CASTLIGHT HEALTH, INC.
Form 10-Q
August 05, 2015

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from______ to ______

Commission File Number: 001-36330
CASTLIGHT HEALTH, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	26-1989091 (I.R.S. Employer Identification Number)

Two Rincon Center
121 Spear Street, Suite 300
San Francisco, CA 94105
(Address of principal executive offices)

(415) 829-1400
(Registrant’s telephone number, including area code)

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 [x] 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 [x] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [x] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

As of July 31, 2015, there were 54,681,184 shares of the Registrant's Class A common stock outstanding and 39,635,427 shares of the Registrant's Class B common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CASTLIGHT HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$31,533	$17,425
Marketable securities	132,905	175,057
Accounts receivable, net	11,048	11,097
Deferred commissions	3,956	3,675
Prepaid expenses and other current assets	5,960	3,476
Total current assets	185,402	210,730
Property and equipment, net	4,515	3,630
Marketable securities, noncurrent	—	6,220
Restricted cash, noncurrent	1,000	—
Deferred commissions, noncurrent	2,374	2,563
Other assets	3,692	131
Total assets	$196,983	$223,274
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$4,180	$3,217
Accrued expenses and other current liabilities	4,702	5,791
Accrued compensation	8,730	10,455
Deferred revenue	24,125	20,708
Total current liabilities	41,737	40,171
Deferred revenue, noncurrent	7,638	6,652
Other liabilities, noncurrent	1,208	261
Total liabilities	50,583	47,084
Commitments and contingencies		
Stockholders’ equity:		
Class A common stock	5	6
Class B common stock	4	3
Additional paid-in capital	404,412	393,397
Accumulated other comprehensive income (loss)	10	(40)
Accumulated deficit	(258,031)	(217,176)
Total stockholders’ equity	146,400	176,190
Total liabilities and stockholders’ equity	$196,983	$223,274

See Notes to Condensed Consolidated Financial Statements.

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CASTLIGHT HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Subscription	$17,278	$9,576	$32,184	$17,039
Professional services	1,232	957	2,277	1,870
Total revenue	18,510	10,533	34,461	18,909
Cost of revenue:				
Cost of subscription (1)	2,932	2,915	5,451	5,627
Cost of professional services (1)	5,322	4,502	9,975	8,373
Total cost of revenue	8,254	7,417	15,426	14,000
Gross profit	10,256	3,116	19,035	4,909
Operating expenses:				
Sales and marketing (1)	17,641	14,947	34,104	31,507
Research and development (1)	7,391	5,476	13,985	11,003
General and administrative (1)	6,517	4,519	11,980	8,529
Total operating expenses	31,549	24,942	60,069	51,039
Operating loss	(21,293)	(21,826)	(41,034)	(46,130)
Other income, net	81	50	179	73
Net loss	$(21,212)	$(21,776)	$(40,855)	$(46,057)
Net loss per Class A and B share, basic and diluted	$(0.23)	$(0.24)	$(0.44)	$(0.86)
Weighted-average shares used to compute basic and diluted net loss per Class A and B share	93,804	89,520	92,801	53,284

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(1) Includes stock-based compensation expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue:				
Cost of subscription	$67	$35	$100	$39
Cost of professional services	450	280	875	420
Sales and marketing	2,074	1,152	3,825	2,326
Research and development	730	493	1,363	914
General and administrative	896	980	1,923	1,794

See Notes to Condensed Consolidated Financial Statements.

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CASTLIGHT HEALTH, INC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(21,212)	$(21,776)	$(40,855)	$(46,057)
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on available-for-sale marketable securities	8	(41)	50	(40)
Reclassification adjustments for net realized gains on available-for-sale marketable securities	—	—	—	—
Other comprehensive income (loss)	8	(41)	50	(40)
Comprehensive loss	$(21,204)	$(21,817)	$(40,805)	$(46,097)

See Notes to Condensed Consolidated Financial Statements.

