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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2017

or

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

For the transition period from _________ to _________

Commission file number: 001-36778

CONNECTURE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	**58-2488736** (IRS Employer Identification Number)
18500 West Corporate Drive, Suite 250 **Brookfield, WI** (Address of principal executive offices)	**53045** (Zip Code)

Registrant's telephone number, including area code: (262) 432-8282

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of May 1, 2017, the registrant had 22,620,105 shares of common stock, $0.001 par value per share, issued and outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

CONNECTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(In thousands, except share and per share information)

	As of March 31, 2017	As of December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,920	$ 6,208
Accounts receivable	8,461	8,390
Prepaid expenses and other current assets	980	1,153
Total current assets	22,361	15,751
PROPERTY AND EQUIPMENT — Net	1,832	1,957
GOODWILL	31,072	31,072
OTHER INTANGIBLE ASSETS — Net	8,353	9,188
DEFERRED IMPLEMENTATION COSTS	23,943	23,257
OTHER ASSETS	1,034	1,263
TOTAL ASSETS	$ 88,595	$ 82,488
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 6,090	$ 7,387
Accrued payroll and related liabilities	4,110	4,945
Other liabilities	2,028	1,950
Current maturities of debt	1,313	578
Deferred revenue	27,967	31,606
Total current liabilities	41,508	46,466
DEFERRED REVENUE	7,961	9,310
DEFERRED TAX LIABILITY	23	23
LONG-TERM DEBT	30,678	31,944
OTHER LONG-TERM LIABILITIES	282	235
Total liabilities	80,452	87,978
COMMITMENTS AND CONTINGENCIES (Note 7)		
REDEEMABLE PREFERRED STOCK - SERIES A	52,904	51,894
REDEEMABLE PREFERRED STOCK - SERIES B	16,977	—
STOCKHOLDERS' DEFICIT:		
Common stock, $0.001 par value, 75,000,000 shares authorized as of March 31, 2017 and December 31, 2016, and 22,588,580 and 22,524,655 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	23	23
Additional paid-in capital	101,346	101,985
Accumulated deficit	(162,805)	(159,105)
Treasury stock, at cost	(302)	(287)
Total stockholders' deficit	(61,738)	(57,384)
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT	$ 88,595	$ 82,488

The accompanying notes to the condensed consolidated financial statements are an integral part of the statements.

CONNECTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(unaudited)
(In thousands, except share and per share information)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
REVENUE	$ 18,272	$ 17,557
COST OF REVENUE	11,474	12,353
GROSS MARGIN	6,798	5,204
OPERATING EXPENSES:		
Research and development	4,461	5,504
Sales and marketing	2,186	2,338
General and administrative	2,829	3,264
Total operating expenses	9,476	11,106
LOSS FROM OPERATIONS	(2,678)	(5,902)
OTHER EXPENSES:		
Interest expense	723	1,409
Other expense, net	299	-
Total other expenses	1,022	1,409
LOSS BEFORE PROVISION FOR INCOME TAXES	(3,700)	(7,311)
PROVISION FOR INCOME TAXES	-	(25)
NET LOSS	$ (3,700)	$ (7,336)
COMPREHENSIVE LOSS	$ (3,700)	$ (7,336)
NET LOSS PER COMMON SHARE:		
Basic and diluted	$ (0.22)	$ (0.33)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	22,570,207	22,112,273

The accompanying notes to the condensed consolidated financial statements are an integral part of the statements.

CONNECTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(unaudited)
(In thousands, except shares and per share information)

	Common Stock		Additional Paid-In Capital	Treasury Stock, at Cost	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
BALANCES — January 1, 2017	22,524,655	$ 23	$ 101,985	$ (287)	$ (159,105)	$ (57,384)
Preferred stock dividends, Series A			(1,010)			(1,010)
Preferred stock dividends, Series B			(159)			(159)
Stock-based compensation expense			489			489
Exercise of stock options and vesting of restricted stock units	71,277		41			41
Treasury stock acquired	(7,352)			(15)		(15)
Net loss					(3,700)	(3,700)
BALANCES — March 31, 2017	22,588,580	$ 23	$ 101,346	$ (302)	$ (162,805)	$ (61,738)

	Common Stock		Additional Paid-In Capital	Treasury Stock, at Cost	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
BALANCES — January 1, 2016	22,063,357	$ 22	$ 101,546	$ (177)	$ (132,571)	$ (31,180)
Stock-based compensation expense			812			812
Exercise of stock options and vesting of restricted stock units	52,904	1	78			79
Treasury stock acquired	(1,036)			(3)		(3)
Net loss					(7,336)	(7,336)
BALANCES — March 31, 2016	22,115,225	$ 23	$ 102,436	$ (180)	$ (139,907)	$ (37,628)

The accompanying notes to the condensed consolidated financial statements are an integral part of the statements.

CONNECTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(unaudited)
(In thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,700)	$ (7,336)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,119	1,185
Stock-based compensation expense	489	812
Interest accretion (payments) on financing obligations	(523)	69
Other financing fees and non-cash adjustments	210	-
Change in operating assets and liabilities, net of acquisition:		
Accounts receivable	(71)	5,026
Prepaid expenses and other assets	113	(193)
Deferred implementation costs	(686)	(359)
Accounts payable	(1,371)	1,108
Accrued expenses and other liabilities	(730)	(32)
Deferred revenue	(4,988)	(5,717)
Net cash used in operating activities	(10,138)	(5,437)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(160)	(49)
Business acquisition, net of cash acquired	82	—
Net cash used in investing activities	(78)	(49)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving line of credit	—	1,000
Repayments under revolving line of credit	—	(500)
Repayments of term debt	—	(281)
Payment of financing fees	(11)	—
Proceeds from preferred stock, net	16,927	—
Other	12	50
Net cash provided by financing activities	16,928	269
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,712	(5,217)
CASH AND CASH EQUIVALENTS — Beginning of period	6,208	5,424
CASH AND CASH EQUIVALENTS — End of period	$ 12,920	$ 207
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,261	$ 1,282
Cash (received) paid for income taxes	$ (16)	$ 14
Non-cash investing and financing activities:		
Purchase of property and equipment in accounts payable	$ 3	$ 251
Accrued preferred stock dividends	$ 1,169	$ —
Direct issuance costs in accounts payable and other accrued liabilities	$ 109	$ —

The accompanying notes to the condensed consolidated financial statements are an integral part of the statements.

1. DESCRIPTION OF BUSINESS

Connecture, Inc. and its subsidiaries, including DestinationRx, Inc., or DRX, RxHealth Insurance Agency, Inc., ConnectedHealth, LLC, and Insurix, Inc. (collectively, the "Company"), is a Delaware corporation. The Company is a web-based consumer shopping, enrollment and retention platform for health insurance distribution in the United States. The Company's solutions offer a personalized health insurance shopping experience that recommends the best fit insurance plan based on an individual's preferences, health status, preferred providers, medications and expected out-of-pocket costs. The Company's customers are payers, brokers, government agencies, and web-based insurance marketplace operators, who distribute health and ancillary insurance. The Company's solutions automate key functions in the insurance distribution process, allowing customers to price and present plan options accurately to consumers and efficiently enroll, renew and manage plan members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements include the accounts of Connecture, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

Interim Unaudited Condensed Consolidated Financial Information—The accompanying unaudited consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, as contained in the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, for interim financial information, and with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in stockholders' deficit and cash flows. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make extensive estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents—The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. The Company had $12,576 of interest-bearing amounts on deposit in excess of federally insured limits as of March 31, 2017.

Accounts Receivable and Allowance for Doubtful Accounts—The Company's normal and customary terms for customer payment is 30 days. The outstanding accounts receivable can vary significantly based on timing of billing milestones, renewals and other factors. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The estimates are based on the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, customer creditworthiness, and current economic trends. The Company writes off uncollectible receivables after all reasonable efforts are made to collect payment.

Financial Instruments and Concentration of Credit Risk—The estimated fair values of the Company's financial instruments, which include cash and cash equivalents, accounts receivable and accounts payable, approximate their carrying values due to the short-term nature of these instruments.

Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents and accounts receivable. The Company's credit risk is managed by investing its cash and cash equivalents in high quality money market instruments with established financial institutions. Concentrations of credit risk relate to accounts receivable are limited to several customers to whom the Company makes substantial sales.

The Company has not experienced any material losses related to receivables from individual customers, geographic regions or groups of customers. The following customers accounted for 10% or greater of the Company's total revenue or total accounts receivable:

	Revenue		Accounts Receivable	
Customers	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	As of March 31, 2017	As of December 31, 2016
A	13.2%	<10%	<10%	12.3%
B	10.3%	<10%	<10%	<10%

Revenue Recognition—The Company's revenue is derived from three sources: (a) the sales of implementation and ongoing support of the Company's software automation solutions; (b) fees from brokers for the right to access our multi-payer quoting platform; and (c) commissions. In all contractual arrangements, the Company determines whether persuasive evidence of an arrangement exists, services have been rendered, the fee is fixed or determinable and collection is probable. If any of these criteria are not met, the Company does not recognize revenue until all of the criteria are met.

a) Software Automation Solutions Fees

Contractual terms for the delivery and ongoing support of the Company's software automation solutions generally consist of multiple components including: (a) software license fees (non-hosted arrangements), (b) software maintenance fees, (c) software usage fees, (d) professional services fees, (e) hosting fees and (f) production support fees.

Software license fees represent amounts paid for the right to use the solution. Software usage fees represent amounts paid to cover only a specific period of time, after which usage and access rights expire. Software maintenance fees typically accompany software license fees and represent amounts paid for the right to receive commercially available updates and upgrades to the solution. Professional services fees represent amounts charged for services performed in connection with the configuration, integration and implementation of the solutions in accordance with customer specifications. Hosting fees represent fees related to post implementation hosting and monitoring of the solution. Production support fees are charged for the ongoing rate, benefits and related content management of the platform.

The Company's contracts with its customers typically bundle multiple services and are generally priced on a fixed fee basis. The term over which the Company is committed to deliver these services can range from several months to several years.

The majority of the Company's software automation solution services sold in the Enterprise/Commercial and Medicare segments and a portion of the Private Exchange segment are arrangements in which the Company hosts the web-based software automation solution and the customer pays a fee for access to and usage of the web-based software. The ownership of the technology and rights to the related code of such hosted web-based software remain with the Company and a customer has no contractual right to take possession of the software and run it on its own hardware platform. These arrangements are referred to as hosted arrangements and are accounted for as software-as-a-service under ASC 605, Revenue Recognition. A small percentage of the Company's software automation solutions, sold primarily in the Enterprise/State segment, are arrangements in which the software is not hosted on the Company's infrastructure. These arrangements include the licensed use of the software and are subject to accounting under ASC 985, Software Revenue Recognition.

For all arrangements (whether hosted or non-hosted) that include multiple elements, the Company evaluates each element in an arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable. Elements generally include implementation services, software licensing or usage fees and maintenance or other services.

Accounting guidance for multiple element arrangements containing hosted software provide a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence of selling price is used to establish the selling price if it exists. If VSOE and third-party evidence do not exist, the Company allocates the arrangement fee to the separate units of accounting based on its best estimate of selling price.

For hosted arrangements with multiple elements that are separate units of accounting, VSOE and third- party evidence do not currently exist and accordingly, the Company allocates the arrangement fee to the separate units of accounting based on management's best estimate of selling price, when available. The Company determines its best estimate of selling price for services based on its overall pricing objectives, taking into consideration market conditions and customer-specific factors and by reviewing historical data related to sales of the Company's services.

Hosted arrangement revenue is recognized as follows by revenue element:

- **Software usage fees and hosting fees**—Recognized ratably over the customer contract.
- **Professional services for new customer software solution implementation**—Initially deferred and recognized ratably from completion of implementation through the longer of the customer contract or estimated period of customer benefit based on facts and circumstances of each relationship.
- **Professional services for modifications to existing customer software solutions**—Initially deferred and then recognized in the period services are completed.
- **Production support fees**—Recognized as the work is performed consistent with the contractual terms of the production support.

Multiple deliverable arrangements accounting guidance for non-hosted arrangements provide an allocation of revenue to the separate elements based upon VSOE. To date, the elements of the Company's non-hosted arrangements, whereby the customers take possession of the software, have not been sold separately. Therefore, the contractual consideration for a delivered element for the non-hosted arrangements does not qualify as a separate unit of accounting as VSOE does not currently exist for any element of the Company's non-hosted arrangements. Accordingly, the delivered elements are combined with the other consideration for the remaining undelivered elements as a single unit of accounting. Revenue for non-hosted arrangements is recognized once all elements are delivered over the longer of the customer contract or estimated period of customer benefit. As of September 30 2016, the Company has a non-hosted arrangement with one remaining Enterprise/State customer.

b) Broker Multi-Payer Quoting Platform Fees

The Company provides an online quoting platform service to insurance brokers through its Private Exchange segment. The Company charges the brokers a monthly fee for access to the service. Revenue from the access fees is recognized in the period that the service is provided.

c) Commissions

Within the Private Exchange segment, the Company earns commissions on annual employee enrollments in which the Company's health plan network and software solutions are used in connection with each enrollment. Commissions are recorded in the period the enrollment is completed.

Cost of Revenue—Cost of revenue primarily consists of employee compensation and benefits, professional services costs and depreciation and amortization of assets directly associated with generating revenue. In addition, the Company allocates a portion of overhead, such as rent, facility depreciation and utilities, to cost of revenue based on employee salary.

Deferred Implementation Costs—The Company's accounting policy is to capitalize direct, incremental employee labor and related benefits along with third-party independent contractor costs related to implementing new customer software solutions, to the extent that they are deemed recoverable. Deferred implementation costs are amortized over the longer of the customer contract or estimated period of customer benefit, consistent with the recognition of the related deferred professional services revenue.

Stock-Based Compensation—The Company applies a fair-value based measurement method in accounting for stock-based payment transactions. Compensation cost is determined based on the grant-date fair value for stock options and performance-based restricted stock units and the grant-date closing market value for time-vested restricted stock units. Compensation cost is amortized on a straight-line basis over the vesting period for time-based awards and over the derived service period for performance-based restricted stock units.

Preferred Stock Dividends—Given the Company's accumulated deficit, the Company's accounting policy is to record the mandatorily payable dividends as a reduction of additional paid-in capital (APIC) with the offset as an increase to redeemable preferred stock on the consolidated balance sheets.

Comprehensive Loss—The Company's net loss equals comprehensive loss for the three months ended March 31, 2017 and 2016.

Income Taxes—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change becomes enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items in income tax expense.

Basic and Diluted Net Loss Per Common Share—The Company uses the two-class method to compute net earnings per common share because the Company has issued securities, other than common stock, that contractually entitle the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Holders of the Company's redeemable convertible preferred stock are entitled to participate in distributions, when and if declared by the Board of Directors that are made to common stockholders, and as a result are considered participating securities.

Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. Due to net losses for the three months ended March 31, 2017, basic and diluted loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

New Accounting Standards—In May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers*, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. Assuming the Company remains an emerging growth company (EGC), the ASU becomes effective for the Company for interim periods during the fiscal year ended December 31, 2019; early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. Assuming the Company remains an EGC through December 31, 2019, the provisions of this update are expected to be effective for the Company beginning in the first quarter of 2020. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently assessing the impact that this update will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation*, which simplifies several aspects of the accounting for stock compensation, including the accounting for income tax effects, forfeitures, statutory tax withholdings, and cash flow classifications. Entities must adopt the provisions of this standard using either a retrospective method, prospective method, or cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted, depending on the nature of the amendment. Assuming the Company remains an EGC through December 31, 2019, the provisions of this update are effective for the fiscal year ended December 31, 2018. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which clarifies cash flow statement classifications to be used for debt prepayment and debt extinguishment costs, settlement of debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business acquisition, proceeds from the settlement of insurance claims, and other cash flow transactions. Entities are to adopt the amendments in this update on a retrospective basis, or prospectively as of the earliest date possible, if the retrospective method is impracticable. Assuming the Company remains an EGC through December 31, 2019, the provisions of this update are effective for the fiscal year ended December 31, 2019 and interim periods thereafter. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Additionally, the one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities are to adopt the amendments in this update on a prospective basis. The provisions of this update are effective for annual and any interim impairment tests for periods beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed after

January 1, 2017. As the standard simplifies the goodwill impairment test, the Company will adopt this ASU early for fiscal 2017 goodwill testing. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

3. GOING CONCERN

The Company's primary need for liquidity is to fund anticipated net operating losses, working capital requirements, capital expenditures and for general corporate purposes, including debt repayment. For the years ended December 31, 2016 and 2015 net losses from operations were $20,870 and $1,487, respectively, and cash used in operations was $24,469 and $16,192, respectively. Additionally, for the three months ended March 31, 2017 our net loss from operations and our cash used in operations were $2,678 and $10,138, respectively. The Company has taken a number of actions in 2016 and the first quarter of 2017 to improve its operating cash flows in order to continue to support its operations and meet its obligations.

The Company has put a greater focus on overall profitability and aligning its cost structure with revenue and customer billings. The Company reduced its headcount to 356 at March 31, 2017, compared to 411 at December 31, 2015. The Company has also consolidated the procurement of outside contract labor resources.

