforts to obtain all such approvals.

15. Stock Appreciation Rights. An SAR may be granted (a) with respect to any Option granted under this Plan, either concurrently with the grant of such Option or at such later time as determined by the Committee (as to all or any portion of the shares of Common Stock subject to the Option), or (b) alone, without reference to any related Option. Each SAR granted by the Committee under this Plan shall be subject to the following terms and conditions. Each SAR granted to any participant shall relate to such number of shares of Common Stock as shall be determined by the Committee, subject to adjustment as provided in Section 13. In the case of an SAR granted with respect to an Option, the number of shares of Common Stock to which the SAR pertains shall be reduced in the same proportion that the holder of the Option exercises the related Option. The exercise price of an SAR will be determined by the Committee, in its discretion, at the date of grant but may not be less than 100% of the Fair Market Value of the shares of Common Stock subject thereto on the date of grant. Subject to the right of the Committee to deliver cash in lieu of shares of Common Stock (which, as it pertains to officers and directors of the Company, shall comply with all requirements of the Exchange Act), the number of shares of Common Stock which shall be issuable upon the exercise of an SAR shall be determined by dividing:

(a) the number of shares of Common Stock as to which the SAR is exercised multiplied by the amount of the appreciation in such shares (for this purpose, the appreciation shall be the amount by which the Fair Market Value of the shares of Common Stock subject to the SAR on the exercise date exceeds (1) in the case of an SAR related to an Option, the exercise price of the shares of Common Stock under the Option or (2) in the case of an SAR granted alone, without reference to a related Option, an amount which shall be determined by the Committee at the time of



grant, subject to adjustment under Section 13); by

(b) the Fair Market Value of a share of Common Stock on the exercise date.

**Table of Contents**

In lieu of issuing shares of Common Stock upon the exercise of a SAR, the Committee may elect to pay the holder of the SAR cash equal to the Fair Market Value on the exercise date of any or all of the shares which would otherwise be issuable. No fractional shares of Common Stock shall be issued upon the exercise of an SAR; instead, the holder of the SAR shall be entitled to receive a cash adjustment equal to the same fraction of the Fair Market Value of a share of Common Stock on the exercise date or to purchase the portion necessary to make a whole share at its Fair Market Value on the date of exercise. The exercise of an SAR related to an Option shall be permitted only to the extent that the Option is exercisable under Section 8 on the date of surrender. Any ISO surrendered pursuant to the provisions of this Section 15 shall be deemed to have been converted into a NSO immediately prior to such surrender.

16. **Term and Amendment of Plan.** This Plan was initially adopted by the Board on January 31, 2012 and was approved by the stockholders of the Company on November 8, 2012. The Board adopted an amendment to the Plan on August 26, 2013, which amendment was approved by the stockholders of the Company on September 13, 2013. The Board adopted **Appendix A** to this Plan on April 7, 2014, which **Appendix A** was approved by the stockholders of the Company on June 7, 2014. The Board approved the Amended and Restated Plan on March 23, 2017 (the ***Effective Date*** ). The Plan shall continue in effect for a term of ten (10) years from the Effective Date unless sooner terminated, subject to the approval of the Amended and Restated Plan by the stockholders of the Company within twelve (12) months before or after the Effective Date. The expiration of the Plan will not have the effect of terminating any Stock Rights outstanding on such date, except as otherwise provided in the instrument granting such Stock Right. The Board may at any time amend, suspend or terminate the Plan in any respect at any time, subject to any approvals required under the Applicable Laws or any applicable securities exchange listing requirements, except that it may not, without the approval of the stockholders obtained within twelve (12) months before or after the Board adopts a resolution authorizing any of the following actions, do any of the following:

- (a) increase the total number of shares that may be issued under the Plan (except by adjustment pursuant to Section 13);
- (b) modify the provisions of Section 3 regarding eligibility for grants of ISOs;
- (c) modify the provisions of Section 6(b) regarding the exercise price at which shares may be offered pursuant to ISOs (except by adjustment pursuant to Section 13);
- (d) extend the expiration date of the Plan; or
- (e) except as provided in Section 13 (including, without limitation, by reason of any stock dividend, stock split, recapitalization, reorganization, merger, consolidation, or exchange of shares), amend a Stock Right granted under the Plan to reduce its exercise price per share, cancel and regrant a Stock Right with a lower exercise price per share than the original price per share of the cancelled Stock Right, or cancel any Stock Right in exchange for cash or the grant of replacement Stock Right with an exercise price that is less than the exercise price of the original Stock Right, essentially having the effect of a repricing.

Except as provided in Section 13(b) and this Section 16, in no event may action of the Board or stockholders adversely alter or impair the rights of a grantee, without his or her consent, under any Stock Right previously granted.

17. **Conversion of ISOs into NSOs; Termination of ISOs.** The Board or Committee, with the consent of any optionee, may in its discretion take such actions as may be necessary to convert an optionee's ISOs (or any installments or portions of installments thereof) that have not been exercised on the date of conversion into NSOs at any time prior to the expiration of such ISOs. These actions may include, but not be limited to, accelerating the exercisability, extending the exercise period or reducing the exercise price of the appropriate installments of optionee's Options. At

the time of such conversion, the Board or Committee (with the consent of the optionee) may impose these conditions on the exercise of the resulting NSOs as the Board or Committee in its discretion

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**Table of Contents**

may determine, provided that the conditions shall not be inconsistent with the Plan. Nothing in the Plan shall be deemed to give any optionee the right to have such optionee's ISOs converted into NSOs, and no conversion shall occur until and unless the Board or Committee takes appropriate action. The Board or Committee, with the consent of the optionee, may also terminate any portion of any ISO that has not been exercised at the time of termination.

18. Governmental Regulation. The Company's obligation to sell and deliver shares of the Common Stock under the Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of such shares.

19. Withholding of Additional Income Taxes.

(a) Upon the exercise of an NSO or SAR, the grant of a Stock Bonus or Purchase Right for less than the Fair Market Value of the Common Stock, the making of a Disqualifying Disposition (as defined in Section 20), or the vesting of restricted Common Stock acquired on the exercise of a Stock Right hereunder, the Company, in accordance with Section 3402(a) of the Code and any applicable state statute or regulation, may require the optionee, Stock Bonus or SAR recipient or purchaser to pay to the Company additional withholding taxes in respect of the amount that is considered compensation includable in such person's gross income. With respect to (a) the exercise of an Option, (b) the grant of a Stock Bonus, (c) the grant of a Purchase Right of Common Stock for less than its Fair Market Value, (d) the vesting of restricted Common Stock acquired by exercising a Stock Right, or (e) the exercise of an SAR, the Committee in its discretion may condition such event on the payment by the optionee, Stock Bonus recipient or purchaser of any such additional withholding taxes.

(b) At the sole and absolute discretion of the Committee, the holder of Stock Rights may pay all or any part of the total estimated federal and state income tax liability arising out of the exercise or receipt of such Stock Rights, the making of a Disqualifying Disposition, or the vesting of restricted Common Stock acquired on the exercise of a Stock Right hereunder (each of the foregoing, a **Tax Event**) by tendering already-owned shares of Common Stock or (except in the case of a Disqualifying Disposition) by directing the Company to withhold shares of Common Stock otherwise to be transferred to the holder of such Stock Rights as a result of the exercise or receipt thereof in an amount equal to the estimated federal, state, and local income and payroll tax liability arising out of such event, provided that no more shares may be withheld than are necessary to satisfy the maximum federal, state, and local income and payroll tax withholding obligation with respect to the exercise of Stock Rights (or such lesser amount as may be necessary to avoid classification of the Stock Right as a liability for financial accounting purposes). In such event, the holder of Stock Rights must, however, notify the Committee of his or her desire to pay all or any part of the total estimated federal, state, and local income and payroll tax liability arising out of a Tax Event by tendering already-owned shares of Common Stock or having shares of Common Stock withheld prior to the date that the amount of federal, state, and local income and payroll tax to be withheld is to be determined. For purposes of this Section 19(b), shares of Common Stock shall be valued at their Fair Market Value on the date that the amount of the tax withholdings is to be determined.