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CASTLIGHT HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net loss	$(40,855)	$(46,057)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	910	604
Stock-based compensation	8,086	5,493
Amortization of deferred commissions	1,659	2,244
Accretion and amortization of marketable securities	827	497
Expense related to warrant	—	2,499
Changes in operating assets and liabilities:		
Accounts receivable	49	(5,327)
Deferred commissions	(1,751)	(1,369)
Prepaid expenses and other assets	(1,818)	(1,677)
Accounts payable	1,258	384
Accrued expenses and other liabilities	(3,169)	(1,203)
Deferred revenue	4,403	8,277
Net cash used in operating activities	(30,401)	(35,635)
Investing activities:		
Restricted cash	(1,000)	101
Investment in related party	(3,125)	—
Purchase of property and equipment	(1,693)	(967)
Purchase of marketable securities	(18,958)	(162,175)
Sales of marketable securities	5,000	13,000
Maturities of marketable securities	61,553	8,000
Net cash provided by (used in) investing activities	41,777	(142,041)
Financing activities:		
Proceeds from the exercise of stock options	2,826	1,628
Payments of deferred offering costs	(94)	(3,781)
Proceeds from initial public offering	—	189,943
Net cash provided by financing activities	2,732	187,790
Net increase in cash and cash equivalents	14,108	10,114
Cash and cash equivalents at beginning of period	17,425	25,154
Cash and cash equivalents at end of period	$31,533	$35,268

See Notes to Condensed Consolidated Financial Statements.

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Description of Business
Description of Business
Castlight Health, Inc. ("Castlight") is a pioneer in a new category of cloud-based software that enables enterprises to understand and manage health care spending as a strategic business investment, and help employees and their families make more informed medical decisions based on factors such as cost, quality and patient experience. Our Enterprise Healthcare Management solutions allow our customers to conquer the complexity of the existing health care system by providing personalized, actionable information to their employees, implementing technology-enabled benefit designs and integrating disparate systems and applications. Our comprehensive technology offering aggregates complex, large-scale data and applies sophisticated analytics to make health care data transparent and useful. We were incorporated in the State of Delaware in January 2008. Our principal executive offices are located in San Francisco, California.
Note 2. Summary of Significant Accounting Policies
Basis of Presentation and Principles of Consolidation
The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP), for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (SEC), Regulation S-X. In the opinion of management, the information herein reflects all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations, financial position and cash flows. The condensed consolidated financial statements include the results of Castlight and its wholly owned U.S. subsidiary. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The condensed consolidated balance sheet as of December 31, 2014 included herein was derived from the audited financial statements as of that date. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes.
Use of Estimates
The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. These estimates include, but are not limited to, the determination of the relative selling prices for our services, certain assumptions used in the valuation of our equity awards, and the capitalization and estimated useful life of internal-use software development costs. Actual results could differ from those estimates, and such differences could be material to our consolidated financial position and results of operations.
Recently Issued and Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The guidance will be effective for us beginning January 1, 2016. Early adoption is permitted. We have elected not to early adopt. The adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.
In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in

exchange for those goods or services. The guidance will be effective for us beginning January 1, 2018. Early adoption is not permitted. We are

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evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Note 3. Marketable Securities

At June 30, 2015 and December 31, 2014, respectively, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2015				
U.S. agency obligations	$145,414	$16	$(5)	$145,425
Money market mutual funds	8,015	—	—	8,015
	153,429	16	(5)	153,440
Included in cash and cash equivalents	20,535	—	—	20,535
Included in marketable securities	$132,894	$16	$(5)	$132,905

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
U.S. agency obligations	$177,297	$4	$(44)	$177,257
U.S. treasury securities	5,580	1	—	5,581
Money market mutual funds	1,919	—	—	1,919
	184,796	5	(44)	184,757
Included in cash and cash equivalents	3,480	—	—	3,480
Included in marketable securities	$175,093	$5	$(41)	$175,057
Included in marketable securities, noncurrent	$6,223	$—	$(3)	$6,220

Note 4. Fair Value Measurements

We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy that requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs that are supported by little or no market activity.