On January 1, 2017, the Company hired a new Chief Financial Officer to bring additional financial and operational experience to the Company. Under the new Chief Financial Officer's leadership, the Company has continued to evaluate and reduce headcount and eliminate certain other expenditures to better align resources with the 2017 operating plan. Based on cost reduction actions taken in 2016 and those taken or planned to be taken in 2017, as well as steps taken to evaluate and improve pricing of the Company's software solutions and services, the Company projects cash used in operations to decrease in 2017 compared to 2016.

In addition, as discussed in Note 9, the Company completed the issuance of a newly created Series A Convertible Preferred Stock (the "Series A Preferred Stock") for an aggregate purchase price of $52,000 in May 2016, including net cash proceeds of approximately $49,300 after payment of transaction costs, of which we used approximately $30,600 to subsequently repay the principal balance, accrued interest, loan termination and professional fees associated with the THL Note. In addition, as discussed in Note 8, the Company completed a June 2016 amendment and extension of its existing senior credit facility, resulting in the extension of the facility to June 8, 2021 from January 18, 2018 and increased the term loan funding to $35,000 from approximately $20,000. The funds received were used to fund operating losses, working capital and for other general corporate purposes. In March 2017, the Company completed the issuance of a newly created Series B Convertible Preferred Stock (the "Series B Preferred Stock") for an aggregate purchase price of $17,500 less approximately $675 of transaction fees (see Note 9). The Company used $624 of the proceeds to repay the outstanding balance on the Company's senior revolving credit facility, with the remainder of the net proceeds available for general corporate purposes.

The Company also amended its senior credit facility in March 2017 to, among other things, (i) defer scheduled Senior Term Loan principal repayments until March 31, 2018, and (ii) revise the EBITDA and Minimum Liquidity covenants (see Note 9). The deferral of the principal repayments provides approximately $2,500 of additional liquidity through December 31, 2017.

The Company's historical operating results indicate conditions exist that raise uncertainty related to the Company's ability to continue as a going concern. As discussed above, the Company has taken certain actions to mitigate the uncertainty raised by the Company's historical operating results. However, as a result of the March 10, 2017 amendment described above, the senior credit facility contains a minimum liquidity covenant of $1,500 at all times through March 31, 2018, increasing to $15,000 at all times from April 1, 2018 forward. At this time the Company projects that it will comply with the minimum liquidity covenant through March 31, 2018, but does not anticipate it would achieve compliance with the minimum liquidity covenant beyond March 31, 2018. Accordingly, the Company expects it will have sufficient liquidity to meet obligations as they come due through March 31, 2018, but if the Company is unable to meet or amend the senior credit facility financial covenants, cannot generate sufficient additional liquidity through the mechanisms described above or through additional support from the Company's investor base or some combination of other actions, all of the Company's scheduled senior indebtedness of approximately $31,991 at March 31, 2018 would become immediately due and payable. The conditions described above currently result in substantial doubt about the Company's ability to continue as a going concern for the twelve-month period following issuance of these March 31, 2017 financial statements.

4. NET LOSS PER COMMON SHARE

Diluted loss per common share is the same as basic loss per common share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss. The following common share equivalent securities have been excluded from the calculation of weighted-average common shares outstanding because the effect is anti-dilutive for the periods presented:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Anti-Dilutive Common Share Equivalents		
Redeemable convertible preferred stock	15,348,157	—
Restricted Stock Units	24,683	—
Stock options	7,673	407,081
Total anti-dilutive common share equivalents	15,380,513	407,081

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Numerator:		
Net loss	$ (3,700)	$ (7,336)
Less: Preferred stock dividends	(1,169)	—
Net loss attributable to common stock	$ (4,869)	$ (7,336)
Denominator:		
Weighted-average common shares outstanding, basic and diluted	22,570,207	22,112,273
Net loss per common share, basic and diluted	$ (0.22)	$ (0.33)

5. CONNECTEDHEALTH ACQUISITION

On June 7, 2016, the Company completed the acquisition of all equity units of ConnectedHealth, LLC ("ConnectedHealth") for a cash purchase price of $4,601, net of cash acquired and a working capital adjustment, using available excess cash. ConnectedHealth is a benefits technology company with a software and services platform that makes it easier for consumers and employees to shop for personalized insurance benefits online. The Company completed the acquisition to acquire ConnectedHealth's software technology.

The acquisition of ConnectedHealth was accounted for as a business combination in accordance with FASB ASC Topic 805, *Business Combinations*. Assets acquired and liabilities assumed were recorded at their fair value as of the acquisition date. The excess of purchase price over the estimated fair values of tangible assets, intangible assets and assumed liabilities was recorded as goodwill.

The final allocation of the purchase price for ConnectedHealth is as follows:

Cash and cash equivalents	$ 25
Trade accounts receivable	428
Prepaid expenses and other current assets	31
Intangible assets	1,200
Goodwill	4,293
Other long-term assets	54
Accounts payable and other current liabilities	(1,225)
Other long-term liabilities	(180)
Total purchase price	$ 4,626

The goodwill is primarily attributable to synergies with the software and services that ConnectedHealth provides and the anticipated value of selling the Company's software and services to ConnectedHealth's existing client base. The goodwill and intangible assets have been assigned to the Private Exchange segment. The goodwill and intangible assets are deductible for income tax purposes.

The following unaudited supplemental pro forma information presents the Company's results of operations as though the acquisition of ConnectedHealth had occurred on January 1, 2015. The information is not indicative of the Company's operating results which would have occurred had the acquisition been consummated as of that date. The pro forma information below does not include anticipated synergies, the impact of purchase accounting adjustments, or certain other expected benefits of the acquisition and should not be used as a predictive measure of the Company's future results of operations.

	Three Months Ended March 31, 2016
Total revenue	$ 18,284
Net (loss)	(7,962)
Net (loss) per share - basic and diluted	$ (0.36)

The pro forma financial information has been adjusted, where applicable, for: (i) amortization of acquired intangible assets, (ii) additional interest expense on presumed acquisition financing, (iii) the income tax effect of the pro forma adjustments, and (iv) to exclude acquisition related expenses.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill—The Company has no accumulated goodwill impairments as of March 31, 2017. Goodwill consists of following as of March 31, 2017 and December 31, 2016:

Enterprise/ Commercial	Enterprise/ State	Medicare	Private Exchange	Total
$ 7,732	$ —	$ 14,711	$ 8,629	$ 31,072

Other Intangibles Assets—Other intangible assets consist of the following as of March 31, 2017:

	Useful Lives - In Years	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Relationship	3-10	$ 7,398	$ (3,260)	$ 4,138
Acquired Technology	3-5	12,892	(10,340)	2,552
Trademarks	10	2,800	(1,178)	1,622
Software	3	1,770	(1,729)	41
		$ 24,860	$ (16,507)	$ 8,353

Other intangible assets consist of the following as of December 31, 2016:

	Useful Lives - In Years	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Relationship	3-10	$ 7,398	$ (3,077)	$ 4,321
Acquired Technology	3-5	12,892	(9,770)	3,122
Trademarks	10	2,800	(1,108)	1,692
Software	3	1,770	(1,717)	53
		$ 24,860	$ (15,672)	$ 9,188

Amortization expense for the three months ended March 31, 2017 and 2016 was $835 and $891, respectively, and has been recorded in cost of revenue and general and administrative expenses.

Estimated future amortization expense for the Company's intangible assets is as follows:

Year Ending December 31	Amount
Remainder of 2017	$ 2,502
2018	1,337
2019	1,242
2020	1,240
2021	1,050
Thereafter	982
Total future amortization expense	$ 8,353

7. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company leases office space under operating leases that expire at various dates through 2025. Rent expense for the three months ended March 31, 2017 and 2016 was $485 and $436, respectively.

Letter of Credit—As security for certain leased property, the Company was required to provide a lessor an unconditional and irrevocable letter of credit in the amount $200 at March 31, 2017 and December 31, 2016.

Indemnifications—The Company provides certain indemnifications from time to time in the normal course of business to its customers in its professional services and software license agreements and to strategic partners through certain insurance industry association marketing agreements that contain certain indemnifications for claims that may arise from acts or omissions, patent or trademark infringement, breach of contractual representations and warranties or intentional or grossly negligent acts. These indemnifications may require the Company to reimburse the indemnified party for losses suffered or incurred by the indemnified party. In the opinion of management, the liabilities, if any, which may result from such indemnifications are not expected to have a material effect on the Company's consolidated financial statements.

Litigation—In the normal course of business, the Company and its subsidiaries are named as defendants in lawsuits and are party to contract terminations and settlements in which claims are or may be asserted against the Company. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits and contract terminations are not expected to have a material effect on the Company's consolidated financial statements.

8. DEBT

Debt consisted of the following at March 31, 2017 and December 31, 2016:

	2017	2016
Senior term loans	$ 31,991	$ 31,944
Senior revolving credit facility	—	578
	31,991	32,522
Less: original issue discounts and deferred financing costs	—	—
Less: current maturities of debt	(1,313)	(578)
Long-term debt	$ 30,678	$ 31,944

Senior Debt—The Company has a bank credit facility, as amended and restated from time to time that provides for short-term working capital and long-term investment needs (the "Credit Facility"). The Credit Facility is collateralized by all of the Company's assets.

On June 8, 2016, the Credit Facility was amended and restated (the "June 2016 Amendment") to, among other things, (i) extend the maturity date to June 8, 2021 from January 18, 2018, (ii) continue the revolving credit through the maturity date (the "Senior Revolving Credit Facility"), and (iii) increase the term loan funding to $35,000 from approximately $20,000 at June 8, 2016 (the "Senior Term Loan").

On March 10, 2017, the Company amended the Credit Facility (the "March 2017 Amendment") to, among other things, (i) defer scheduled Senior Term Loan principal repayments until March 31, 2018, at which time quarterly principal repayments of $1,313 will resume through March 31, 2021; (ii) replace the EBITDA and Minimum Liquidity covenants with (a) a trailing twelve month EBITDA covenant of negative $12,000 as of December 31, 2016, a quarterly building EBITDA covenant through December 31, 2017, and a trailing twelve month EBITDA from March 31, 2018 forward, as defined in the March 2017 Amendment, and (b) a minimum liquidity requirement of $1,500 at all times from March 1, 2017 through March 31, 2018, and $15,000 thereafter; and (iii) provide for an incremental 2.50% per annum paid-in-kind ("PIK") interest on all obligations from March 10, 2017 through the maturity date, which shall increase the outstanding principal balance of the Senior Term Loan. The quarterly building EBITDA, as defined in the March 2017 Amendment, requires the Company achieve at least negative $4,000 for the quarter ended March 31, 2017, negative $8,000 for six months ended June 30, 2017, negative $7,250 for the nine months ended September 30, 2017, negative $3,000 for twelve months ended December 31, 2017 and March 31, 2018, and positive $8,000 for the twelve months ended June 30, 2018 and September 30, 2018.

Following the March 2017 Amendment the Credit Facility provides for up to $500 of revolving credit through the maturity date of the Credit Facility.

The Credit Facility contains covenants and customary representations and warranties of the Company, as well as various limitations on the activities of the Company as they relate to additional indebtedness, junior liens, investments, capital expenditures, paying dividends, and mergers and acquisitions. As of March 31, 2017, the Company was in compliance with the financial covenants under the Credit Facility, as amended on March 10, 2017, and expects to be in compliance through March 31, 2018 (see Note 3).

As of March 31, 2017, the interest rates on our Senior Term Loan and the Senior Revolving Credit Facility were 10.0% and 12.0%, respectively, and include 2.50% PIK interest.

Based on rates for instruments with comparable maturities and credit quality, the estimated fair value of the Company's total debt approximates the carrying value as of March 31, 2017 and $29,000 as of December 31, 2016.

9. STOCKHOLDERS' DEFICIT

Common Stock—As of March 31, 2017 and December 31, 2016, the Company has authorized the issuance of 75,000,000 shares of common stock, par value of $0.001 per share.

Preferred Stock— On May 2, 2016, the Company issued and sold newly created Series A Preferred Stock for an aggregate purchase price of $52,000. The shares of Series A Preferred Stock are convertible into shares of the Company's common stock (the "Series A Conversion Shares") at the option of the investors at any time and they are redeemable at the option of the investors after May 2, 2023 or if there is a Fundamental Change (as that term is defined in the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock). Beginning May 2, 2018, the Company may force conversion if the closing price of the common stock is at least 175% of the conversion price of the Series A Preferred Stock for 45 consecutive trading days, with a minimum average trading volume of at least 75,000 shares for 40 of such 45 trading days. Each share of Series A Preferred Stock is convertible into a number of Series A Conversion Shares equal to (i) the sum of (a) the stated value per share of Series A Preferred Stock, plus (b) all accrued and unpaid dividends thereon up to but not including the conversion date, divided by (ii) the conversion price of the Series A Preferred Stock at such time (which initially was $4.50 per share, subject to customary anti-dilution adjustments).

The number of Conversion Shares underlying the Series A Preferred Stock will be increased annually by the accrual of 7.5% cumulative dividends payable in-kind (which will increase in certain circumstances, but in no event will be more than 16.5% annually). Following the second anniversary of the May 2, 2016 closing, the Company may elect to pay such cumulative dividends in cash. The conversion price for the Series A Preferred Stock is also subject to adjustment in the event of a stock split, reverse stock split, stock dividend, rights issuance, recapitalization, tender offer or similar transaction and to weighted-average price-based anti-dilution adjustments. On March 10, 2017, the conversion price of the Series A Preferred Stock was adjusted to $3.96 per share as a result of the issuance of Series B Preferred Stock.

On March 10, 2017, the Company issued and sold newly created Series B Preferred Stock for an aggregate purchase price of $17,500. The shares of Series B Preferred Stock are convertible into shares of the Company's common stock (the "Series B Conversion Shares") at the option of the investors at any time and they are redeemable at the option of the investors after May 2, 2023 or if there is a Fundamental Change (as that term is defined in the Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock). Beginning March 10, 2019, the Company may force conversion if the closing price of the common stock is at least 175% of the conversion price of the Series B Preferred Stock for 45 consecutive trading days, with a minimum average trading volume of at least 75,000 shares for 40 of such 45 trading days. Each share of Series B Preferred Stock is convertible into a number of Series B Conversion Shares equal to (i) the sum of (a) the stated value per share of Series B Preferred Stock, plus (b) all accrued and unpaid dividends thereon up to but not including the conversion date, divided by (ii) the conversion price of the common stock at such time (which initially is $1.91 per share, subject to customary anti-dilution adjustments).

The number of Conversion Shares underlying the Series B Preferred Stock will be increased annually by the accrual of 15.0% cumulative dividends payable in-kind (which will increase in certain circumstances, but in no event will be more than 20.0% annually). Following the second anniversary of the March 10, 2017 issuance, the Company may elect to pay such cumulative dividends in cash. The conversion price for the Series B Preferred is also subject to adjustment in the event of a stock split, reverse stock split, stock dividend, rights issuance, recapitalization, tender offer or similar transaction and to weighted-average price-based anti-dilution adjustments.

The Series A Preferred Stock and Series B Preferred Stock are entitled to vote with common stock on an as-converted basis.

Treasury Stock—As of March 31, 2017, the Company held 108,692 shares of common stock, which were acquired in the normal course of employees surrendering vested shares to settle withholding tax obligations triggered by stock-based compensation transactions

Reserved Shares—As of March 31, 2017, the Company has 1,919,659 shares of common stock reserved for issuance in connection with the Company's 2014 Equity Incentive Plan (the "2014 Plan"), and 225,752 shares of common stock reserved for issuance under the 2014 Employee Stock Purchase Plan (the "ESPP").

10. STOCK-BASED COMPENSATION

The Company's equity incentive plans provide for the awarding of various equity awards, including stock options and restricted stock units.

The Company recognized stock-based compensation expense of $489 and $812 for the three months ended March 31, 2017 and 2016, respectively.

As of March 31, 2017, approximately $2,845 of total unrecognized compensation expense related to unvested stock options and restricted stock unit awards is expected to be recognized over the remaining vesting periods of approximately 3 years. The maximum contractual term of equity awards is 10 years.

Equity Incentive Plans—In connection with the Company's December 2014 initial public offering, the Board of Directors approved the 2014 Plan as a replacement to the 2010 Plan. The Company will not grant any additional awards under the 2010 Plan; however the 2010 Plan will continue to govern the terms and conditions of all outstanding equity awards previously granted under the 2010 Plan. The 2014 Plan provides for the awarding of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units, and other stock-based or cash settled equity awards as deemed appropriate by the compensation committee of the Company's board of directors.

The 2014 Plan provides that on the first day of January each year through 2024, the available shares of common stock shall generally be increased by the smaller of (a) 2.00% of the number of issued and outstanding shares of common stock on the immediately preceding December 31, or (b) an amount determined by the Company's Board.