20. Notice to Company of Disqualifying Disposition. Each employee who receives an ISO must agree to notify the Company in writing immediately after the employee makes a Disqualifying Disposition (as defined below) of any Common Stock acquired pursuant to the exercise of an ISO. A **Disqualifying Disposition** is any disposition (including any sale) of such Common Stock before either (a) two years after the date the employee was granted the ISO, or (b) one year after the date the employee acquired Common Stock by exercising the ISO. If the employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

21. Electronic Delivery. The Board may, in its sole discretion, decide to deliver any documents related to any Stock Rights granted under the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company or to request a recipient's consent to participate in the Plan by electronic means. Each recipient of securities hereunder consents to receive such documents by electronic delivery and agrees to participate in the Plan through an online or electronic system established and

**Table of Contents**

maintained by the Company or another third party designated by the Company, and such consent shall remain in effect throughout recipient's term of employment or service with the Company and thereafter until withdrawn in writing by recipient.

22. **Data Privacy.** The Board may, in its sole discretion, decide to collect, use and transfer, in electronic or other form, personal data as described in this Plan or any Stock Right for the exclusive purpose of implementing, administering and managing participation in the Plan. Each recipient of securities hereunder acknowledges that the Company holds certain personal information about the recipient, including, but not limited to, name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, details of all Stock Rights awarded, cancelled, exercised, vested or unvested, for the purpose of implementing, administering and managing the Plan (the ***Data***). Each recipient of securities hereunder further acknowledges that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan and that these third parties may be located in jurisdictions that may have different data privacy laws and protections, and recipient authorizes such third parties to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the recipient or the Company may elect to deposit any shares of Common Stock acquired upon any Stock Right.

23. **Governing Law; Construction.** The validity and construction of the Plan and the instruments evidencing Stock Rights shall be governed by the laws of the State of South Carolina. In construing this Plan, the singular shall include the plural and the masculine gender shall include the feminine and neuter, unless the context otherwise requires.

24. **Lock-up Agreement.** Each recipient of securities hereunder agrees, in connection with the first registration with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, of the public sale of the Company's Common Stock, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as the Company or the underwriters, as the case may be, shall specify. Each such recipient agrees that the Company may instruct its transfer agent to place stop-transfer notations in its records to enforce this Section 22. Each such recipient agrees to execute a form of agreement reflecting the foregoing restrictions as requested by the underwriters managing such offering.

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Table of Contents

Appendix A

**Additional Provisions Applicable to**

**Restricted Stock and Restricted Stock Unit Awards**

This Appendix A to the BENEFITFOCUS, INC. AMENDED AND RESTATED 2012 STOCK PLAN (the *Stock Plan* ) establishes authority and procedures for granting and administering Stock Rights as defined in the Stock Plan that are Restricted Stock or Restricted Stock Units, as defined below.