The fair value of marketable securities included in the Level 2 category is based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. These values were obtained from a third-party pricing service and were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established third party pricing vendors and broker-dealers. There have been no changes in valuation techniques in the periods presented. We have no financial assets or liabilities measured using Level 3 inputs. There were no significant transfers between Levels 1 and 2 assets as of June 30, 2015 and December 31, 2014. The following tables present information about our assets that are measured at fair value on a recurring basis using the above input categories (in thousands):

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

	Level 1	Level 2	Total
June 30, 2015			
Cash equivalents:			
Money market mutual funds	8,015	—	8,015
U.S. agency obligations	—	12,520	12,520
Marketable securities:			
U.S. agency obligations	—	132,905	132,905
	$8,015	$145,425	$153,440

	Level 1	Level 2	Total
December 31, 2014			
Cash equivalents:			
Money market mutual funds	$1,919	$—	$1,919
U.S. agency obligations	—	1,561	1,561
Marketable securities:			
U.S. agency obligations	—	175,696	175,696
U.S. treasury securities	—	5,581	5,581
	$1,919	$182,838	$184,757

Gross unrealized gains and losses for cash equivalents and marketable securities as of June 30, 2015 and December 31, 2014 were not material. We do not believe the unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of June 30, 2015.

There were no realized gains or losses during the three months ended June 30, 2015. All of our marketable securities at June 30, 2015 mature within one year. As of December 31, 2014 those securities with maturities greater than one year are reflected in the noncurrent portion of our condensed consolidated balance sheets. Marketable securities on the balance sheets consist of securities with original or remaining maturities at the time of purchase of greater than three months, and the remainder of the securities is reflected in cash and cash equivalents.

Note 5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	As of	
	June 30, 2015	December 31, 2014
Leasehold improvements	$1,058	$1,058
Computer equipment	3,641	3,247
Software	874	874
Capitalization of internal-use software	1,155	291
Furniture and equipment	301	301
Construction in process	537	—
Total	7,566	5,771
Accumulated depreciation	(3,051)	(2,141)
Property and equipment, net	$4,515	$3,630

Depreciation and amortization expense for the three months ended June 30, 2015 and 2014, was $0.5 million and $0.3 million, respectively, and $0.9 million and $0.6 million for the six months ended June 30, 2015 and 2014, respectively. Depreciation is recorded on a straight-line basis.

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

Note 6. Related Party Transactions and Variable Interest Entity

In the second quarter of 2015, we announced a strategic alliance with Lyra Health ("Lyra"), to develop and bring to market an integrated behavioral health solution. In connection with this strategic alliance, the Company made a $3.1 million preferred stock investment in Lyra. Lyra is considered a related party to us because two of Lyra’s co-founders serve on our board of directors, and Castlight's Chief Executive Officer, serves on Lyra's board. An independent committee of Castlight's board of directors, comprising of directors with no involvement in any external behavioral health business initiatives, approved the strategic alliance with and investment in Lyra.

Lyra Health was founded in 2015 to work with employers, health plans, and providers to improve behavioral health outcomes and plans to offer a complementary behavioral health service that combines technology with active care management to improve patient outcomes. As part of the strategic alliance Lyra's product will be integrated with Castlight Elevate for those customers who purchase the integrated solution. Castlight Elevate is an extension of the Castlight enterprise healthcare management platform which enables employees to research behavioral health services, make educated treatment choices, and commence care.

We have evaluated these transactions, including their related party aspects, and have determined that Lyra is a variable interest entity (“VIE”) for Castlight. In determining that we are not the VIE's primary beneficiary, we considered qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE’s economic performance and which party controls such activities; the characteristics of our involvement; and the obligation or likelihood for us to provide incremental financial support. Based on our evaluation, we determined that Castlight and our related parties collectively have power and benefits of the operations of VIE but that we are not the party most closely associated to the VIE. Accordingly, we are not required to consolidate the operations of the VIE. Our maximum exposure to loss as a result of our involvement with this unconsolidated VIE is limited to our investment of $3.1 million and we are not obligated to provide incremental financial support to Lyra.

The investment in Lyra is accounted for under the cost method and is included under other assets in our condensed consolidated financial statements. We have not estimated the fair value of our investment because there have been no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. We will assess our investment for impairment on a quarterly basis or based on facts or circumstances that may require us to reassess the fair value of our investment.