Stock Options—A summary of stock option activity for the three months ended March 31, 2017 is presented below:

	Number of Shares	Average Exercise Price(a)	Average Life (Years)(b)	Aggregate Intrinsic Value
Outstanding — January 1, 2017	2,270,701	$ 3.01		
Granted	160,000	$ 1.73		
Exercised	(23,753)	$ 1.75		$ 14
Forfeited	(6,343)	$ 11.37		
Expired	(88,770)	$ 2.67		
Outstanding — March 31, 2017	2,311,835	$ 2.92	5.13	$ —
Exercisable — March 31, 2017	1,438,717	$ 2.72	2.62	$ —
Vested and expected to vest — March 31, 2017	2,256,269	$ 2.93	5.02	$ —

(a) Weighted-average exercise price
(b) Weighted-average contractual life remaining

The weighted average fair value per option granted during the three months ended March 31, 2017 and 2016 was $0.82 and $1.38, respectively. The weighted average fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model. The following are weighted-average assumptions used for estimating the fair value of options granted for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Common stock share value	$ 1.73	$ 3.44
Expected life (years)	5.56	4.00
Volatility	50.00%	50.00%
Interest rate	2.02%	1.51%
Dividend yield	0.00%	0.00%

The Company currently estimates volatility by using the weighted-average historical volatility of comparable public companies. The risk-free interest rate is the rate available as of the option date on zero-coupon U.S. government issues with a remaining term equal to the expected term of the option. The Company has not paid dividends on its common stock in the past and does not plan to pay any dividends in the foreseeable future. The Company has estimated forfeitures in determining the weighted average fair value calculation. The forfeiture rates used for options granted in the three months ended March 31, 2017 were 0% for executive employees and 10% for all other employees. The Company's estimate of forfeitures will be adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from the estimate.

The Company recognizes the grant date fair value of stock options that are expected to vest on a straight-line basis over the vesting period, which is generally three years from the date of grant.

Restricted Stock Units (RSUs)—A summary of RSU activity for the three months ended March 31, 2017 is presented below:

	Shares	Average Fair Value per Share(c)	Aggregate Intrinsic Value
Outstanding — January 1, 2017	665,496	$ 4.24	
Granted	125,000	$ 1.68	
Vested	(47,524)	$ 2.73	$ 85
Forfeited	(9,335)	$ 11.37	
Outstanding — March 31, 2017	733,637	$ 3.81	

(c) Weighted-average grant date fair value

The Company recognizes the grant date fair value of the RSUs that are expected to vest on a straight-line basis over the period of vesting, which is generally three years from the date of grant. The Company recognizes the income tax benefits resulting from vesting of RSUs in the period they vest, to the extent the compensation expense has been recognized.

Employee Stock Purchase Plan—In November 2014, the Company's Board of Directors approved the ESPP, which is a broadly-based stock purchase plan in which any eligible employee may elect to participate by authorizing the Company to make payroll deductions in a specific amount or designated percentage to purchase shares of the Company's common stock at 90% of the lower of the fair market value on the first day of trading of the offering period or on the purchase date. The ESPP is designed to comply with Section 423 of the Code, and thus is eligible for the favorable tax treatment afforded by Section 423.

The ESPP provides that on the first day of January each year through 2024, the available shares of common stock shall generally be increased by (a) 100,000 shares or (b) 0.25% of issued and outstanding shares of common stock on the immediately preceding December 31.

No shares were purchased under the ESPP during the three months ended March 31, 2017 and 2016.

11. INCOME TAXES

The Company's effective tax (provision)/benefit rate of less than 1.00% for the three months ended March 31, 2017 and 2016, respectively, differs from statutory federal income tax rates primarily due to the valuation allowances that are recorded against the Company's net operating loss deferred tax assets and current state income taxes.

12. RELATED PARTIES

On May 2, 2016, a Chrysalis Ventures II, L.P. ("Chrysalis") a holder of more than 5% of the Company's outstanding common stock as of March 31, 2016, purchased $2,000 of the Preferred Stock offered in the transaction discussed in Note 9. A member of the Company's board of directors is the chairman of the general partner of Chrysalis Ventures II, L.P.

On March 10, 2017, Francisco Partners IV, L.P., Francisco Partners IV-A, L.P. (collectively, "Francisco Partners") and Chrysalis, all holders of more than 5% of the Company's outstanding common stock equivalents as of March 10, 2017, purchased $17,500 of the Series B Preferred Stock offered in the transaction discussed in Note 9. A member of the Company's board of directors is a Co-President of the managing companies of Francisco Partners, and another member of the Company's board of directors is a member of the general partner of Chrysalis. The Company reimbursed Francisco Partners approximately $180 for out-of-pocket expenses related to the Series B Preferred Stock offering.

The Company paid $152 of administrative fees to Humana, Inc. in connection with the administration of the Company's employee health benefits plan for the three months ended March 31, 2016. The Company's chairman of the board of directors is a member of the Humana, Inc. board of directors.

13. SEGMENTS OF BUSINESS

The Company is organized into four reportable segments, which are based on software and service offerings. Unallocated corporate expenses and assets that are not considered when evaluating segment performance are grouped with Corporate in the following segment information:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Revenue from external customers by segment:		
Enterprise/Commercial	$ 9,179	$ 10,409
Enterprise/State	781	781
Medicare	5,730	4,450
Private Exchange	2,582	1,917
Consolidated revenue	$ 18,272	$ 17,557
Gross margin by segment:		
Enterprise/Commercial	$ 2,382	$ 1,914
Enterprise/State	463	188
Medicare	3,976	2,825
Private Exchange	(23)	277
Consolidated gross margin	$ 6,798	$ 5,204
Consolidated operating expenses:		
Research and development	$ 4,461	$ 5,504
Sales and marketing	2,186	2,338
General and administrative	2,829	3,264
Total consolidated operating expenses	$ 9,476	$ 11,106
Consolidated loss from operations	$ (2,678)	$ (5,902)
Depreciation and amortization by segment:		
Enterprise/Commercial	$ 145	$ 161
Enterprise/State	-	9
Medicare	641	644
Private Exchange	287	234
Corporate	46	137
Consolidated depreciation and amortization	$ 1,119	$ 1,185

* * * * * *

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Except for the historical financial information contained herein, the matters discussed in this Quarterly Report on Form 10-Q (as well as documents incorporated herein by reference) may be considered "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding our future financial position, business strategy and plans and objectives of management for future operations. When used in this Quarterly Report, the words "believe," "may," "could," "will," "estimate," "continue," "intend," "expect," "anticipate," "plan," "project" and similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report, and in particular, the risks discussed under "Risk Factors" in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2016. Except as required by law, we do not intend to update these forward-looking statements publicly or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report and in the documents incorporated in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on such forward-looking statements.

Overview

We are a leading web-based consumer shopping, enrollment and retention platform for health insurance distribution. Our solutions offer a personalized health insurance shopping experience that recommends the best fit insurance plan based on an individual's preferences, health status, preferred providers, medications and expected out-of-pocket costs. Our customers are payers, brokers, government agencies, and web-based insurance marketplace operators, who distribute health and ancillary insurance. Our solutions automate key functions in the insurance distribution process, allowing our customers to price and present plan options accurately to consumers and efficiently enroll, renew and manage plan members.

We primarily serve three separate but related market segments: Enterprise/Commercial, Medicare and Private Exchange. Our largest market segment is the Enterprise/Commercial market, in which we sell our solutions to health plans. Our Medicare segment sells web-based Medicare plan comparison and enrollment tools to a variety of different customers, including health plans, pharmacy benefit managers, or PBMs, pharmacies, field marketing organizations, or FMOs, and call centers. Lastly, our Private Exchange segment sells comprehensive defined-contribution benefit exchange solutions to benefit consultants, brokers, exchange operators and aggregators. We believe our presence in these markets and resulting access to such a broad and diverse customer base gives us a strong position at the center of the health insurance distribution marketplace. We also serve a fourth, and increasingly shrinking, market through our Enterprise/State segment. Our Enterprise/State segment, which has sold our sales automation solutions to state governments, allows our state governments to offer customized individual and small group exchanges. Due to the limited market opportunities, we have continued to reduce our focus and dependency on this segment.

We sell our web-based solutions and related services primarily through our direct sales force. We derive most of our revenue from software services fees, which primarily consist of monthly subscription fees paid to us for access to, usage and hosting of our web-based insurance distribution software solutions, and related production support services. Software services fees paid to us from our Enterprise/Commercial customers are based on the size of the health plan for a specified period of time, which usually ranges from three to five years, and the number of software modules used. Software services fees paid to us from our Medicare and Private Exchange customers are based on the volume of enrollments for which our software solutions are utilized for a contracted period, which usually ranges from one to three years.

Our Enterprise/State software service and professional services fees have been largely derived from multiple element contracts for non-hosted software solutions and related services for which we do not have vendor specific objective evidence, or VSOE, of relative fair value of the contractual elements. For purposes of presentation in management's discussion and analysis, management classifies a portion of the overall arrangement fee as software services and professional services based on an evaluation of various available indicators of fair value, including relative contract value of the software and professional services elements to total contractual value, and applies judgment to reasonably classify the arrangement fee. Our classification of multiple element arrangement fees is for management's discussion and analysis purposes only and does not affect the timing or amount of revenue recognized.

Another component of our revenue is professional services, which we primarily derive from the implementation of our customers onto our platform, and typically include discovery, configuration and deployment, integration, testing and training. In general, it takes from six to fifteen months to implement a new Enterprise/Commercial or Enterprise/State customer's insurance distribution solution, and from one to three months to implement a new Medicare or Private Exchange insurance distribution solution.

We also derive a small portion of our revenue from commissions earned on annual member enrollments in which our health plan network and software solutions are used in connection with each enrollment.

Management is focused on risks that could have an adverse impact on our operations and our key financial and operating performance metrics, as described below, and takes actions to mitigate those risks. In our Enterprise/Commercial segment, for example, while fluctuations in bookings are not uncommon given the sales cycle for product and services in that segment, management routinely assesses staffing levels required to support contracted business volume and adjusts staffing levels accordingly. As part of its ongoing assessment of our software capabilities, management also considers industry trends, such as consumers' increased reliance on mobile devices, to determine where to allocate research and development funding. One of our overall strategic initiatives is to continue to increase the percentage of software services revenue (and reduce professional services revenue as a percentage of total revenue) as we believe this will have a positive impact on overall gross margins in the future.

Results of Operations

Condensed Consolidated Statements of Operations Data

The following table sets forth our condensed consolidated statements of operations data for each of the periods indicated:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
	(dollars in thousands, except share and per share amounts)	
Revenue	$ 18,272	$ 17,557
Cost of Revenue (1)	11,474	12,353
Gross Margin	6,798	5,204
Operating Expenses:		
Research and Development (1)	4,461	5,504
Sales and Marketing (1)	2,186	2,338
General and Administrative (1)	2,829	3,264
Total Operating Expenses	9,476	11,106
Loss from Operations	(2,678)	(5,902)
Other Expenses:		
Interest Expense	723	1,409
Other Expense, net	299	-
Loss before Income Taxes	(3,700)	(7,311)
Income Tax Provision	-	(25)
Net Loss	$ (3,700)	$ (7,336)
Net loss per common share - basic and diluted	$ (0.22)	$ (0.33)
Weighted Average Common Shares Outstanding - basic and diluted	22,570,207	22,112,273
Other Financial Data:		
Adjusted gross margin	7,913	6,307
Adjusted EBITDA	(1,070)	(3,905)

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

	Three Months Ended March 31,	
	2017	2016
	(dollars in thousands)	
Cost of Revenue	$ 129	$ 162
Research and Development	49	187
Sales and Marketing	40	116
General and Administrative	271	347

Key Financial and Operating Performance Metrics

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

Contracted Backlog

We believe the balance of contracted future billings, or Contracted Backlog, is an important indicator of the economic health of our business, as it provides an important source of visibility into our future sources of revenue.

We have generally signed multiple-year subscription contracts for our software services. The timing of our invoices to our customers is a negotiated term and thus varies among our software contracts. For multiple-year agreements, it is common to invoice an initial amount at contract signing for implementation work that is deferred, followed by subsequent annual, quarterly or monthly invoices once we launch a customer, which is when our software solution is usable by the customer. At any point in the contract term, there may be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements and are considered by us to be Contracted Backlog. We define Contracted Backlog as the fixed amount of our customer agreements that we have not yet billed, which was approximately $90.6 million and $86.7 million as of March 31, 2017 and December 31, 2016, respectively.

Our customer contracts are generally only cancellable by the customer in an instance of our uncured breach, although some of our customers (including government customers) are able to terminate their respective contracts without cause or for convenience. Of our top 20 customers by 2016 revenue, the customers that can terminate their contract for convenience upon written notice represented $32.6 million, or 36.0% of our Contracted Backlog balance as of March 31, 2017, of which one Medicare segment customer represents approximately $9.8 million, or 10.8%, of our Contracted Backlog balance due to the recent renewal of a multiple year contract.

We fulfill a portion of the Contracted Backlog associated with a customer contract when the customer implementation process is complete. Our implementation timelines can vary between one and 15 months based on the type of solution, source and condition of the data we receive from third parties, the configurations that we agree to provide and the size of the customer. As a result, our implementation timelines are subject to significant uncertainties, which can have a material impact on our total Contracted Backlog and Contracted Backlog that we fulfill in the current year. Based on our current implementation forecasts, we expect to fulfill our total Contracted Backlog as of March 31, 2017 over the following years:

Year ending December 31	Millions of Dollars
Remainder of 2017	$ 37.8
2018	24.7
2019	13.6
2020	13.1
Thereafter	1.4
TOTAL	$ 90.6

We expect that the amount of our Contracted Backlog relative to the total value of our contracts will change from period to period for several reasons, including the amount of cash collected early in the contract term, the specific timing and duration of large customer contracts, varying invoicing cycles of customer contracts, potential customer upsells dependent on our customer contracts, the specific timing of customer renewal and changes in customer financial circumstances. Our Contracted Backlog does not reflect any estimated variable usage fees. Accordingly, we believe that fluctuations in our Contracted Backlog may not be a reliable indicator of our future revenue beyond one year.

Software Revenue Retention Rate

We believe that our ability to retain our customers and expand the revenue we generate from them over time is an important component of our growth strategy and reflects the long-term value of our customer relationships. We measure our performance on this basis using a metric we refer to as our Software Revenue Retention Rate. We calculate this metric for a particular period by establishing the group of our customers that had active contracts for a given period (excluding our Enterprise/State customers, of which there was one customer as of March 31, 2017 and 2016). We then calculate our Software Revenue Retention Rate by taking the amount of software revenue we recognized for this group in the subsequent comparable period (for which we are reporting the rate) and dividing it by the software revenue we recognized for the group in the prior period. For the trailing twelve months ended March 31, 2017 and 2016, our Software Revenue Retention Rate was greater than 91%.

Adjusted Gross Margin and Adjusted EBITDA

Within this Quarterly Report on Form 10-Q, we use adjusted gross margin and adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, to provide investors with additional information regarding our financial results. Adjusted gross margin and adjusted EBITDA are non-GAAP (Generally Accepted Accounting Principles) financial measures. We have provided below reconciliations of these measures to the most directly comparable GAAP financial measures, which for adjusted gross margin is gross margin, and for adjusted EBITDA is net loss.

We have included adjusted gross margin and adjusted EBITDA in this filing because they are key measures used by our management and Board of Directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short- and long-term operational plans. We believe the exclusion of non-cash charges such as depreciation, amortization and stock-based compensation from adjusted EBITDA and adjusted gross margin allows us to have insight into the core operating performance of our business. The amount of such expenses in any specific period may not directly correlate with the underlying performance of our business operations during the period and such expenses can vary significantly between periods. The use of adjusted EBITDA and adjusted gross margin provides consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations that could otherwise be masked by the effect of the expenses that we exclude from these non-GAAP financial measures and facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. Additionally, securities analysts use a measure similar to adjusted EBITDA and adjusted gross margin as supplemental measures to evaluate the overall operating performance and comparison of companies, and we anticipate that our investor and analyst presentations will continue to include these measures. Accordingly, we believe that adjusted gross margin and adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results.

Our use of adjusted gross margin and adjusted EBITDA as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are:

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

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

	Three Months Ended March 31,	
	2017	2016
	(dollars in thousands)	
Reconciliation from Gross Margin to Adjusted Gross Margin		
Gross Margin	$ 6,798	$ 5,204
Depreciation and amortization	986	941
Stock-based compensation expense	129	162
Adjusted Gross Margin	$ 7,913	$ 6,307
Reconciliation from Net Loss to Adjusted EBITDA		
Net Loss	$ (3,700)	$ (7,336)
Depreciation and amortization	1,119	1,185
Interest expense	723	1,409
Other expense, net	299	-
Income tax provision	-	25
Stock-based compensation expense	489	812
Total Net Adjustments	$ 2,630	$ 3,431
Adjusted EBITDA	$ (1,070)	$ (3,905)

Comparison of Three Months Ended March 31, 2017 and 2016

Revenue

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Revenue by Type:						
Software services	$ 14,464	79.2%	$ 12,916	73.6%	$ 1,548	12.0%
Professional services	3,418	18.7%	4,514	25.7%	(1,096)	(24.3%)
Other	390	2.1%	127	0.7%	263	207.1%
Total revenue	$ 18,272	100.0%	$ 17,557	100.0%	$ 715	4.1%

The increase in software services revenue was primarily attributable to a $1.4 million increase in revenue from our Medicare software solutions, as well as a $0.5 million increase from new Private Exchange customers, which included $0.2 million of revenue in the three months ended March 31, 2017 from software solutions acquired in our June 2016 acquisition of ConnectedHealth. These increases were partially offset by a $0.4 million reduction in revenue from Enterprise/Commercial software solutions. The decrease in professional services revenue was across all segments except Enterprise/State, and was primarily attributable to decreases in the recognition of previously deferred revenue related to pre-2016 software implementations where the customer made a renewal decision in the last twelve months and renewed without incurring similar upfront implementation professional services or did not renew.