1. Coordination with Stock Plan. Provisions of the Stock Plan and terms defined in the Stock Plan (without regard to this Appendix) shall be applicable in this Appendix, except to the extent that this Appendix specifically provides otherwise.
2. Effective Date. This Appendix A was initially adopted by the Board on April 7, 2014 and by the stockholders of the Company on June 7, 2014. The Board approved the Stock Plan, including Appendix A, on March 23, 2017 (the *Effective Date* ) and it shall continue in effect for a term of ten (10) years from the Effective Date, subject to the approval of the stockholders of the Corporation to meet the requirements of Section 162(m) of the Code and the regulations thereunder. At the sole discretion of the Board or the Restricted Stock Interests Committee (as defined below), in order to comply with the requirements of Section 162(m) of the Code, the business measures set forth in Section 5 below that may be used for Performance Goals for awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code shall be reapproved by the stockholders of the Corporation no later than the first meeting of such stockholders that occurs in the fifth calendar year following the calendar year in which such stockholders previously approved such business measures for such purpose.
3. Definitions. *Restricted Stock* is a type of Stock Bonus. It is Common Stock of the Company that may be subject to vesting based on service or performance of goals. A *Restricted Stock Unit* or *RSU* is a type of Stock Bonus that may be vested based on service or performance of goals. It is a unit that is converted into one share of Common Stock of the Company at the time of payment. Restricted Stock and RSUs are referred to collectively herein as *Restricted Stock Interests* . *Restricted Stock Interest Target* means the maximum number of Restricted Stock Interests that may be earned by an individual under an award. *Restricted Stock Interests Committee* shall initially be the Compensation Committee of the Company's Board of Directors, which Compensation Committee currently consists entirely of outside directors within the meaning of Section 162(m) of the Code. In any event, the Restricted Stock Interests Committee shall consist of at least two outside directors of the Company who are also members of the Compensation Committee.
4. Administration of the Restricted Stock Interests. Awards of Restricted Stock Interests for individuals shall be granted and administered by the Committee; except that Awards to those employees who are covered employees within the meaning of Section 162(m) of the Code (such individuals within the meaning of Section 162(m) of the Code, a *Covered Employee* ) shall be granted and administered by the Restricted Stock Interests Committee. The Restricted Stock Interests Committee shall adopt such rules as it may deem appropriate in order to carry out the purpose of the Plan and shall have authority and discretion to determine the terms and conditions of the awards granted to eligible Covered Employees (each a *Participant* ). All questions of interpretation, administration, and application of the Plan as it relates to Covered Employees shall be determined by a majority of the members of the Restricted Stock Interests Committee then in office, except that the Restricted Stock Interests Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Restricted Stock Interests Committee. The determination of such majority shall be final and binding in all matters relating to the Plan.

5. Terms of Awards. No later than 90 days after the commencement of each fiscal year of the Company, the Restricted Stock Interests Committee shall establish for each Covered Employee who is a Participant to whom an award of Restricted Stock Interests is granted (i) Performance Goals ( *Performance Goals* ) for such fiscal year or such fiscal year and subsequent years (each, as set by the Restricted Stock Interests Committee, a *Performance Period* ) and (ii) the Restricted Stock Interest Target that corresponds to the Performance Goals.



**Table of Contents**

The Performance Goals upon which the payment or vesting of an award for a Covered Employee may be based shall be limited to the following business measures, which may be applied with respect to the Company, any business unit, or, if applicable, any Participant, and which may be measured on an absolute or relative to a peer-group or other market measure basis:

corporate operating profit;

business unit operating profit;

revenue;

net revenue;

new business authorizations;

backlog;

customer cancellation rate;

total shareholder return;

stock price increase;

return on equity;

return on capital;

earnings per share;

gross profit;

adjusted gross profit (profit before depreciation and amortization expense, as well as stock-based compensation expense);

EBIT (earnings before interest and taxes);

EBITDA (earnings before interest, taxes, depreciation and amortization);

adjusted EBITDA (earnings before net interest and other expense, taxes, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense and expense related to the impairment of goodwill);

ongoing earnings;

cash flow (including operating cash flow, free cash flow, discounted cash flow return on investment, and cash flow in excess of costs of capital);

EVA (economic value added);

economic profit (net operating profit after tax, less a cost of capital charge);

SVA (shareholder value added);

net income (minimum);

net loss (maximum);

operating income;

pre-tax profit margin;

performance against business plan;

customer service;

corporate governance quotient or rating;

**Table of Contents**

market share;

employee satisfaction;

safety;

employee engagement;

supplier diversity;

workforce diversity;

operating margins;

credit rating;

dividend payments;

expenses;

retained earnings;

completion of acquisitions, divestitures and corporate restructurings;

construction projects;

new technology, service or product development;

environmental efforts; and

individual goals based on objective business criteria underlying the goals listed above and which pertain to individual effort as to achievement of those goals or to one or more business criteria in the areas of litigation, human resources, information services, production, support services, facility development,

government relations, market share or management.