Note 7. Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	As of June 30, 2015	December 31, 2014
Subscription	$17,373	$14,826
Professional services—implementation	3,622	2,974
Professional services—communications	3,130	2,908
Total current	24,125	20,708
Subscription	2,090	1,950
Professional services—implementation	4,816	4,327
Professional services—communications	732	375
Total noncurrent	7,638	6,652
Total	$31,763	$27,360

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

Note 8. Commitments and Contingencies
Legal Matters
On April 2, April 16, April 29, and May 4, 2015, purported securities class action lawsuits were filed in the Superior Court of the State of California, County of San Mateo, against us, certain of our current and former directors, executive officers, significant stockholders and underwriters associated with our IPO. The lawsuits, which were consolidated on July 22, 2015, were brought by purported stockholders of our company seeking to represent a class consisting of all those who purchased our stock pursuant and/or traceable to the Registration Statement and Prospectus issued in connection with our IPO. The lawsuits assert claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and seek unspecified damages and other relief. We believe that the claims are without merit and intend to defend the lawsuits vigorously.
From time to time, we may become subject to other legal proceedings, claims or litigation arising in the ordinary course of business. In addition, we may receive letters alleging infringement of patents or other intellectual property rights. We do not believe that any liability from any reasonably foreseeable disposition of these legal actions and claims, individually or in the aggregate, would have a material effect on our business, operating results, cash flows or financial condition. The lawsuits described above are still in their early stages and the final outcome, including our liability, if any, with respect to the claims in the lawsuits, are uncertain. If an unfavorable outcome were to occur in the litigation, the impact could be material to our business, financial condition, cash flow or results of operations, depending on the specific circumstances of the outcome. We cannot make a reasonable estimate of the potential loss or range of loss, if any, arising from these matters. We accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss. If we determine that a loss is reasonably possible and can reasonably estimate the range of the loss, then we disclose the range of the loss.

Leases and Contractual Obligations

We lease office space under noncancelable operating leases in San Francisco, California. On May 21, 2015, we entered into a new office space lease in San Francisco, California, in order to expand our office facilities. The lease extends to June 30, 2021, with a five year renewal option. The total rent obligation under the lease is $12.8 million. There were no other material changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014. Please see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in our Annual Report on Form 10-K for a description of our contractual obligations.

Note 9. Stockholders’ Equity
Common Stock
As of June 30, 2015, we had 54,678,735 shares of Class A common stock and 39,574,120 shares of Class B common stock outstanding.
Stock Options Activity
A summary of stock option activity for the six months ended June 30, 2015 is as follows (in thousands, except share and per share amounts):

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance at December 31, 2014	16,392,539	$4.40	$128,541
Stock option grants	491,900	$8.95	

Stock options exercised	(3,107,786)	$1.02	
Stock options canceled	(1,766,650)	$6.80	
Balance at June 30, 2015	12,010,003	$5.11	$53,906

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

The total grant-date fair value of stock options granted during the six months ended June 30, 2015 and 2014 was $2.3 million and $28.4 million, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-valuation model with the following assumptions and fair value per share:

	Six Months Ended June 30,	
	2015	2014
Volatility	53%	60%
Expected life (in years)	6.17	5.0-6.2
Risk-free interest rate	1.38%-1.91%	1.53%-1.99%
Dividend yield	—%	—%

As of June 30, 2015, we had $27.7 million in unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 2.8 years.

Restricted Stock Units

A summary of restricted stock unit activity for the six months ended June 30, 2015 is as follows :

	Number of Shares Outstanding	Weighted-Average Grant Date Fair Value
Balance at December 31, 2014	1,398,893	$11.06
Restricted Stock Units granted	3,318,000	$8.73
Restricted Stock Units vested	—	$—
Restricted Stock Units forfeited	(316,900)	$10.26
Balance at June 30, 2015	4,399,993	$9.36

As of June 30, 2015, there was a total of $38.3 million in unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of approximately 3.6 years.