Segment Revenue

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Revenue by Segment:						
Enterprise/Commercial	$ 9,179	50.3%	$ 10,409	59.3%	$ (1,230)	(11.8%)
Enterprise/State	781	4.3%	781	4.4%	-	0.0%
Medicare	5,730	31.4%	4,450	25.3%	1,280	28.8%
Private Exchange	2,582	14.0%	1,917	11.0%	665	34.7%
Total Revenue	$ 18,272	100.0%	$ 17,557	100.0%	$ 715	4.1%

The decrease in our Enterprise/Commercial revenue was primarily attributable to a $0.4 million decrease in software services and a $0.8 million decrease in the recognition of previously deferred revenue related to pre-2016 software implementations where the customer made a renewal decision in the last twelve months and either renewed without incurring similar upfront implementation professional services or did not renew.

The growth in revenue in each of our Medicare and Private Exchange segments was primarily attributable to an increase in software services revenue in each segment, driven by an increase in the number of health plans and broker customers using our software solutions, including our therapeutic alternatives engagement solution, Drug Compare. The increase in revenue in our Private Exchange segment included $0.4 million of revenue in the three months ended March 31, 2017 from customers on software solutions acquired in our June 2016 acquisition of ConnectedHealth, LLC.

Our Enterprise/State revenue remained consistent year-over-year, as we have one remaining customer whose current contract expires in 2017.

Cost of Revenue

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Cost of Revenue	$ 11,474	62.8%	$ 12,353	70.4%	$ (879)	(7.1%)

The decrease in cost of revenue was primarily attributable to a $1.2 million decrease in personnel-related and contractor costs supporting implemented solutions and a $0.3 million decrease in the recognition of previously deferred software implementation costs, partially offset by a $0.6 million increase in facility, third-party hosting and commissions incurred to support current and anticipated customer growth, particularly in our Private Exchange segment, which includes costs to support the software solutions acquired in our June 2016 acquisition of ConnectedHealth, LLC.

Segment Gross Margins

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Segment Gross Margin:						
Enterprise/Commercial	$ 2,382	26.0%	$ 1,914	18.4%	$ 468	24.5%
Enterprise/State	463	59.3%	188	24.1%	275	146.3%
Medicare	3,976	69.4%	2,825	63.5%	1,151	40.7%
Private Exchange	(23)	(0.9%)	277	14.4%	(300)	(108.3%)
Total Gross Margin	$ 6,798	37.2%	$ 5,204	29.6%	$ 1,594	30.6%

The increase in Enterprise/Commercial gross margin was driven primarily by a $1.7 million decrease in cost of revenue attributed to improved alignment and operating leverage of delivery costs, along with the absence in the three months ended March 31, 2017 of higher-than-expected support costs incurred in the comparative three months ended March 31, 2016 for certain Enterprise/Commercial customers that were implemented on new software solutions in the fourth quarter of 2015, partially offset by the $1.2 million decrease in revenue previously discussed.

The increase in Enterprise/State gross margin was driven primarily by a decrease in cost of revenue attributable to reductions in personnel related costs, as a result of the anticipated wind down of this segment due to the existence of one remaining customer.

The increase in Medicare gross margin was attributed to a $1.3 million increase in revenue primarily related to an increase in the number of health plans and broker customers using our platform, partially offset by a $0.1 million increase in cost of revenue primarily related to personnel related costs to support the increased customers.

The decrease in Private Exchange gross margin was driven primarily by a $1.0 million increase in cost of revenue, partially offset by a $0.7 million increase in revenue. The increase in cost of revenue was primarily attributable to an increase in our cost structure to support current and expected customer growth in the segment. The increase in revenue was primarily attributable to an increase in the number of customers using our software solutions, including $0.4 million from customers on software solutions acquired in our June 2016 acquisition of ConnectedHealth LLC.

Research and Development

	Three Months Ended March 31,					
	2017		2016		Period-to-Period Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
			(dollars in thousands)			
Research and Development	$ 4,461	24.4%	$ 5,504	31.3%	$ (1,043)	(18.9%)

The decrease in research and development expense was primarily attributable to a decrease in personnel-related costs as compared to the three months ended March 31, 2016 from workforce rationalization and optimization efforts in late 2016.

While we expect to continue our research and development investment in new software solutions and functionality, we believe such expense will decline over time to our long-term target of under twenty percent of annual revenue.

Sales and Marketing

	Three Months Ended March 31,					
	2017		2016		Period-to-Period Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
			(dollars in thousands)			
Sales and Marketing	$ 2,186	12.0%	$ 2,338	13.3%	$ (152)	(6.5%)

The decrease in sales and marketing expense was primarily attributable to a reduction in personnel-related costs, inclusive of share-based compensation.

General and Administrative

	Three Months Ended March 31,					
	2017		2016		Period-to-Period Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
			(dollars in thousands)			
General and Administrative	$ 2,829	15.5%	$ 3,264	18.6%	$ (435)	(13.3%)

The decrease in general and administrative expense was primarily attributable to a $0.2 million decrease in personnel costs, inclusive of a reduction in share-based and incentive compensation, a $0.1 million decrease in professional fees, and a $0.1 million decrease in amortization resulting from the full amortization of a covenant not to compete from our January 2013 DRX acquisition.

Interest Expense

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Interest Expense	$ 723	4.0%	$ 1,409	8.0%	$ (686)	(48.7%)

The decrease in interest expense was primarily attributable to a lower average debt balance during the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. The decrease in our interest expense is primarily attributable to our efforts to increase our balance sheet liquidity through our May 2, 2016 $52.0 million preferred stock offering and repayment of $30.0 million of subordinated notes.

Other Expense, Net

	Three Months Ended March 31,				Period-to-Period Change	
	2017		2016			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Other expense, net	$ 299	1.6%	$ -	*	$ 299	*

* Not meaningful

The increase in other expense, net was primarily attributed recognition of previously deferred financing costs triggered by the March 10, 2017 senior credit facility amendment.

Liquidity and Capital Resources

Sources of Liquidity

Our primary need for liquidity is to fund anticipated net operating losses, working capital requirements, capital expenditures and for general corporate purposes, including to develop new technologies, make investments in or acquisitions of other businesses, solutions or technologies, and to repay portions of outstanding borrowings and interest on such borrowings. We have funded our operations primarily through cash from operating activities, debt borrowings, and the issuance of common and convertible preferred stock. As of March 31, 2017, we had cash and cash equivalents of $12.9 million.

For the years ended December 31, 2016 and 2015 our net losses from operations were $20.9 million and $1.5 million, respectively, and cash used in operations was $24.5 million and $16.2 million, respectively. Additionally, for the three months ended March 31, 2017 our net loss from operations and our cash used in operations was $2.7 million and $10.1 million, respectively.

In light of our financial results, we have taken a number of actions to improve our cash flows in order to support our operations and meet our obligations, including the following:

- We have put a greater focus on our overall profitability and aligning our cost structure with revenue and customer billings. We reduced our headcount to 356 at March 31, 2017, compared to 411 at December 31, 2015. We also consolidated the procurement of outside contract labor resources to reduce our cost of delivery;
- In addition, on May 2, 2016, we issued and sold the newly created Series A Preferred Stock for an aggregate purchase price of $52.0 million. Net of transaction costs, we received cash of approximately $49.3 million, of which we used approximately $30.6 million to subsequently repay the principal balance, accrued interest, loan termination and professional fees associated with the THL Note;
- On June 8, 2016, we amended our existing senior credit facility, resulting in the extension of the facility to June 8,

2021 from January 18, 2018 and increased the term loan funding to $35.0 million from approximately $20.0 million;

- On January 1, 2017, we hired a new Chief Financial Officer to bring additional financial and operational experience to our company. Under our new Chief Financial Officer's leadership, we have continued to evaluate and reduce headcount and eliminate certain other expenditures to better align resources with the 2017 operating plan. Between the cost reduction actions taken in 2016 and those planned in 2017, we expect to decrease our total cost structure and reduce the cash used in operations by at least $15.0 million from 2016 levels. In addition, we have also taken steps to evaluate and improve the pricing of our software solutions and services. We believe that, collectively, these steps are necessary to improve our future financial performance;

- On March 10, 2017, we completed the issuance of a newly created Series B Preferred Stock for an aggregate purchase price of $17.5 million. Net of transaction costs, we received cash of approximately $16.8 million, of which we used approximately $0.6 million to repay our outstanding revolving line of credit balance, with the remainder of the net proceeds available for general corporate purposes; and

- On March 10, 2017, we amended our senior credit facility to, among other things, (i) defer scheduled Senior Term Loan principal repayments until March 31, 2018, and (ii) revise the EBITDA and Minimum Liquidity covenants. The deferral of the principal repayments provides approximately $2.5 million of additional liquidity through December 31, 2017.

Our historical operating results indicate conditions exist that raise uncertainty related to our ability to continue as a going concern. As discussed above, we have taken certain actions to mitigate the uncertainty raised by our historical operating results. However, our senior credit facility contains a minimum liquidity covenant of $1.5 million at all times through March 31, 2018, increasing to $15.0 million at all times from April 1, 2018 forward. At this time, we project that we will comply with the minimum liquidity covenant through March 31, 2018, but do not anticipate that we will achieve compliance beyond March 31, 2018.

Accordingly, while we expect to have sufficient liquidity to meet obligations as they come due through March 31, 2018, if we are unable to meet or amend the senior credit facility covenants as outlined in our March 10, 2017 amendment, or if we cannot generate sufficient additional liquidity through the mechanisms described above or through additional support from our investor base or some combination of other actions, all of our scheduled senior indebtedness of approximately $32.0 million at March 31, 2018, would become immediately payable. These conditions currently result in the substantial doubt about our ability to continue as a going concern for the twelve-month period following issuance of these March 31, 2017 financial statements.

Refer to Notes 3, 8, and 9 of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for further detail.

Senior Credit Facility

We have a bank credit facility (the "Credit Facility") that provides for short-term working capital and long-term investment needs.

On June 8, 2016, the Credit Facility was amended and restated (the "Amended Credit Facility"), to (i) extend the maturity date to June 8, 2021 from January 18, 2018, (ii) continue the revolving credit, or the Senior Revolving Credit Facility, through the maturity date, and (iii) increase the term loans, or Senior Term Loans, funding to $35.0 million from approximately $20.0 million at June 8, 2016.

On March 10, 2017, we amended the Amended Credit Facility (the "March 2017 Amendment"), to, among other things (i) defer scheduled Senior Term Loan principal repayments until March 31, 2018, at which time quarterly principal repayments of $1.3 million will resume through March 31, 2021; (ii) replace the existing covenants with (a) a trailing twelve month EBITDA covenant of negative $12.0 million as of December 31, 2016 and a quarterly building EBITDA covenant through December 31, 2017, and a trailing twelve month EBITDA covenant from March 31, 2018 forward, each as defined in the March 2017 Amendment, and (b) a minimum liquidity requirement of $1.5 million at all times from March 1, 2017 through March 31, 2018, and $15.0 million thereafter; and (iii) provide for an incremental 2.50% per annum paid-in-kind interest on all obligations from March 10, 2017 through the maturity date, which will increase the outstanding principal balance of the Senior Term Loan. Following the March 2017 Amendment the Amended Credit Facility provides for up to $0.5 million of revolving credit through the maturity date of the Amended Credit Facility.

The quarterly building EBITDA covenant, as defined in the March 2017 Amendment, requires that we achieve at least negative $4.0 million EBITDA for the quarter ended March 31, 2017, negative $8.0 million for six months ended June 30, 2017, negative $7.3 million for the nine months ended September 30, 2017 and negative $3.0 million for twelve months ended December 31, 2017 and

March 31, 2018, respectively. As of March 31, 2017, we were in compliance with the financial covenants under the Amended Credit Facility, as amended on March 10, 2017.

Subordinated Loans

The following table summarizes the principal balances of our outstanding borrowings as of March 31, 2017:

	Outstanding Principal Balance (in thousands)
Credit Facility: Revolving line of credit	$ —
Credit Facility: Term loans	31,991
	$ 31,991

Cash Flows

Our cash flows were as follows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net cash flows (used in) provided by:		
Operating activities	$ (10,138)	$ (5,437)
Investing activities	(78)	(49)
Financing activities	16,928	269
Net increase (decrease) in cash and cash equivalents	$ 6,712	$ (5,217)

Operating Activities

For the three months ended March 31, 2017, our net cash and cash equivalents used in operating activities of $10.1 million consisted of a net loss of $3.7 million and $7.7 million of cash used by changes in working capital, partially offset by $1.3 million in adjustments for non-cash and other items. The cash used by changes in working capital primarily consisted of a decrease in deferred revenue of $5.0 million, a $1.4 million decrease in accounts payable, a $0.7 million increase in deferred implementation costs, and a $0.7 million decrease in accrued expenses and other liabilities. The decrease in deferred revenue was primarily a result of contracts closed during prior periods with associated upfront cash fees, on which we are currently recognizing revenue as the contractual obligations are complete and software service usage periods have begun. The increase in deferred implementation costs was primarily the result of several implementation projects, primarily in the Enterprise/Commercial and Private Exchange segments, offset by amortization of previously deferred implementation costs for completed projects, which we are currently recognizing with revenue as the contractual obligations are complete and the software service usage periods have begun. The decrease in accounts payable reflects timing of payments to certain vendors.

For the three months ended March 31, 2016, our net cash and cash equivalents used in operating activities of $5.4 million consisted of a net loss of $7.3 million and $0.2 million of cash used by changes in working capital, partially offset by $2.1 million in adjustments for non-cash items. The cash used by changes in working capital primarily consisted of a decrease in deferred revenue of $5.7 million, partially offset by a $5.0 million decrease in accounts receivable and a $1.1 million increase in accounts payable. The decrease in deferred revenue was primarily a result of contracts closed during prior periods with associated upfront cash fees, on which we are currently recognizing revenue as the contractual obligations are complete and software service usage periods have begun. For the three months ended March 31, 2016, we received less cash from upfront implementation services billings than in prior periods, which is largely attributed to a reduction in the amount of ongoing Enterprise/Commercial segment implementation efforts and having one remaining Enterprise/State customer as of March 31, 2016. The decrease in accounts receivable was primarily attributable to collections of our typically higher fourth quarter billings associated with insurance plan annual enrollment periods.

Generally, a substantial amount of revenue in any given period comes from the recognition of previously collected and deferred revenue, while period-end accounts receivable balances are directly influenced by the timing of contractually negotiated milestone and time-based advance billings and their subsequent collection. We generally have the contractual right to invoice and collect fees from customers ahead of delivery and revenue recognition of our software and professional services.

Investing Activities

For the three months ended March 31, 2017, net cash used in investing activities was $0.1 million and consisted of $0.2 million of purchases of property and equipment, partially offset by $0.1 million of cash received for a working capital adjustment from the acquisition of ConnectedHealth, LLC.

For the three months ended March 31, 2016, net cash used in investing activities was less than $0.1 million and consisted of the purchase of property and equipment.

Financing Activities

For the three months ended March 31, 2017, net cash provided by financing activities was $16.9 million, consisting primarily of $16.9 million net proceeds from our March 10, 2017 preferred stock offering.

For the three months ended March 31, 2016, net cash provided by financing activities was $0.3 million, consisting of $1.0 million of borrowings under our revolving line of credit and $0.1 million of proceeds from the exercise of stock options, partially offset by $0.8 million of repayments of debt.

Quarterly Trends and Seasonality

Our overall operating results fluctuate from quarter to quarter as a result of a variety of factors, some of which are out of our control. These fluctuations are primarily driven by an increase in the third and fourth quarters in activity at our customers in preparation for and during the annual insurance enrollment cycle, which occurs annually during our fourth quarter. Our historical results should not be considered a reliable indicator of our future results of operations.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under our outstanding debt facilities, non-cancelable leases for our office space and computer equipment and purchase commitments for our co-location and other support services. There have been no material changes to these contractual obligations since reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Off-Balance Sheet Arrangements

As of March 31, 2017, we had a standby letter of credit totaling $0.2 million as security for rented office space.

Critical Accounting Policies and Significant Judgments and Estimates

During the three months ended March 31, 2017, there were no significant changes to our critical accounting policies and significant judgments and estimates since reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Recent Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements for information on new accounting standards.

JOBS Act

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As defined in the JOBS Act, a public company whose initial public offering of common equity securities occurred after December 8, 2011 and whose annual gross revenue is less than $1.0 billion will, in general, qualify as an “emerging growth company” until the earliest of:

- the last day of its fiscal year following the fifth anniversary of the date of its initial public offering of common equity securities;
- the last day of its fiscal year in which it has annual gross revenue of $1.0 billion or more;
- the date on which it has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; and
- the date on which it is deemed to be a “large accelerated filer,” which will occur at such time as the company (a) has an aggregate worldwide market value of common equity securities held by non-affiliates of $700 million or more as of the last business day of its most recently completed second fiscal quarter, (b) has been required to file annual and quarterly

reports under the Securities Exchange Act of 1934 for a period of at least 12 months and (c) has filed at least one annual report pursuant to the Securities Act of 1934.

Under this definition, we are an "emerging growth company" and could remain an emerging growth company until as late as December 31, 2019.

As an emerging growth company we have chosen to rely on such exemptions and are therefore not required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation.

Controlled Company Explanatory Note

We qualify, and have elected to be treated, as a "controlled company" within the meaning of The Nasdaq Stock Market ("Nasdaq") listing rules, and thus, we are exempt from the following Nasdaq listing requirements:

- the requirement that a majority of our board consist of independent directors;
- the requirement that director nominees be selected, or recommended for the board's selection, either by independent directors constituting a majority of the board's independent directors in a vote in which only independent directors participate, or by a nominating committee comprised solely of independent directors; and
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purposes and responsibilities.