Alternatively, the Restricted Stock Interests Committee may grant Restricted Stock Interests that are not conditioned upon the performance of a Performance Goal to Participants who are Covered Employees if the award is not intended to qualify as performance-based compensation under Section 162(m) of the Code.

6. Limitation on Awards. The aggregate number of Restricted Stock Interests granted in awards to any Participant for any Performance Period shall not exceed 1,000,000. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization pursuant to Section 13 of the Plan.

7. Determination of Award. The Restricted Stock Interests Committee shall, promptly after the date on which the necessary financial or other information for a particular Performance Period becomes available, certify in writing whether any Performance Goal for a Covered Employee has been achieved, and, if so, the highest Performance Goal that has been achieved, all in the manner required by Section 162(m) of the Code. If any Performance Goal has been achieved, the awards, determined for each Participant with reference to the Restricted Stock Interest Target that corresponds to the highest Performance Goal achieved, for such Performance Period shall have been earned except that the Restricted Stock Interests Committee may, in its sole discretion, reduce the amount of any award to reflect the Restricted Stock Interests Committee's assessment of the Participant's individual performance, or for any other reason. Such awards of RSUs shall be payable with shares of Common Stock of the Company by March 31 of the calendar year following the calendar year in which the Performance Period ends. Such awards of Restricted Stock shall become vested as of the end of the Performance Period. In the event a Participant terminates employment with the Company for any reason, including without limitation death or disability, prior to the payment of an RSU award or the vesting of Restricted Stock, the Participant shall not be entitled to payment or vesting of the award, unless otherwise determined by the Restricted Stock Interests Committee in its sole discretion. However, Participants in the United States on an approved military leave of absence or a Family Medical Leave of Absence on the payment date for an award shall be eligible to receive the award.

**Table of Contents**

8. Compliance with Code Section 409A. The intent of this Appendix is that payments of awards will be exempt from or comply with Section 409A of the Code, as amended, and the regulations and guidance promulgated thereunder (collectively, *Section 409A* ) and, in this connection, the Appendix shall be interpreted to be exempt or in compliance with Section 409A.

9. Termination and Amendment. This Appendix shall continue in effect until terminated by the Board or the Restricted Stock Interests Committee. The Restricted Stock Interests Committee may at any time amend or otherwise modify the Appendix in such respects as it deems advisable; provided, however, no such amendment or modification may be effective without Board approval or Company stockholder approval if such approval is necessary to comply with the requirements for qualified performance-based compensation under Section 162(m) of the Code.

**Table of Contents**

***BENEFITFOCUS, INC.***

***ATTN: PARIS CAVIC, VICE PRESIDENT & GENERAL COUNSEL***

***100 BENEFITFOCUS WAY***

***CHARLESTON, SOUTH CAROLINA 29492***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS



**Table of Contents**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice of Annual Meeting of Stockholders and Proxy Statement, 2016 Annual Report and Annual Report on Form 10-K are available at [www.proxyvote.com](http://www.proxyvote.com)

**BENEFITFOCUS, INC.**

**Annual Meeting of Stockholders**

**June 2, 2017 9:00 AM EDT**

**This proxy is solicited by the Board of Directors**

The undersigned stockholder of Benefitfocus, Inc. acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement, each dated April 21, 2017. The undersigned stockholder also appoints Mason R. Holland, Jr., with full power of substitution and power to act alone, as proxy to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of Benefitfocus, Inc. that the stockholder is entitled to vote at the Annual Meeting of Stockholders to be held at 9:00 AM, EDT on June 2, 2017, at the Benefitfocus, Inc. principal executive offices located at 100 Benefitfocus Way, Charleston, South Carolina 29492, and any adjournment or postponement thereof.

**Continued and to be signed on reverse side**