In June 2015, we awarded performance stock units (PSUs) to certain employees. The number of shares that will eventually vest depends on achievement of performance targets for 2015, as determined by the compensation committee of our board of directors, and may range from 0 percent to 150 percent of the targeted award amount. The PSUs will vest over the period of two years in quarterly installments subject to recipients' continued service through the vesting date of November 15, 2017 in order to earn the shares. The compensation expense associated with the PSUs is expensed using the accelerated method.

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CASTLIGHT HEALTH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

Note 10. Income Taxes
The effective tax rate for the three and six months ended June 30, 2015 and 2014 was zero percent, primarily as a result of the estimated tax loss for the year and the change in valuation allowance.
There were no material changes to unrecognized tax benefits in the three and six months ended June 30, 2015, and we do not anticipate that unrecognized tax benefits will significantly increase or decrease in the next 12 months. At June 30, 2015, all unrecognized tax benefits are subject to a full valuation allowance and, if recognized, will not affect the effective tax rate.
Note 11. Net Loss per Share
Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including Preferred Stock and outstanding stock options and warrants, to the extent dilutive. Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential shares of common stock outstanding would have been anti-dilutive.
Net loss is allocated based on the contractual participation rights of the Class A and Class B common stock as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the net loss is allocated on a proportionate basis.
The following table presents the calculation of basic and diluted net loss per share for our common stock (in thousands, except per share data):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Net loss	$(13,086)	$(8,126)	$(18,671)	$(3,105)	$(25,658)	$(15,197)	$(43,850)	$(2,207)
Weighted-average shares used to compute basic and diluted net loss per share	57,870	35,934	76,755	12,765	58,282	34,519	50,731	2,553
Basic and diluted net loss per share	$(0.23)	$(0.23)	$(0.24)	$(0.24)	$(0.44)	$(0.44)	$(0.86)	$(0.86)

The following securities were excluded from the calculation of diluted net loss per share for common stock because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options and restricted common stock	16,410	17,908	16,410	17,908
Warrants	115	115	115	115
Total	16,525	18,023	16,525	18,023

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains 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, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "goal," "would," "expect," "plan," "anticipate," "estimate," "project," "predict," "potential" and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the section titled "Risk Factors" set forth in Part II, Item 1A in this Quarterly Report on Form 10-Q. Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation 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.

All references to "Castlight," "Castlight Health," "we," "us," "our" or the "Company" mean Castlight Health, Inc. and its subsidiaries, except where it is made clear that the term means only the parent company.

Castlight Health, Castlight, Castlight Medical, Castlight Essentials, Castlight Pharmacy, Castlight Rewards, Castlight Reference-Based Pricing, Castlight Protect, Castlight Insights, Castlight Controls, Castlight Connect, Castlight Care and Castlight Dental are trademarks and/or registered trademarks of Castlight Health, Inc. in the United States and other countries. Other company and product names may be trademarks of the respective companies with which they are associated.

Overview

Castlight is a pioneer in a new category of cloud-based software that enables enterprises to understand and manage health care spending as a strategic business investment, and help employees and their families make more informed medical decisions based on factors such as cost, quality and patient experience. Our Enterprise Healthcare Management solutions allow our customers to conquer the complexity of the existing health care system by providing personalized, actionable information to their employees, implementing technology-enabled benefit designs and integrating disparate systems and applications. Our comprehensive technology offering aggregates complex, large-scale data and applies sophisticated analytics to make health care data transparent and useful. We deploy consumer-oriented applications that deliver strong employee engagement and enable employers to integrate disparate benefit programs into one platform available to employees and their families.

Since our inception in 2008, we have been committed to improving the efficiency of the U.S. health care industry. From 2008 to 2010, we focused our efforts on research and development to build our consumer health care database, our analytic capabilities and the initial version of our cloud-based application, Castlight Essentials (previously, Castlight Medical). After its release in 2010, we have continued to enhance that application, as well as release new applications, including Castlight Pharmacy, Castlight Rewards, Castlight Elevate, Castlight Protect and Castlight

Dental. These applications are delivered to our customers, and their employees and families, via our cloud-based offering and leverage consumer-oriented design principles that drive engagement and ease of use.