Consistent with these exemptions, we may in the future choose not to have a majority of independent directors and not to have a compensation committee or nominating and corporate governance committee consisting entirely of independent directors. For example, our compensation committee is not currently composed entirely of independent directors. Accordingly, our investors may not have the same protections afforded to shareholders of companies that are subject to all of Nasdaq's corporate governance requirements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

We are exposed to market risk related to changes in interest rates. Borrowings under the term loan and revolving line of credit with Wells Fargo Bank, which was amended and restated in June 2016, bear interest at rates that are variable. Increases in the LIBOR or Prime Rate would increase the amount of interest payable under these borrowings. As of March 31, 2017, we had total borrowings of $32.0 million subject to a variable interest rate. As a result, each change of one percentage point in interest rates would result in an approximate $0.3 million change in our annual interest expense on our outstanding borrowings as of March 31, 2017. Any debt we incur in the future may also bear interest at variable rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2017, which were identified in connection with management's evaluation required by Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II
OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising in the ordinary course of business. Management believes that there are no claims or actions pending or threatened against the Company, the ultimate disposition of which would have a material impact on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our business, prospects, financial condition or operating results could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that are currently considered immaterial. The trading price of our common stock could decline due to any of the risks and uncertainties described below, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes.

Risks Related to Our Business

We have a history of losses and we may be unable to achieve or sustain profitability.

We experienced net losses of $26.5 million and $7.3 million in 2016 and 2015, respectively. Additionally, for the three months ended March 31, 2017, our net loss was $3.7 million. We cannot predict if we will achieve profitability in the near future or at all. We expect to make significant future expenditures to develop and expand our business. Our prior growth in revenue may not return or be sustainable, and we might not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including the other risks described in this Quarterly Report on Form 10-Q, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability, and we may incur significant losses for the foreseeable future. Information on our going concern and management's plan to continue to support its operations and meet its obligations is included in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The market for health insurance exchanges in the United States is relatively undeveloped, rapidly evolving and volatile, which makes it difficult to forecast adoption rates and demand for our solutions. If the market does not develop or develops more slowly than we expect, or if individuals, brokers or health plans select more traditional or alternative channels for the purchase and sale of health insurance, it could have a material adverse effect on our business and results of operations.

The market for health insurance exchanges in the United States is relatively undeveloped, rapidly evolving and volatile. Accordingly, our future financial performance will depend in part on growth in this market and on our ability to adapt to emerging demands and trends in this market. Demand for our exchange solutions has been driven in large part by recent regulatory changes, broader use of the Internet, shifts from group plans to the purchase of individual plans and advances in technology. It is difficult to predict, with any precision, adoption rates or the future growth rate and size of our target market. The market for health insurance sales automation software is relatively new and unproven, and it is uncertain whether it will achieve and sustain high levels of demand and market acceptance. The volatility and rapidly evolving nature of the market in which we operate, as well as other factors that are beyond our control, reduces our ability to accurately evaluate our long-term outlook and forecast annual performance.

Additionally, our success depends in part upon widespread individual and health plan acceptance of the Internet as a shopping platform and marketplace for the purchase and sale of health insurance. Individuals, employers, employees and health plans may choose to depend on more traditional sources, such as individual agents, or alternative sources may develop, including as a result of significant reforms to healthcare legislation through the Patient Protection and Affordable Care Act, or PPACA, and the Healthcare and Education Reconciliation Act of 2010, or HCERA, or any potential successors to or modifications of PPACA that may be enacted.

A reduction or slowdown in demand for health insurance exchanges caused by shifts in the marketplace, lack of acceptance, technological challenges, and competing solutions, or as a result of individuals, brokers, or health plans determining that other distribution channels for health insurance are superior to ours, would have a material adverse effect on our business, future growth, results of operations and financial condition.

Our history of incurring substantial levels of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting obligations on our indebtedness.

We have a history of incurring substantial amounts of indebtedness. As of March 31, 2017, our total indebtedness was $32.0 million. Our indebtedness, combined with our other existing and any future financial obligations and contractual commitments, including the requirement that the holders of our outstanding Series B Convertible Preferred Stock (the “Series B Preferred Stock”) consent before we incur any additional indebtedness outside of the ordinary course of business, could have important adverse consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including making interest payments on our debt obligations, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the agreements governing such indebtedness causing all of our scheduled senior indebtedness to become immediately payable;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, selling and marketing efforts, research and development and other purposes;
- cause us to incur substantial fees from time to time in connection with debt amendments or refinancing;
- increase our exposure to rising interest rates because a portion of our borrowings is at variable interest rates;
- place us at a disadvantage compared to our competitors that have less debt;
- limit our ability to pursue acquisitions;
- limit our flexibility in planning for, or reacting to, changes in our business and the health insurance industry;
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, selling and marketing efforts, research and development and other corporate purposes; and
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have relatively less indebtedness.

See the section titled “Liquidity and Capital Resources—Senior Credit Facility” for a description of our bank credit facility.

We may need additional capital in the future, which may not be available to us on favorable terms, or at all, and may dilute the ownership of our common stock.

We intend to continue to make investments to support our business growth strategy and might require additional funds to respond to business challenges or opportunities, including the need to develop new products and services or enhance our existing services, enhance our operating infrastructure, and acquire complementary businesses and technologies. Accordingly, we might need to engage in equity or debt financings to secure additional funds. Our ability to raise additional capital may be impaired by the requirement that the holders of our Series A Convertible Preferred Stock (the “Series A Preferred Stock”) and the holders of our Series B Preferred Stock consent to the issuance of senior equity and that the holders of our Series B Preferred Stock consent to the incurrence of additional indebtedness outside of the ordinary course of business. If we raise additional funds through new issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we might not be able to obtain additional financing on terms favorable to us, if at all. Similarly, upon the occurrence of certain fundamental events, the holders of our Series A Preferred Stock and our Series B Preferred Stock (which we refer to collectively as our “Preferred Stock”) will have the right to require us to repurchase any or all of our outstanding Series A Preferred Stock and Series B Preferred Stock, respectively. It is possible that we would not have sufficient funds at the time that we are required to make any such purchase of Preferred Stock. We cannot assure the holders of our Preferred Stock that we will have sufficient financial resources, or will be able to arrange financing, to pay the repurchase price in cash with respect to any such Preferred Stock that holders have requested to be repurchased upon the occurrence of such an event. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business and to respond to business challenges could be significantly limited.

If our existing customers do not continue or renew their agreements with us, renew at lower fee levels, decline to license additional software or purchase additional applications and services from us, or if customers with variable usage fees are unable to effectively increase their transaction volumes, it could have a material adverse effect on our business and operating results, including cash flows from operations.

We derive a significant portion of our revenue from renewal of existing customer agreements and sales of additional software and services to existing customers and expect to continue to do so. As a result, achieving a high renewal rate of our customer agreements and selling additional software and services is critical to our future operating results and cash flow.

We generally sell our software and services pursuant to agreements for terms of multiple years. Our customers may choose not to renew these contracts after the initial contract period expires. Additionally, some of our customers are able to terminate their respective contracts without cause or for convenience at any time. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate. Without the continuance or renewal of our customer contracts our business and operating results may suffer.

Factors that may affect the renewal rate for our existing contracts, and our ability to sell additional applications and services, include:

- the price, performance and functionality of our offering;
- the availability, price, performance and functionality of competing solutions;
- our ability to develop complementary applications and services;
- our continued ability to access the pricing and other data necessary to enable us to deliver reliable offerings to customers;
- the stability, performance and security of our hosting infrastructure and hosting services;
- changes in healthcare laws, regulations or trends; and
- the business environment of our customers.

If any of our customers terminate or do not renew their contracts for our services, renew on less favorable terms, or do not purchase additional functionality or software, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

We derive a portion of our revenue from arrangements having variable usage and commission revenue dependent on actual customer usage and consumer enrollments in health and ancillary insurance policies. Our customers may not be successful at maintaining or increasing transaction volumes processed through our web-based software solutions. As a result, we may not be able to achieve desired business and operating results from such variable usage and commission transaction arrangements.

A significant amount of our revenue is derived from a limited number of customers, and any reduction in revenue from any of these customers could have a material adverse effect on our business.

Our ten largest customers by revenue accounted for 52.2% of our consolidated revenue for the year ended December 31, 2016. If any of our key customers decides not to renew its contracts with us, or to renew on less favorable terms, our business, revenue, reputation, and our ability to obtain new customers could be materially and adversely affected. Except for one customer, none of our customers accounted for 10% or more of our revenue in 2016.

Failure to manage our anticipated long-term growth effectively could increase our expenses, decrease our revenue and prevent us from implementing our business strategy.

To manage our anticipated future growth effectively, we must continue to maintain and enhance our information technology infrastructure, financial and accounting systems and controls. We also must attract, train and retain qualified software engineers, technical and management personnel, sales and marketing personnel, customer support personnel and professional services personnel. Failure to effectively manage our growth could lead us to over-invest or under-invest in development and operations, result in weaknesses in our infrastructure, systems or controls, give rise to operational mistakes, losses, loss of productivity or business opportunities and result in loss of employees and reduced productivity of remaining employees. Our anticipated growth could require significant capital expenditures and might divert financial resources from other projects such as the development of new products and services. If our management is unable to effectively manage our anticipated growth, our expenses might increase more than expected, our revenue could decline or might grow more slowly than expected, and we might be unable to implement our business strategy. The quality of our products and services might suffer, which could negatively affect our reputation and harm our ability to retain and attract customers.

We have experienced quarterly fluctuations, and expect to continue to experience quarterly fluctuations, in our operating results, including cash flows from operations, due to a number of factors, including the seasonality of our revenue, the sales and implementation cycles for our products and services, dependence on variable customer usage and marketplace transaction volumes, and other factors, that make our future results difficult to predict and could cause our operating results to fall below expectations.

Our business is subject to seasonal fluctuations and our operating results are traditionally strongest in the fourth quarter of each year as a result of the open enrollment period established by PPACA and other requirements and regulations with respect to the sales and marketing of Medicare plans. Therefore, our stock price might be based on expectations of future performance that we might not meet and, if our revenue or operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

The sales cycle for our products and services can vary from, on average, two to 12 or more months, from initial contact to contract execution, depending on the client and complexity of the solution. After a customer contract is signed, we provide an implementation process for the customer which typically ranges from two to four months for our cloud-based implementations and from three to 15 months for complex enterprise implementations, each from contract execution to completion of implementation. As a result, the period of time between contract signing and recognition of associated revenue may be lengthy, and we are not able to predict with certainty the period in which implementation will be completed.

During the sales and implementation cycles for our enterprise segments, we expend substantial time and effort, and incur significant additional operating expenses, but accounting principles do not allow us to recognize the resulting revenue until implementation is complete and the services are available for use by our customers, at which time we begin recognition of implementation revenue over the life of the contract or the estimated period of customer benefit, whichever is longer. Unanticipated difficulties and delays in implementation might arise as a result of failure by us or our customers to complete one or more of our or their respective responsibilities and, if implementation periods are extended or implementations are cancelled, revenue recognition could be delayed or fail to occur.

Our operating results have varied in the past. In addition to the other risk factors listed in this section, some of the important factors that may cause fluctuations in our quarterly operating results include:

- the timing and amount of cash payments received from the delivery of our software solutions;
- our increasing dependency on marketplace transaction volumes to generate variable usage and commission revenue;
- the extent to which our products and services achieve or maintain market acceptance;
- our ability to introduce new products and services and enhancements to our existing products and services on a timely basis;
- new competitors and the introduction of enhanced products and services from competitors;
- the financial condition of our current and potential customers;
- changes in customer budgets and procurement policies;
- the amount and timing of our investment in research and development activities;
- technical difficulties with our products or interruptions in our services;
- our ability to hire and retain qualified personnel, including our sales force;
- changes in the regulatory environment related to benefits and healthcare;
- regulatory compliance costs;
- the timing, size and ability to successfully integrate potential future acquisitions; and
- unforeseen legal expenses, including litigation and settlement costs.

In addition, a significant portion of our operating expense is relatively fixed in nature, and planned expenditures are based in part on expectations regarding future revenue. Accordingly, unexpected revenue shortfalls might decrease our gross margins and could cause significant changes in our operating results from quarter to quarter. If this occurs, the trading price of our common stock could fall substantially, either suddenly or over time.

We operate in the highly competitive software industry. If we are not able to compete effectively, our business and operating results will be harmed.

The software market is highly competitive and is likely to attract increased competition, which could make it hard for us to succeed. Small, specialized providers continue to become more sophisticated and effective. In addition, large, well-financed, and technologically sophisticated software companies might focus more on our market. The size and financial strength of these entities is increasing as a result of continued consolidation in both the IT and health insurance industries. We expect large integrated software companies to become more active in our market, both through acquisitions and internal investment. As costs fall and technology improves, increased market saturation might change the competitive landscape in favor of our competitors.

Some of our current competitors have greater name recognition, longer operating histories, and significantly greater resources than we do. As a result, our competitors might be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, current and potential competitors have established, and might in the future establish, cooperative relationships with vendors of complementary products, technologies, or services to increase the availability of their products in the marketplace. Accordingly, new competitors or alliances might emerge that have greater market share, a larger customer base, more widely adopted proprietary technologies, greater marketing expertise, greater financial resources and larger sales forces than we have, which could put us at a competitive disadvantage. Further, in light of these advantages, even if our products and services are more effective than those of our competitors, current or potential customers might accept competitive offerings in lieu of purchasing our offerings. Increased competition is likely to result in pricing pressures, which could negatively impact our sales, profitability or market share. In addition to new niche vendors, who offer stand-alone products and services, we face competition from existing enterprise vendors, including those currently focused on software solutions that have information systems in place with potential customers in our target market. These existing enterprise vendors might promise products or services that offer ease of integration with existing systems and which leverage existing vendor relationships. In addition, large health plans often have internal technology staffs and proprietary software for benefits and distribution management, making them less likely to buy our solutions.

If our transition from our current technology platforms to new platforms does not occur rapidly or as efficiently as anticipated, it could have a material adverse effect on our business and results of operations.

We are expanding our software-as-a-service, or SaaS, and other cloud based and hosted offerings, including building new shared capabilities such as consumer shopping and personalization. Our ability to (i) complete that development and (ii) efficiently transition existing enterprise-platform customers to updated components is important to our future operating results. We are also investing in platform delivery improvements that will lower our cost of implementation and configuration and improve competitiveness. Our SaaS business model depends heavily on achieving economies of scale because the initial upfront investment is costly and the associated revenue is recognized on a ratable basis. If we fail to achieve efficient transitions, improvements to our capabilities, appropriate economies of scale or if we fail to manage or anticipate the evolution and demand of the SaaS pricing model, then our business and operating results could be adversely affected.

In the event that our proprietary software does not operate properly, our reputation would suffer, claims would likely be asserted against us, and we would likely be required to divert our resources from other purposes, any of which could have a material adverse effect on our business.

Proprietary software development is time-consuming, expensive and complex. We may experience difficulties with software development, industry standards, design or marketing that could delay or prevent the development, introduction, or implementation of new solutions and enhancements. If our solutions do not function reliably or fail to achieve customer expectations in terms of performance, customers could assert liability claims against us and/or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain customers.

Moreover, software as complex as ours has in the past contained, and may in the future contain, or develop, undetected defects or errors. Material performance problems or defects in our products and services might arise in the future. Errors might result from the interface of our services with legacy systems and data, which we did not develop and the function of which is outside of our control. Defects or errors might arise in our existing or new software or service processes. Because changes in health plan and legal requirements and practices relating to health insurance are frequent, we are continuously discovering defects and errors in our software and service processes compared against these requirements and practices. These defects and errors and any failure by us to identify and address them could result in loss of enrollment by our customers, loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development and other resources, injury to our reputation, and increased service and maintenance costs. Defects or errors in our product or service processes might discourage existing or potential customers from purchasing services from us. Correcting defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability might be substantial and could adversely affect our operating results.

Our customers might assert claims against us in the future alleging that they suffered damages due to a defect, error, or other failure of our product or service processes. A claim could subject us to significant legal defense costs and adverse publicity regardless of the merits or eventual outcome of such claim.

We rely on data center providers, Internet infrastructure, bandwidth providers, third-party computer hardware and software, other third parties, and our own systems for providing services to our customers, and any failure of or interruption in the services provided by these third parties, our own systems or other external events could expose us to litigation and may negatively impact our relationships with customers, adversely affecting our brand and our business.

We currently serve our customers from several data centers and hosting providers in different locations. While we control and have access to our servers, we do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. We may have to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. Problems faced by our third-party data center locations, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their customers, including us, could adversely affect the experience of our customers. Our third-party data centers operators could decide to close their facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy faced by our third-party data centers operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict.

In addition, our ability to deliver our web-based services depends on the development and maintenance of the infrastructure of the Internet by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity and security. Our services are designed to operate without interruption in accordance with our service level commitments, and we have implemented various measures to protect against interruptions of customers' access to our platform. If customers' access is interrupted because of problems in the operation of our facilities, we could be exposed to significant claims by customers. Our plans for disaster recovery and business continuity rely on third-party providers of related services. If those vendors fail us at a time when our systems are not operating correctly, we could incur a loss of revenue and liability for failure to fulfill our obligations. Any significant instances of system downtime could negatively affect our reputation and ability to retain customers and sell our services, which would adversely impact our revenue.

However, we have experienced and expect that we will experience future interruptions and delays in services and availability from time to time. In the event of a catastrophic event with respect to one or more of our systems, we may experience an extended period of system unavailability, which could negatively impact our relationship with customers. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss, telecommunications failure;
- fire, flood, hurricane or natural disasters, civil unrest, war and/or terrorism, and other force majeure events outside our control;
- communications failures;
- software and hardware errors, failures and crashes in or own systems and in other systems;
- security breaches, computer viruses, hacking, denial-of-service attacks and similar disruptive problems; and
- other potential interruptions.

We also rely on purchased or leased computer hardware and software licensed from third parties in order to offer our services. These licenses are generally commercially available on varying terms. However, it is possible that this hardware and software might not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated.

We exercise limited control over third-party vendors, which increases our vulnerability to problems with technology and information services they provide. Interruptions in our network access and services might in connection with third-party technology and information services reduce our revenue, cause us to issue refunds to customers for prepaid and unused subscription services, subject us to potential liability, or adversely affect our renewal rates. Although we maintain insurance for our business, the coverage under our policies might not be adequate to compensate us for all losses that may occur. In addition, we might not be able to continue to obtain adequate insurance coverage at an acceptable cost, if at all.

If our security measures are breached or fail, and unauthorized persons gain access to customers' and consumers' data, our products and services might be perceived as being unsecure, customers and consumers might curtail or stop using our products and services, and we might incur significant liabilities.

Our products and services involve the collection, processing, storage and transmission of customers' and consumers' confidential information, which may include sensitive individually identifiable information that is subject to stringent statutory and regulatory obligations. Because of the sensitivity of this information, security features of our software and applications are very important. From time to time we may detect vulnerabilities in our systems, which, even if they do not result in a security breach, may reduce customer confidence and require substantial resources to address. If our security measures or those of our third-party service providers are breached or fail and/or are bypassed as a result of third-party action, employee error, malfeasance, or otherwise, someone might be able to obtain unauthorized access to our customers' confidential information and/or patient data. As a result, our reputation could be damaged, our business might suffer, and we could face damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation efforts to prevent future occurrences.

In addition, we rely on various third parties, including health plans, brokers and other third-party service providers and consumers themselves, as users of our system, for key activities to protect and promote the security of our systems and the data and information accessible within them, such as enrollment information, consumer status changes and payment. On occasion, certain individuals have failed to perform these activities. For example, authorized users have failed to administer and use the login/password appropriately, which may allow the system to be accessed by unauthorized third parties. When we become aware of such breaches or incidents, we work with our customers to remedy the issue, terminate inappropriate access as necessary, and provide additional instruction in order to avoid the reoccurrence of such problems. Although to date these breaches have not resulted in claims against us or in material harm to our business, failures to perform these activities might result in claims against us, which could expose us to significant expense, legal liability, and harm to our reputation, which might result in loss of business.

Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain, including payment card systems which may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we and our hosting service providers might not be able to detect or prevent these techniques or to implement adequate preventive measures until after the techniques or other attacks have already been launched. If an actual or perceived breach of our security or that of our hosting service providers occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers. In addition, our customers might authorize or enable third parties to access their information and data that is stored on our systems. Because we do not control such access, we cannot ensure the complete integrity or security of such data in our systems.

For a more detailed discussion of the risks associated with a failure by us to comply with any of the federal and state standards regarding patient privacy, identity theft prevention and detection and data security, see the risk factor below under "—Risks Related to Regulation—The healthcare and health insurance industries are heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and negatively affect our business."

If we do not continue to provide innovative products and services, along with high quality support services, that are useful to our customers and consumers of insurance products, we might not remain competitive and our newer solutions may not be adopted by new and existing customers, which would have a material adverse effect on our business and results of operations.

Our success depends in part on our ability to successfully develop and sell innovative products and services that health insurance plans and brokers and their customers will utilize. We must continue to invest significant resources in research and development in order to enhance our existing products and services and introduce new high quality products and services that customers will want. If we are unable to predict preferences of our customers or consumers or industry changes, or if we are unable to modify our products and services on a timely basis, we might lose customers. Our operating results would also suffer if our innovations are not responsive to the needs of our customers, are not appropriately timed with market opportunity, or are not effectively brought to market. As technology continues to develop, our competitors might be able to offer results that are, or that are perceived to be, substantially similar to or better than those generated by us. This would force us to compete on additional product and service attributes and to expend significant resources in order to remain competitive.

Our success also depends on providing high quality support services to resolve any issues related to our products and services. High quality education and customer support are important for the successful marketing and sale of our products and services and for the renewal of existing customers. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to sell additional products and services to existing customers would suffer and our reputation with existing or potential customers would be harmed.

Failure to adequately develop and deploy our direct sales force could impede our results.

We believe that our future performance will depend on the continued development of our direct sales force and its ability to obtain new customers and sell additional products and services to existing customers. Identifying and recruiting qualified personnel and training them in the use of our software requires significant time, expense, and attention. It can take up to nine months or longer before a new sales representative is fully trained and productive. Our business may be adversely affected if our efforts to retain, attract, and train our direct sales force do not generate a corresponding increase in revenue. In particular, if we are unable to develop sufficient numbers of productive direct sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, sales of our products and services will suffer and our growth will be impeded.

Because we recognize revenue and expense relating to delivery of software, transaction fees and professional services over varying periods, downturns or upturns in sales are not immediately reflected in full in our operating results.

We recognize recurring revenue monthly over the term of our contracts and recognize the majority of our professional services revenue ratably over the contract term or the estimated period of customer benefit, whichever is longer. As a result, a portion of the revenue we report each quarter is the recognition of deferred revenue from contracts we entered into during previous quarters. Consequently, a shortfall in demand for our software solutions and professional services or a decline in new or renewed contracts in any one quarter might not significantly reduce our revenue for that quarter, but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new or renewed sales of our products and services is not reflected in full in our results of operations until future periods. Our revenue recognition model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable term of the contracts or the estimated period of customer benefit, whichever is longer. A number of our client arrangements include variable transaction based fees that are dependent on market conditions and our customers' success in using our software services to transact annual insurance enrollments. The amount of revenue from such arrangements largely occurs in the fourth quarter of each calendar year in conjunction with the traditional annual health insurance renewal cycles of our customers. In addition, we recognize professional services expenses as incurred, which could cause professional services gross margin to be negative.

We have recorded a significant amount of goodwill, intangible assets and deferred implementation costs. We may need to record write-downs from future impairments of these assets, which could adversely affect our costs and business operations.

Our consolidated balance sheet includes significant goodwill, intangible assets and deferred implementation costs, including $31.1 million in goodwill, $8.4 million in other intangible assets and $23.9 million of deferred implementation costs, together representing approximately 71.5% of our total assets as of March 31, 2017. The determination of related estimated useful lives and whether these assets are impaired involves significant judgments and our ability to accurately predict future cash flows related to these intangible assets may not be accurate. We test our goodwill for impairment each fiscal year, but we also test goodwill, other intangible assets and deferred implementation costs for impairment at any time when there is a change in circumstances that indicates that the carrying value of these assets may be impaired. Any future determination that these assets are carried at greater than their fair value could result in substantial non-cash impairment charges, which could significantly impact our reported operating results.

Our estimate of the market size for our solutions may prove to be inaccurate, and even if the market size is accurate, we cannot assure you that our business will serve a significant portion of the market.

Our estimate of the market size for our solutions is subject to significant uncertainty and is based on assumptions and estimates, including our internal analysis and industry experience, which may not prove to be accurate. Our ability to serve a significant portion of this estimated market is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, even if our estimate of the market size is accurate, we cannot assure you that our business will serve a significant portion of this estimated market for our solutions.

We might not be able to utilize a significant portion of our net operating loss or other tax credit carryforwards, which could adversely affect our future operating cash flows.

As of March 31, 2017, we had federal and state net operating loss carryforwards due to prior period losses, which if not utilized, will begin to expire in 2020. These carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our future operating cash flows. Likewise, we cannot predict whether any potential tax legislation impacting corporate taxes will be enacted, what the specific terms of any such legislation will be, or whether, if at all, any legislation would have a material adverse effect on our ability to utilize our net operating loss or other tax credit carryforwards, or on corporate taxes, financial condition or results of operation.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, our ability to utilize net operating loss carryforwards or other tax attributes in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their collective ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules might apply under state tax laws. As a result of prior equity issuances and other transactions in our stock, we have experienced "ownership changes" under Section 382 which limit the amount of net operating losses available to us. Future issuances and other transactions in our stock may cause an additional "ownership change." Accordingly, the application of Section 382 could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our future operating cash flows.

As of March 31, 2017, we have recorded a full valuation allowance against net operating loss carryforwards, because we believe it is more likely than not that some portion or all of these deferred tax assets will not be realized.

Our government business relies on working effectively with the prime contractors that hold the contract with the government customers and those contracts being renewed or extended, as applicable. To the extent those relationships are not positively maintained or such contracts, such as our subcontract in connection with the Centers for Medicare and Medicaid Services, or CMS, contract, are not renewed or extended, it could have a material adverse effect on our business.

In our government business to date, we have primarily worked as a subcontractor to prime contractors that contract directly with the federal or state government customer. In the scope of these relationships, we have provided specified components of the applicable government entity's overall request. Based on our risk analysis of multiple factors, including the scope of the government entity's request, the total potential contract value and the terms and conditions of the applicable contract, we have determined that operating in a subcontractor role has been most appropriate for our government business. It may or may not be more beneficial for us to contract directly with the government due to various factors including insurance, risk and liability issues. In order to secure government business, it is important that we identify and market our capabilities to the prime contractor community, participate on joint requests for proposals, and maintain effective working relationships throughout the term of the contract.

In some cases, payment for our software and services is dependent upon the prime contractor getting paid by the government customer. As such, we may not be paid on a timely basis or at all if the prime contractor or other subcontractors have not completed their work.

We use staff contracting firms located internationally or that source their resources from outside the United States to augment our employee base and assist in the development, distribution and delivery of our solutions. Future work with these firms might expose us to risks that could have a material adverse effect on our business.

We use staff contracting firms (both onshore and offshore) to scale up or down based on customer needs, work across various time zones to meet speed to market requirements, and lower our total cost of delivery. For over ten years, we have used staff contracting firms with employees located internationally. Associated risks include:

- operating in international markets requires significant resources and management attention and might subject us to regulatory, economic, and political risks that are different from those in the United States, including data privacy and security considerations;
- ability of our vendor firms to continue to identify and staff local talent that meets our quality and turnaround requirements;
- currency fluctuations which raises the price of offshore labor and does not allow us to obtain cost efficiencies;
- difficulties in working with firms that staff and manage foreign operations;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- adverse tax consequences; and
- unstable regional economic and political conditions.

In addition, our customers may require us to staff projects with only employed or domestically-based staff. That requirement could increase our cost of delivery, which in turn could decrease our competiveness and lower our overall profitability.

Any future litigation against us could be costly and time-consuming to defend and could have a material adverse effect on our business, financial condition and results of operations.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business such as claims brought by our customers in connection with commercial disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, overall financial condition, and operating results. We generally intend to defend ourselves vigorously; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance, which could reduce the trading price of our stock. Additionally, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and adversely impact our ability to attract officers and directors.

We might be unable to adequately protect our intellectual property, and intellectual property claims against us could result in the loss of significant rights. Even if we are successful in enforcing our intellectual property rights, we may incur significant costs in doing so, which could have a material adverse effect on our business.

Our success depends in part upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including trademark, copyright, trade secret and other intellectual property rights, as well as customary contractual protections. Our intellectual property rights extend to our technologies and software applications. We also rely on intellectual property licensed from third parties. Our attempts to protect our intellectual property might be challenged by others or invalidated through administrative process or litigation. To the extent that our intellectual property and other proprietary rights are not adequately protected, third parties might gain access to our proprietary information, develop and market products or services similar to ours, or use trademarks similar to ours, each of which could materially harm our business.

From time to time, third parties have alleged, and may allege in the future that we have violated their intellectual property rights. If we are forced to defend ourselves against intellectual property infringement claims, regardless of the merit or ultimate result of such claims, we may face costly litigation, diversion of technical and management personnel, limitations on our ability to market or provide our products and services. As a result of any such dispute, we may have to:

- develop non-infringing technology;
- pay damages or refund fees;
- enter into or modify royalty or licensing agreements;
- cease providing certain products or services; or
- take other actions to resolve the claims.

Moreover, if we are unable to implement one or more of the remedial actions described above, we may be prevented from continuing to offer, and our customers may be prevented from continuing to use, any of our affected products or services.

The use of open source software in our products and solutions may expose us to additional risks and harm our intellectual property rights.

Some of our products and solutions use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable, and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses to which we are subject have not been interpreted by United States or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our products or solutions, to re-develop our products or solutions, to discontinue sales of our products or solutions, or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs.

While we monitor the use of all open source software in our products, solutions, processes, and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution when we do not wish to do so, it is possible that such use may have inadvertently occurred in deploying our proprietary solutions. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and our business, results of operations, and financial condition.

Our confidentiality arrangements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information, and any such disclosure could have a material adverse effect on our business.

We have devoted substantial resources to the development of our technology, business operations and business plans. In order to protect our trade secrets and proprietary information, we rely in significant part on confidentiality arrangements with our employees, independent contractors, advisers and customers. These arrangements may not be effective to prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we would not be able to assert trade secret rights against such parties. The loss of trade secret protection could make it easier for third parties to compete with our products and services by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could have a material adverse effect on our business.

If we acquire companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value, and adversely affect our operating results and the value of our common stock.

As part of our business strategy, we might acquire, enter into joint ventures with, or make investments in complementary companies, services, and technologies in the future. For example, in 2016, we acquired ConnectedHealth, LLC. Acquisitions and investments involve numerous risks, including:

- difficulties in identifying and acquiring products, technologies or businesses that will help our business;
- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of entering new markets in which we have little to no experience; and
- delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses.

If we fail to properly evaluate acquisitions or investments, we might not achieve the anticipated benefits of any such acquisitions, we might incur costs in excess of what we anticipate, and management resources and attention might be diverted from other necessary or valuable activities, which would have a material adverse effect on our business and results of operations.

Consolidation in the health insurance industry in which our customers operate could cause us to lose customers or could reduce the volume of services purchased by consolidated customers following an acquisition or merger, which could have a material adverse effect on our business.

Consolidation in the health insurance industry has accelerated in recent years, and this trend could continue. We may lose customers due to industry consolidation, and we may not be able to expand sales of our solutions and services to new customers to replace lost customers. In addition, new companies or organizations that result from such consolidation may decide that our solutions are no longer needed because of their own internal processes or the use of alternative solutions. As these entities consolidate, competition to provide solutions and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our solutions. Also, if consolidation of larger current customers occurs, the combined company may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined company's revenue to achieve growth. As a result, industry consolidation or consolidation among current customers or potential customers could adversely affect our business.

We depend on our senior management team and other key employees, and the loss of one or more key personnel or an inability to attract hire, integrate and retain highly skilled personnel could adversely affect our business.

Our success depends largely upon the continued services of key personnel. We also rely on our leadership team in the areas of research and development, marketing, services, and general and administrative functions, and on mission-critical individual contributors in research and development. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. The loss of one or more of our executive officers or other key employees could have a serious adverse effect on our business. The replacement of one or more of our executive officers or other key employees would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

To continue to execute our strategy, we also must identify, hire and retain highly skilled personnel. Competition is intense for engineers with high levels of experience in designing and developing software and Internet-related services. We might not be successful in maintaining our unique culture and continuing to attract and retain qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled personnel with appropriate qualifications. The pool of qualified personnel is limited overall and specifically in the geographic regions in which our principal offices are located. Failure to identify, hire and retain necessary key personnel could have a material adverse effect on our business, financial condition and results of operations.

Consumers of health insurance are increasingly relying on mobile devices as part of their decision-making process. If we are unsuccessful in expanding the capabilities of our shopping tools for mobile platforms, it could adversely affect our business.

We believe that consumers of health insurance are increasingly relying on mobile devices, such as smartphones and tablets, in connection with their health insurance purchasing decisions. Traditionally, our solutions have been designed for desktop platforms, and we must develop new capabilities to deliver compelling user experiences via mobile devices. To deliver high quality mobile offerings, it is important that our solutions integrate with a wide range of other mobile technologies, systems, networks and standards that we do not control. We may not be successful in developing products that operate effectively with these technologies, systems, networks or standards. Further, our success on mobile platforms will be dependent on our interoperability with popular mobile operating systems that we do not control, such as Android, iOS and Windows Mobile, and any change in such systems that degrade our functionality or give preferential treatment to competitive products could adversely affect usage of our solutions through mobile devices. If we fail to achieve success with our mobile offerings, our ability to deliver compelling user experiences to consumers as they increasingly rely on mobile devices in connection with their health insurance purchasing decisions will be constrained and our business could be adversely affected.

If we cannot maintain or enhance our corporate culture, we could lose the innovation, teamwork, passion and focus on execution that we believe contribute to our success, which could have a material adverse effect on our business.

We believe that a critical component to our success has been our corporate culture. We have invested substantial time and resources in building our team. We may find it difficult to maintain the innovation, teamwork, passion and focus on execution that we believe are important aspects of our corporate culture. Failure to enhance or preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Failure by our customers to obtain proper permissions and waivers might result in claims against us or may limit or prevent our use of data, which could have a material adverse effect on our business.