We market and sell our Enterprise Healthcare Management solutions to self-insured companies in a broad range of industries and to governmental entities. As of June 30, 2015, we had 181 signed customers, of which more than 150 customers have implemented our offering, which we refer to as launched customers. In comparison, we had 168 signed customers, including 115 launched customers, as of December 31, 2014. We sell our offering solely in the United States, and we market to our customers and potential customers primarily through our direct sales force.

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We generate revenue from sales of subscriptions, including support, and professional services primarily related to the implementation of our offering, including extensive communications support to drive adoption by our customer's employees and their families. Historically, we have derived a substantial majority of our subscription revenue from Castlight Essentials. Our subscription fees are based on the number of employees and adult dependents that employers identify as eligible to use our offering, which typically includes all of our customers' U.S. employees and adult dependents that receive health benefits. Our agreements with customers generally have terms of three years.

Our costs to implement our offering mainly include personnel-related costs for deployment of our applications that are expensed as incurred. However, the related revenue is deferred until our applications are ready for use by the customer. Revenue is then recognized ratably over the related contract term. As a result, for a typical customer, we generate negative gross margin during the implementation phase and positive gross margin thereafter. Accordingly, during periods of rapid growth, when the proportion of customers that we are implementing is high, we incur significant gross losses related to professional services. We expect overall gross margin to improve over time as the number of our launched customers grows in relation to the number of customers in the implementation phase.

We intend to continue to invest aggressively in the success of our customers, expand our commercial operations and further develop our offering. As a result of these and other factors, we expect to continue to incur operating losses for the foreseeable future and may need to raise additional capital through equity and debt financings in order to fund our operations.

Key Factors Affecting Our Performance

Sale of Additional Applications. Our revenue growth rate and long-term profitability are affected by our ability to sell additional applications to our customer base. To date, a substantial majority of our revenue has come from sales of subscriptions of Castlight Essentials. We believe that there is a significant opportunity to sell subscriptions to other applications as our customers become more familiar with our offering and seek to address additional needs.

Annual Net Dollar Retention Rate and Average Annual Revenue. We believe that our ability to retain our customers and expand their subscription revenue growth over time will be an indicator of the stability of our revenue base and the long-term value of our customer relationships. We observed an annual net dollar retention rate of 103% for our signed customer base, for the year ended December 31, 2014. Additionally, our average annual revenue per launched customer grew approximately 17% for the year ended December 31, 2014 compared to the year ended December 31, 2013. We calculate annual net dollar retention rate for a given period as the aggregate annualized subscription contract value as of the last day of that year from those customers that were also customers as of the last day of the prior year, divided by the aggregate annualized subscription contract value from all customers as of the last day of the prior year. We calculate annualized subscription contract value for each customer as the expected monthly recurring revenue of our customers multiplied by 12. Recurring revenue excludes one-time fees. We calculate average annual revenue per launched customer for a given period, as the annualized revenue as of the last day of the year, divided by average customers launched during the same period.

Implementation Timelines. Our ability to convert backlog into revenue and improve our gross margin depends on how quickly we complete customer implementations. Our implementation timelines vary from customer to customer based on the source and condition of the data we receive from third parties, the configurations that we agree to provide and the size of the customer. Our implementation timelines for Castlight Essentials are typically three to nine months after entering into an agreement with a customer. Our implementation timelines for our other applications currently range from approximately three months to longer than twelve months.

Professional Services Model. We believe our professional services capabilities support the adoption of our subscription offerings. As a result, our sales efforts have been focused primarily on our subscription offering, rather than the profitability of our professional services business. Our professional services are generally priced on a fixed-fee basis and the costs incurred to complete these services, which consist mainly of personnel-related costs, have been greater than the amount charged to the customer. We also do not have standalone value for our implementation services for accounting purposes. Accordingly, we recognize implementation services revenue in the same manner as the associated subscription revenue. Prior to launching an individual customer, we incur significant costs associated with implementation activities, which we record as cost of revenue. Since we do not recognize significant revenues from an individual customer until we launch, we generate a negative gross margin at the customer level during the implementation period.