We require our customers to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of information on our platform, and we require contractual assurances from them that they have done so and will do so. If, however, despite these requirements and contractual obligations, our customers do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf might be limited or prohibited by state or federal privacy laws or other laws. This could impair our functions, processes and databases that reflect, contain, or are based upon such data and might prevent use of such data. In addition, this could interfere with, or prevent creation or use of, rules, analyses, or other data-driven activities that benefit us and our business. Moreover, we might be subject to claims or liability for use or disclosure of information by reason of lack of valid notices, agreements, permissions or waivers. These claims or liabilities could subject us to unexpected costs and adversely affect our operating results.

If we are required to collect sales and use taxes in additional jurisdictions, we might be subject to liability for additional sales and use taxes and our future sales may decrease.

We might incur significant expenses, and, as a result, lose sales, if states successfully impose broader guidelines on state sales and use taxes or successfully argue that current guidelines apply to us. We currently collect sales and use tax in a limited number of states. A successful assertion by one or more states requiring us to collect sales or other taxes on the licensing of our software or sale of our services could result in substantial tax liabilities for past transactions and otherwise harm our business. Each state has different rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that change over time. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, voluntarily engage with state tax authorities in order to determine how to comply with their rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related interest and penalties for past sales or use taxes in states where we currently believe no such taxes are required.

Vendors of services, like us, are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we might be liable for past taxes in addition to taxes going forward. Liability for past taxes might also include substantial interest and penalty charges. Our customer contracts typically provide that our customers must pay all applicable sales and similar taxes. Nevertheless, our customers might be reluctant to pay back taxes and might refuse responsibility for interest or penalties associated with those taxes. If we are required to collect and pay back taxes and the associated interest and penalties, and if our customers fail or refuse to reimburse us for all or a portion of these amounts (or if we decline to seek reimbursement from our clients), we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on us going forward will effectively increase the cost of our software and services to our customers and might adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

Risks Related to Regulation

The healthcare and health insurance industries are heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and negatively affect our business.

The healthcare and health insurance industries are highly regulated and are subject to changing political, legislative, regulatory, and other influences. Existing and new laws and regulations could create unexpected liabilities for us, cause us to incur additional costs and restrict our operations. These laws and regulations are complex and their application to specific services and relationships are not clear. In particular, many existing laws and regulations affecting healthcare and health insurance and related benefits or products when enacted, did not anticipate the services that we provide, and these laws and regulations might be applied to our services in ways that we do not anticipate. Our failure to accurately anticipate the application of these laws and regulations, or our failure to comply, could require us to change our operations or cease using certain datasets, create liability for us, result in adverse publicity, and negatively affect our business. Some of the risks we face from the regulation of healthcare and health insurance are as follows:

- *Patient Protection and Affordable Care Act.* Numerous lawsuits have challenged and continue to challenge the constitutionality and other aspects of PPACA, and regulations and regulatory guidance continue to be issued on various aspects of PPACA. Additionally, the current United States Congress and executive administration may make certain administrative changes to aspects of PPACA or replace it entirely, and such changes, or the uncertainty and instability in the market that may arise from the possibility of such changes, in turn may affect our business. While many of the provisions of PPACA are not directly applicable to us, PPACA, as enacted, affects the business of many of our customers. Our customers have experienced changes in the numbers of individuals they insure as a result of Medicaid expansion and the creation of state and national exchanges and may experience additional changes if provisions related to PPACA, including Medicaid expansion, are altered as a result of administrative changes or a repeal and replacement of PPACA. Although we are unable to predict with any reasonable certainty or otherwise quantify the likely impact of efforts to modify or repeal PPACA, including the market uncertainty and instability that may result from such efforts, on our business model, financial condition, or results of operations, changes in the business of our customers and the number of individuals they insure may negatively impact our business.

- *HIPAA and Other Privacy and Security Requirements.* There are numerous federal and state laws and regulations related to the privacy and security of personal health information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, established privacy and security standards, or Privacy Standards and Security Standards, that limit the use and disclosure of individually identifiable health information, and require the implementation of administrative, physical, and technological safeguards to ensure the confidentiality, integrity, and availability of individually identifiable health information in electronic form. Health plans, healthcare clearinghouses, and most providers are considered by the HIPAA regulations to be "Covered Entities." With respect to our operations, we are a Business Associate of our health plan customers and we are directly subject to the privacy and security regulations established under HIPAA. We enter into written Business Associate Agreements with our health plan customers, under which we are required to safeguard individually identifiable health information and comply with restrictions how we may use and disclose such information. Effective February 2010, the American Recovery and Reinvestment Act of 2009, or ARRA, and effective March 2013, the HIPAA Omnibus Final Rules extended the direct application of certain provisions of the Privacy Standards and Security Standards to us when we are functioning as a Business Associate of our health plan customers. ARRA and the HIPAA Omnibus Final Rule also subject Business Associates to direct oversight and audit by the HHS.

  Violations of the Privacy Standards and Security Standards might result in civil and criminal penalties, and ARRA increased the penalties for HIPAA violations and strengthened the enforcement provisions of HIPAA. For example, ARRA authorizes state attorneys general to bring civil actions seeking either injunctions or damages in response to violations of Privacy Standards and Security Standards that threaten the privacy of state residents. Additionally, some health plans interpret HIPAA requirements differently than we do, and as our customers are the Covered Entity under HIPAA we may be required to comply with their interpretations.

We might not be able to adequately address the business risks created by HIPAA implementation. Furthermore, we are unable to predict what changes to HIPAA or other laws or regulations might be made in the future or how those changes could affect our business or the costs of compliance.

In addition to the Privacy Standards and Security Standards, most states have enacted patient confidentiality laws that protect against the disclosure of confidential medical and/or health information, and many states have adopted or are considering further legislation in this area, including privacy safeguards, security standards, and data security breach notification requirements. Such state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements and we are required to comply with them. Additionally, other laws or standards may apply to our operations, including requirements related to handling certain financial information, federal tax information, or FTI, and payment card association operating rules with respect to credit card data.

Failure by us to comply with any state standards regarding patient privacy may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties. Such failure may injure our reputation and adversely affect our ability to retain customers and attract new customers.

- *Insurance Broker Laws.* Insurance laws in the United States are often complex, and states have broad authority to adopt regulations regarding brokerage activities. These regulations typically include the licensing of insurance brokers and agents and govern the handling and investment of customer funds held in a fiduciary capacity. We and our broker/agency customers may be subject to some of these regulations, and may not be able to fully comply.
- *Medicare and Medicaid Regulatory Requirements.* We have contracts with health plans that offer Medicare Managed Care (also known as Medicare Advantage or Medicare Part C). We also have contracts with health plans that offer Medicare prescription drug benefits (also known as Medicare Part D) plans. The activities of the Medicare plans are regulated by CMS. Though our health plan customers remain responsible to comply with CMS requirements, we operate as a First Tier, Downstream & Related Entity, or FDR, in support of our customers. Some of the activities that we might perform, such as the enrollment of beneficiaries, may be subject to CMS and/or state regulation, and such regulations may force us to change the way we do business or otherwise restrict our ability to provide services to such plans. Moreover, the regulatory environment with respect to these programs has become, and will likely continue to become, increasingly complex.
- *Financial Services-Related Laws and Rules.* Financial services and electronic payment processing services are subject to numerous laws, regulations and industry standards, some of which might impact our operations and subject us, our vendors, and our customers to liability as a result of the payment distribution and processing solutions we offer. In addition, payment distribution and processing solutions might be impacted by payment card association operating rules, certification requirements, and rules governing electronic funds transfers. If we fail to comply with applicable payment processing rules or requirements, we might be subject to fines and changes in transaction fees and may lose our ability to process credit and debit card transactions or facilitate other types of billing and payment solutions. Moreover, payment transactions processed using the Automated Clearing House Network, or ACH, are subject to network operating rules promulgated by the National Automated Clearing House Association and to various federal laws regarding such operations, including laws pertaining to electronic funds transfers, and these rules and laws might impact our billing and payment solutions. Further, our solutions might impact the ability of our payer customers to comply with state prompt payment laws. These laws require payers to pay healthcare claims meeting the statutory or regulatory definition of a “clean claim” within a specified time frame.
- *False or Fraudulent Claim Laws.* There are numerous federal and state laws that forbid submission of false information or the failure to disclose information in connection with submission and payment of claims for reimbursement from the government. In some cases, these laws also forbid abuse of existing systems for such submission and payment. Any contract we have with a government entity or in support of a government entity requires us to comply with these laws and regulations. Any failure of our services to comply with these laws and regulations could result in substantial liability, including but not limited to criminal liability, could adversely affect demand for our services, and could force us to expend significant capital, research and development, and other resources to address the failure. Any determination by a court or regulatory agency that our services with government customers violate these laws and regulations could subject us to civil or criminal penalties, invalidate all or portions of some of our government customer contracts, require us to change or terminate some portions of our business, require us to refund portions of our services fees, cause us to be disqualified from serving not only government customers but also all customers doing business with government payers, and have an adverse effect on our business.

- *ERISA.* The Employee Retirement Income Security Act of 1974, as amended, or ERISA, regulates how employee benefits are provided to or through certain types of employer-sponsored health benefits plans. ERISA is a set of laws and regulations that is subject to periodic interpretation by the United States Department of Labor as well as the federal courts. In some circumstances, and under certain customer contracts, we might be deemed to have assumed duties that make us an ERISA fiduciary, and thus be required to carry out our operations in a manner that complies with ERISA in all material respects. Our current operations may render us subject to ERISA fiduciary obligations, and while we believe we are in compliance with ERISA and that any such compliance does not currently have a material adverse effect on our operations, there can be no assurance that continuing ERISA compliance efforts or any future changes to ERISA will not have a material adverse effect on us.
- *Third-Party Administrator Laws.* Numerous states in which we do business have adopted regulations governing entities engaged in third-party administrator, or TPA, activities. TPA regulations typically impose requirements regarding enrollment into benefits plans, claims processing and payments, and the handling of customer funds. Additions to our service offerings and/or changes in state regulations could result in us being obligated to comply with such regulations, which might require us to obtain licenses to provide TPA services in such states.

The growth in the Medicare plan market is important to the overall growth rate of our business. The marketing and sale of Medicare plans are subject to numerous, complex and frequently changing laws and regulations, and the impact of changes in laws related to Medicare or any failure to comply with them could harm our business, results of operations and financial condition.

The number of people eligible for Medicare is one of the most significant drivers in the growth of Medicare plans. Any changes in the eligibility requirements for Medicare such as raising the age of eligibility would decrease the available pool of recipients and lower our growth expectations.

The marketing and sale of Medicare plans are subject to numerous laws, regulations and guidelines at both the Federal and state level. The marketing and sale of Medicare Advantage and Medicare Part D prescription drug plans are principally regulated by CMS, which is a division of the United States Department of Health and Human Services, and the marketing and sale of Medicare supplement plans is principally regulated on a state- by- state basis by state departments of insurance. The laws and regulations applicable to the marketing and sale of Medicare plans lack clarity, are numerous and complex, were not drafted to contemplate health insurance exchanges, and change frequently, particularly with respect to regulations and guidance issued by CMS for Medicare Advantage and Medicare Part D prescription drug plans and by the various state departments of insurance for Medicare supplement plans.

As a result of these laws, regulations and guidelines, we have altered, and will need to continue to alter, our business operations and procedures, including without limitation, to comply with these changing requirements. Though our health plan customers remain responsible to comply with CMS requirements, we operate as an FDR, in support of our customers. Changes to the laws, regulations and guidelines relating to Medicare plans, the scope of their application to our business, their interpretation by regulators or our health plan customers, or the manner in which they are enforced could be incompatible with our business model. As a result, our business could be slowed or we could be prevented from operating portions of our business altogether, either of which would materially harm our results of operations and financial condition, particularly if this occurred during the Medicare annual enrollment period, which is when the vast majority of Medicare plans are sold.

Health plans may adjust their commission rates to comply with regulatory guidelines, such as those published by CMS with respect to the marketing of Medicare Advantage and Medicare Part D prescription drug plans. If these contractual changes result in reduced commissions, our revenue may decline. Because insurance rates may vary between health plans, plans and enrollment dates, changes in enrollment mix may impact our commission revenue. Future changes in health plan pricing practices could harm our business, results of operations and financial condition.

In March 2010, the Federal government enacted significant reforms to healthcare legislation through the PPACA and the HCERA, which we refer to collectively as Healthcare Reform. In addition, one of the elements of the Budget Control Act of 2011 is the creation of a joint select committee on deficit reduction to develop recommendations, including changes to entitlement programs such as Medicare, to reduce the national debt by at least $1.5 trillion over 10 years. In connection with the United Sates Congress's failure to agree on a proposal to lower the national deficit, the Budget Control Act mandates automatic cuts to domestic and defense spending, including a significant reduction in Medicare spending. The impact that Healthcare Reform and the Budget Control Act will have on the market for Medicare plans could change the demand for Medicare plans, the way these plans are delivered, or the commissions that health plans pay to us in connection with their sale or otherwise adversely impact us. Likewise, efforts to modify or repeal PPACA, and the resulting uncertainty within the market as such efforts are contemplated, could alter the market for Medicare plans in a manner that adversely affects our business and operations.

In the event that these laws and regulations or changes in these laws and regulations, or other laws and regulations that impact the marketing and sale of Medicare plans, adversely impact our ability or our customers' ability to market any type of Medicare plan on an exchange platform or the commissions that we receive for selling these plans, our business, results of operations and financial condition would be harmed.

Additional regulatory requirements placed on our software, services, and content could impose increased costs on us, delay or prevent our introduction of new service types, and impair the function or value of our existing service types.

Our products and services are and are likely to continue to be subject to increasing regulatory requirements in a number of ways. As these requirements proliferate, we must change or adapt our products and services to comply. Changing regulatory requirements might render our services obsolete or might prevent us from pursuing our business objective or developing new services. This might in turn impose additional costs upon us to comply or to further develop our products and services. It might also make introduction of new product or service types costlier or more time-consuming than we currently anticipate. It might even prevent introduction by us of new products or services or cause the continuation of our existing products or services to become unprofitable or impossible.

Potential government subsidy of services similar to ours, or creation of a single-payer system, might reduce customer demand.

Recently, entities including brokers and United States federal and state governments have offered to subsidize adoption of online benefits platforms or clearinghouses. In addition, prior proposals regarding healthcare reform have included the concept of creation of a single payer for health insurance. This kind of consolidation of critical benefits activity could negatively impact the demand for our services.

Risks Related to Ownership of Our Common Stock

If we fail to meet the requirements for continued listing on The Nasdaq Global Market, our common stock could be delisted from trading, which would decrease the liquidity of our common stock and our ability to raise additional capital.

Our common stock is currently listed for trading on The Nasdaq Global Market. In order to maintain our eligibility to trade on The Nasdaq Global Market, we are required to meet specified continued listing requirements, including, among other things, a minimum bid price of $1.00 per share and a minimum market value of our publicly held shares of common stock of at least $15 million. On May 4, 2017, we received a deficiency notice from Nasdaq stating that for the last 30 consecutive business days we had not met The Nasdaq Global Market's $15 million minimum market value of publicly held shares continued listing standard, as required by Nasdaq Listing Rule 5450(b)(2)(C). As provided in the Nasdaq rules, we have 180 calendar days, or until October 31, 2017, to regain compliance with the continued listing standard. In order to regain compliance, the market value of our publicly held shares of common stock must be $15 million or more for a minimum of ten consecutive business days at any time prior to October 31, 2017. If we fail to regain compliance during this period, our common stock will be subject to delisting by Nasdaq. We also may be subject to delisting if we fail to maintain compliance with any of the other continued listing requirements for The Nasdaq Global Market, including the requirement that we maintain a minimum bid price of $1.00 per share of common stock.

Although if we fail to satisfy The Nasdaq Global Market's continued listing requirements, we may be eligible to transfer our listing to The Nasdaq Capital Market, we do not currently qualify for listing on The Nasdaq Capital Market and may not be eligible to do so in the future. Thus, if our common stock is delisted by Nasdaq, we may be required to list our common stock on the OTC Bulletin Board or another over-the-counter market. Any such alternative would likely result in it being more difficult for us to raise additional capital through the public or private sale of equity securities and for investors to dispose of, or obtain accurate quotations as to the market value of, shares of our common stock and could result in a decrease in the trading price of our common stock. In addition, there can be no assurance that our common stock would be eligible for trading on any such alternative exchange or markets. We may also face other material adverse consequences in such event, such as negative publicity, diminished investor and/or employee confidence, and the loss of business development opportunities, some or all of which may adversely affect our business and results of operations.

Our stock price may be volatile.

The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, including the risk factors described in this "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q and other factors which are beyond our control. These factors include:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- announcements by us or our competitors of acquisitions, business plans, or commercial relationships;

- threatened or actual litigation;
- changes in laws or regulations relating to the sale of health insurance;
- any major change in our Board of Directors or management;
- the significant ownership position controlled by a limited number of stockholders;
- publication of research reports or news stories about us, our competitors, or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders; and
- general political and economic conditions.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources, and harm our business, operating results, and financial condition.

Francisco Partners controls a majority of our voting securities, which may limit the ability of our stockholders to influence corporate matters and may give rise to conflicts of interest.

On May 2, 2016, we completed the sale of 52,000 shares of our Series A Preferred Stock (the "Series A Financing") pursuant to an Investment Agreement, dated March 11, 2016, as amended, by and among the Company, Francisco Partners IV, L.P. and Francisco Partners IV-A, L.P. (together, "Francisco Partners") and Chrysalis Ventures II, L.P. ("Chrysalis"). As of December 31, 2016, Francisco Partners beneficially owned approximately 43% of our outstanding capital stock on an as-converted basis by virtue of its ownership of shares of our Series A Preferred Stock and shares of our common stock it purchased in market transactions. On March 10, 2017, we completed the sale of 17,500 shares of our Series B Preferred Stock (the "Series B Financing") pursuant to an Investment Agreement, dated March 10, 2017, by and among the Company, Francisco Partners and Chrysalis. As a result of that purchase, Francisco Partners owned, as of the closing of the Series B Financing, approximately 56% of our outstanding capital stock on an as-converted basis. Subject to certain protective provisions applicable to our Preferred Stock, shares of our outstanding common stock, Series A Preferred Stock and Series B Preferred Stock vote together on an as-converted basis, meaning that Francisco Partners controlled approximately 56% of our voting securities as of March 10, 2017. As of April 14, 2017, Francisco Partners continued to hold approximately 56% of our voting securities on an as-converted basis.

In addition, under the terms of the Investor Rights Agreement entered into with Francisco Partners in connection with the closing of the Series B Financing, for so long as Francisco Partners owns at least 10% of the aggregate shares of our Series B Preferred Stock, Series A Preferred Stock and common stock that it held as of March 10, 2017, it can: (i) for so long as it holds at least 5% of the aggregate outstanding securities of the Company (on an as-converted basis), designate a proportionate share of our Board of Directors based upon its percentage ownership of the Company's outstanding securities on an as-converted basis, rounded up to the nearest whole director, which designees are entitled to serve on each committee of the Board, subject to applicable legal and Nasdaq requirements, and (ii) if no director designated by Francisco Partners is serving on the Board, designate one Board observer. As of the closing of the Series B Financing, Francisco Partners had one designee serving on our Board of Directors and one vacancy existed, which vacancy will be filled by Francisco Partners.

Francisco Partners, as the controlling shareholder of both our Series A Preferred Stock and our Series B Preferred Stock, also must consent before we take certain corporate actions, including:

- amending our organizational documents in a manner that would have an adverse effect on the Series A Preferred Stock or Series B Preferred Stock;
- issuing securities that are senior to, or equal in priority with, the Series A Preferred Stock or Series B Preferred Stock; and
- incurring indebtedness other than in the ordinary course of business or from our existing senior secured lender, Wells Fargo, up to the maximum amount authorized as of March 10, 2017.

Accordingly, Francisco Partners may be able to exert significant influence over us and any action requiring the approval of the holders of our common stock, including the election of directors, the amendment of our amended and restated certificate of incorporation and amended and restated bylaws and the approval of mergers or other business combination transactions. Furthermore, the interests of Francisco Partners may not be aligned with our other stockholders, which could lead to actions that may not be in the best interests of our other stockholders. Francisco Partners and its affiliates are in the business of making or advising on investments in companies, including businesses that may directly or indirectly compete with certain portions of our business, and they may have interests that diverge from, or even conflict with, those of our other stockholders. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, Francisco Partner's significant ownership in us may discourage, delay or prevent a third party from making a significant equity investment in us, or could discourage, delay or prevent transactions involving a change in control, including transactions in which our stockholders might otherwise receive a premium for their shares over the then-current market price. Likewise, Francisco Partners' ability to prevent our acceptance of any senior equity or indebtedness other than in the ordinary course of business or from Wells Fargo under our existing credit facility, may make it more difficult for us to secure additional capital in the future if needed, which could significantly limit our ability to continue to support our business and to respond to business challenges.

In addition, as of April 14, 2017, Chrysalis beneficially owned approximately 11% of our outstanding capital stock on an as-converted basis, which includes shares of our common stock, Series A Preferred Stock and Series B Preferred Stock. Chrysalis has a representative, David A. Jones, Jr., that serves on our Board of Directors as Chairman of the Board of Directors. Collectively, as of April 14, 2017, our directors, executive officers, and their affiliated entities beneficially owned approximately 69% of our outstanding capital stock on an as-converted basis. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the amendment of our amended and restated certificate of incorporation and amended and restated bylaws, and the approval of mergers or other business combination transactions, which may further discourage, delay or prevent a third party from making a significant equity investment in us, or could discourage, delay or prevent transactions involving a change in control, including transactions in which our stockholders might otherwise receive a premium for their shares over the then-current market price.

We are a "controlled company" within the meaning of Nasdaq rules and, as a result, qualify for, and may rely on certain of the "controlled company" exemptions from certain Nasdaq corporate governance requirements, which could make our common stock less attractive to some investors or otherwise harm our stock price.

Under Nasdaq rules, a company of which more than 50% of the voting power is held by another person or group of persons acting together is a "controlled company" and may elect not to comply with certain Nasdaq corporate governance requirements. Francisco Partners currently holds approximately 56% of the voting power of our outstanding securities. As such we are eligible to take advantage of this "controlled company" exemption and have elected to do so. A "controlled company" may elect not to comply with certain Nasdaq corporate governance requirements, including the requirements that (i) a majority of the board of directors consist of independent directors, (ii) compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee that is composed entirely of independent directors and (iii) director nominees be selected or recommended by a majority of the independent directors or by a nominating committee composed solely of independent directors. We have taken advantage of certain of these "controlled company" exemptions, particularly with respect the compensation of our officers and the election of director nominees. Accordingly, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq corporate governance requirements and as a result, our common stock may be less attractive to some investors or otherwise harmed. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The issuance of shares of our Series A Preferred Stock and Series B Preferred Stock reduces the relative voting power of holders of our common stock, dilutes the ownership of such holders and may adversely affect the market price of our common stock.

Holders of Series A Preferred Stock are entitled to a cumulative dividend at the rate of 7.5% per annum (subject to adjustment), payable quarterly in arrears. The dividends are to be paid in-kind, through an increase in the number of shares of common stock into which shares of Series A Preferred Stock are convertible, through at least May 2, 2018, and thereafter in cash or in-kind at our option. Upon the occurrence of certain events, the dividend rate will increase. Holders of Series B Preferred Stock are entitled to a cumulative dividend at the rate of 15% per annum (subject to adjustment), payable quarterly in arrears. The dividends are to be paid in-kind, through an increase in the number of shares of common stock into which shares of Series B Preferred Stock are convertible, through at least March 10, 2019, and thereafter in cash or in-kind at our option. Upon the occurrence of certain events, the dividend rate will increase.

As of the closing of the Series B Financing, the outstanding shares of Series B Preferred Stock represented approximately 20% of our outstanding capital stock, on an as-converted basis and the outstanding shares of Series A Preferred Stock represented approximately 31% of our outstanding capital stock, on an as-converted basis (which includes the effect of an adjustment to the conversion ratio of the Series A Preferred Stock that occurred as a result of the Series B Financing and pursuant to the terms of the Series A Preferred Stock). Francisco Partners holds approximately 95% of such shares of Preferred Stock. As holders of our Preferred Stock are entitled to vote, on an as-converted basis, together with holders of our common stock on all matters submitted to a vote of the holders of our common stock, the issuance of the Preferred Stock, and the subsequent increase in the number of shares of common stock issuable upon conversion of the Preferred Stock through the payment of dividends, effectively reduces the relative voting power of the holders of our common stock.

In addition, the conversion of the Preferred Stock to common stock would dilute the ownership interest of existing holders of our common stock, and any sales in the public market of the common stock issuable upon conversion of the Preferred Stock could adversely affect prevailing market prices of our common stock. We granted the holders of the Preferred Stock customary registration rights in respect of their shares of Preferred Stock, and any shares of common stock issued upon conversion of the Preferred Stock. We registered all outstanding shares of Series A Preferred Stock and the number of shares of common stock into which such shares of Series A Preferred Stock may be convertible as of May 3, 2018 on a Registration Statement on Form S-3 that was declared effective by the SEC on September 23, 2016. A registration statement with respect to the registration of the Series B Preferred Stock will be filed with the SEC within 120 days of the closing of the Series B Financing. The registration statements for the Preferred Stock will facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of our common stock available for public trading. Sales by the holders of our Preferred Stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our common stock.

Our Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to, the rights of our common stockholders, which could adversely affect our liquidity and financial condition, and may result in the interests of the holders of our Preferred Stock differing from those of our common stockholders.

The holders of Preferred Stock have the right to receive a liquidation preference entitling them to be paid out of our assets available for distribution to stockholders before any payment may be made to holders of any other class or series of capital stock, an amount equal to the greater of the stated value of such holder’s shares of Preferred Stock or the amount that such holder would have been entitled to receive upon our liquidation, dissolution and winding up if all outstanding shares of such series of Preferred Stock had been converted into common stock immediately prior to such liquidation, dissolution or winding up, plus accrued but unpaid dividends.

In addition, dividends on the Series A Preferred Stock accrue and are cumulative at the rate of 7.5% per annum, payable quarterly in arrears and on the Series B Preferred Stock at the rate of 15% per annum, payable quarterly in arrears. Upon the occurrence of certain events, the dividend rate for each series of Preferred Stock will increase. The dividends are to be paid in-kind, through an increase in the number of shares of common stock into which shares of Preferred Stock are convertible, until May 2, 2018 with respect to the Series A Preferred Stock and March 10, 2019 with respect to the Series B Preferred Stock, and thereafter in cash or in-kind at our option. The holders of our Preferred Stock also have certain redemption rights, including the right to require us to repurchase all or any portion of the Preferred Stock upon the occurrence of certain events.

These dividend and share repurchase obligations could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of Preferred Stock, including the requirement that we obtain the consent of the holders of Series B Preferred Stock prior to incurring additional indebtedness other than in the ordinary course or pursuant to our current arrangements with Wells Fargo, could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition. The preferential rights could also result in divergent interests between the holders of shares of Preferred Stock and holders of our common stock. In addition to Ezra Perlman, who serves as a director at the designation of Francisco Partners, David A. Jones, Jr., the chairman of our Board of Directors, is affiliated with Chrysalis, which in addition to holding shares of our common stock, also holds shares of our Series A Preferred Stock and Series B Preferred Stock. Notwithstanding the fact that all directors are subject to fiduciary duties to us and to applicable law, the interests of the directors designated by Francisco Partners and of Mr. Jones may differ from the interests of our security holders as a whole or of our other directors.

If securities or industry analysts do not continue to publish research or reports about our business, or publish inaccurate or unfavorable research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us and our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our common stock or change their opinion of our common stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth strategy. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future, and the success of an investment in shares of our common stock will depend upon future appreciation in its value, if any. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders purchased their shares.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law might discourage, delay, or prevent a change in control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws and Delaware law might discourage, delay, or prevent a merger, acquisition, or other change in control that stockholders consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock. These provisions might also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- limitations on the ability of stockholders to call special meetings;
- the inability of stockholders to cumulate votes at any election of directors;
- the classification of our Board of Directors into three classes with only one class, representing approximately one-third of our directors, standing for election at each annual meeting; and
- the ability of our Board of Directors to make, alter or repeal our amended and restated bylaws.

Our Board of Directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval. In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors are willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

We currently qualify as an emerging growth company under the JOBS Act and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

The JOBS Act permits “emerging growth companies” like us to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the exemption from complying with new or revised accounting standards provided in Section 7(a)(2)(B) of the Securities Act as long as we are an emerging growth company. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

For as long as we continue to be an emerging growth company, we intend to take advantage of certain other exemptions from various reporting requirements that are applicable to other public companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved, and exemptions from the requirements of auditor attestation reports on the effectiveness of our internal control over financial reporting. We have elected to take advantage of the extended transition period for complying with new or revised accounting standards under Section 102(B)(1), which will allow us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) ending December 31, 2019, (b) in which we have total annual gross revenue of at least $1.0 billion, or (c) in which we become a large accelerated filer, which means that we have been public for at least 12 months, have filed at least one annual report and the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last day of our then most recently completed second fiscal quarter, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

Reference is made to the description of our sale and issuance of unregistered shares of Series A Convertible Preferred Stock on May 2, 2016, as previously disclosed in our Current Report on Form 8-K filed on May 4, 2016, and to the description of our sale and issuance of unregistered shares of Series B Convertible Preferred Stock on March 11, 2017, as previously disclosed in our Current Report on Form 8-K filed on March 14, 2017, both of which are incorporated herein by reference.

(b) Use of Proceeds

On March 10, 2017 we issued and sold the newly created Preferred Stock for an aggregate purchase price of $17.5 million. Net of transaction costs, we received proceeds of approximately $16.9 million, of which $16.8 million was available for general corporate purposes. We used approximately $0.6 million to repay our outstanding revolving line of credit balance.

On May 2, 2016 we issued and sold the newly created Preferred Stock for an aggregate purchase price of $52.0 million. Net of transaction costs, we received proceeds of approximately $49.3 million, of which we used approximately $30.6 million to subsequently repay the principal balance, accrued interest, loan termination and professional fees associated with the THL Note. The remainder was available for general corporate purposes.

Issuer Purchases of Equity Securities

Under our equity incentive plan, participants may satisfy the statutory minimum federal, state and local withholding tax obligation arising in connection with plan awards by electing to have the Company withhold shares of common stock otherwise issuable under the award. The following table provides information about such withholding, which is deemed an issuer repurchase, during the quarter ended March 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share
1/1/17 – 1/31/17	2,860	$ 1.79
2/1/17 – 2/28/2017	2,277	$ 2.09
3/1/2017 – 3/31/2017	2,215	$ 2.01
Total	7,352	$ 1.95

Payment of Dividends

We have never declared or paid any cash dividends on our common stock. Neither Delaware law nor our amended and restated certificate of incorporation requires our board of directors to declare dividends on our common stock. Any future determination to declare cash dividends on our common stock will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions, covenants under our Credit Facility, limitations imposed by the terms of our Preferred Stock, and other factors that our board of directors may deem relevant. For a discussion of dividends payable upon our Preferred Stock, see Part II, Item 1A. Risk Factors of this Form 10-Q, "*—Risks Related to Ownership of Our Common Stock—Our Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to, the rights of our common stockholders, which could adversely affect our liquidity and financial condition, and may result in the interests of the holders of our Preferred Stock differing from those of our common stockholders.*"

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Index to Exhibits immediately following the signature pages of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONNECTURE, INC.

Date: May 10, 2017

By: /s/ Vincent E. Estrada
Vincent E. Estrada
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Sixth Amended and Restated Certificate of Incorporation, dated December 16, 2014	10-K	001-36778	3.1	March 25, 2015
3.2	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock	8-K	001-36778	3.1	May 4, 2016
3.3	Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock	8-K	001-36778	3.1	March 14, 2017
3.4	Amended and Restated Bylaws of the Registrant	S-1/A	333-199484	3.4	November 10, 2014
4.1.1	Investor Rights Agreement, dated August 3, 2012	S-1	333-199484	4.1	October 20, 2014
4.1.2	First Amendment to Investor Rights Agreement, dated November 6, 2014	S-1/A	333-199484	4.1.1	November 10, 2014
4.2	Investor Rights Agreement, dated as of May 2, 2016, by and among the Registrant and Francisco Partners IV, L.P., Francisco Partners IV-A, L.P. and Chrysalis Ventures II, L.P.	8-K	001-36778	4.1	May 4, 2016
4.3	Investor Rights Agreement, dated March 10, 2017, by and among the Registrant and Francisco Partners IV, L.P., Francisco Partners IV-A, L.P. and Chrysalis Ventures II, L.P.	8-K	001-36778	4.3	March 14, 2017
10.1	Investment Agreement, dated as of March 11, 2016, by and among the Registrant and Francisco Partners IV, L.P., Francisco Partners IV-A, L.P. and Chrysalis Ventures II, L.P.	8-K	001-36778	10.1	March 14, 2017
10.2	Amendment No. 2 to Amended and Restated Credit Agreement, dated March 10, 2017	8-K	001-36778	10.2	March 14, 2017
10.3	Employment Agreement, effective January 1, 2017, by and between the Registrant and Vincent Estrada	8-K	001-36778	10.1	January 4, 2017
10.4	Letter Agreement, dated March 30, 2017, by and between the Registrant and Mark E. Granville	10-K	001-36778	10.18.3	March 31, 2017
31.1*	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended				
31.2*	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended				
32.1**	Certification of Chief Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002				
32.2**	Certification of Chief Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	XBRL Instance Document				

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith
** Furnished herewith

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffery A. Surges, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Connecture, Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 10, 2017

/s/ Jeffery A Surges

Jeffery A. Surges
Chief Executive Officer and President
(*Principal Executive Officer*)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Vincent E. Estrada, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Connecture, Inc. (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 10, 2017

/s/ Vincent E. Estrada

Vincent E. Estrada
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

The undersigned, the Chief Executive Officer of Connecture, Inc. (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2017

/s/ Jeffery A. Surges
Jeffery A. Surges
Chief Executive Officer and President
(*Principal Executive Officer*)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

The undersigned, the Chief Financial Officer of Connecture, Inc. (the "Company"), does hereby certify under the standards set forth and solely for the purposes of 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2017

/s/ Vincent E. Estrada
Vincent E. Estrada
Chief Financial Officer
(*Principal Financial and Accounting Officer*)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.