Seasonality. A significantly higher proportion of our customers enter into new subscription agreements with us or renew previous agreements in the third and fourth quarters of the year compared to the first and second quarters. This seasonality is related to the employee benefits cycle, as customers typically want to make our applications available at the beginning of a new benefits year, which generally occurs in the first quarter. This seasonality is not immediately apparent in our revenue because we do not begin recognizing revenue from new customer agreements until we have implemented our offering, based on the implementation timelines discussed above. Therefore, revenue recognized in any quarter is primarily from customer agreements entered into in prior quarters. In addition, the mix of customers paying monthly, quarterly, or annually varies from quarter to quarter and impacts our deferred revenue balance. As a result of variability in our billing and implementation timelines, the deferred revenue balance does not represent the total value of our customer contracts, nor do changes in deferred revenue serve as a reliable indicator of our future subscription revenue.

Components of Results of Operations

Revenue

We generate revenue from subscription fees from customers for access to the applications they select, including basic customer service support. We also earn revenue from professional services primarily related to the implementation of our offering, including extensive communications support to drive adoption by our customers' employees and their dependents.

We recognize subscription fees on a straight-line basis ratably over the contract term beginning when our applications are implemented and ready for launch, which is based on the implementation timelines discussed above. Our customer agreements generally have a term of three years. We generally invoice our customers in advance on a monthly, quarterly or annual basis. Amounts that have been invoiced are initially recorded as deferred revenue. Amounts that have not been invoiced are not reflected in our consolidated financial statements. We generally invoice our implementation services upon contract signing on a fixed-fee basis, which is generally when we commence work.

As a result of variability in our billing terms, the deferred revenue balance does not represent the total value of our customer contracts, nor do changes in deferred revenue serve as a reliable indicator of our future subscription revenue in a given period. The weighted average billing term for customers that we billed in the second quarter of 2015 was 5.3 months. The cumulative weighted average billing term for all customers signed as of June 30, 2015 was 5.2 months.

Costs and Operating Expenses

Cost of Revenue. Cost of revenue consists of the cost of subscription revenue and cost of professional services revenue.

Cost of subscription revenue primarily consists of data fees, employee-related expenses (including salaries, benefits and stock-based compensation) related to hosting costs of our cloud-based service, cost of subcontractors, expenses for service delivery (which includes call center support), allocated overhead, the costs of data center capacity, amortization of internal-use software and depreciation of owned computer equipment and software.

Cost of professional services revenue consists primarily of employee-related expenses associated with these services, the cost of subcontractors and travel costs, and allocated overhead. The time and costs of our customer implementations vary based on the source and condition of the data we receive from third parties, the configurations that we agree to provide and the size of the customer.

Our cost of revenue is expensed as we incur the costs. However, the related revenue is deferred until our applications are ready for use by the customer and then recognized as revenue ratably over the related contract term. Therefore, we expense the cost incurred to provide our applications and services prior to the recognition of the corresponding revenue.

Gross profit consists of total revenue, less cost of revenue. Gross margin is the percentage of gross profit to revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of employee-related expenses (including salaries, sales commissions and bonuses, benefits and stock-based compensation), travel-related expenses and marketing programs. Commissions earned by our sales force that can be associated specifically with the noncancelable portion of a subscription contract are deferred and amortized over the noncancelable period.

Accordingly, commission expense can be materially impacted by changes in the termination provisions of customer contracts that we execute in a given period compared with previous periods.

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Research and Development. Research and development expenses consist primarily of employee-related expenses (including salaries, bonuses, benefits and stock-based compensation) and costs associated with subcontractors.

General and Administrative. General and administrative expenses consist primarily of employee-related expenses (including salaries and bonuses, benefits and stock-based compensation) for finance and accounting, legal, human resources and management information systems personnel, legal costs, professional fees and other corporate expenses.

Results of Operations

The following tables set forth selected consolidated statements of operations data and such data as a percentage of total revenue for each of the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	(percentages of revenue)							
Revenue:								
Subscription	93	%	91	%	93	%	90	%
Professional services	7	%	9	%	7	%	10	%
Total revenue								