CASTLIGHT HEALTH, INC.
Form 10-Q
August 04, 2017
Table of Contents

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, 2017

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

150 Spear Street, Suite 400
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, a smaller reporting company, or an emerging growth company. See 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 [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]	Emerging growth company [X]

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. [x]

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 August 2, 2017, there were 53,108,225 shares of the Company’s Class A common stock outstanding and 78,579,114 shares of the Company’s Class B common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I. Financial Information	1
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016	1
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016	2
Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2017 and 2016	3
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. Controls and Procedures	28
PART II. Other Information	28
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sale of Equity Securities and Use of Proceeds	50
Item 3. Defaults Upon Senior Securities	50
Item 4. Mine Safety Disclosures	50
Item 5. Other Information	50
Item 6. Exhibits	51
Signature	52
Exhibit Index	53

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	As of June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$62,201	$ 48,722
Marketable securities	33,821	65,882
Accounts receivable, net	21,356	14,806
Deferred commissions	8,190	8,218
Prepaid expenses and other current assets	6,250	3,382
Total current assets	131,818	141,010
Property and equipment, net	5,184	5,285
Restricted cash, non-current	1,507	1,144
Goodwill	91,398	—
Intangible assets, net	22,684	—
Deferred commissions, non-current	3,304	5,050
Other assets	7,266	4,677
Total assets	$263,161	$ 157,166
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,743	$ 2,288
Accrued expenses and other current liabilities	9,011	6,369
Accrued compensation	10,411	9,443
Deferred revenue	36,924	30,623
Total current liabilities	59,089	48,723
Deferred revenue, non-current	8,003	5,245
Debt, non-current	5,578	—
Other liabilities, non-current	1,677	1,236
Total liabilities	74,347	55,204
Commitments and contingencies		
Stockholders' equity:		
Class A and Class B common stock	13	10
Additional paid-in capital	573,339	457,596
Accumulated other comprehensive loss	(15)	—
Accumulated deficit	(384,523)	(355,644)
Total stockholders' equity	188,814	101,962
Total liabilities and stockholders' equity	$263,161	$ 157,166

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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,	
	2017	2016	2017	2016
Revenue:				
Subscription	$29,834	$21,955	$55,600	$42,992
Professional services and other	2,265	1,630	4,243	3,310
Total revenue, net	32,099	23,585	59,843	46,302
Cost of revenue:				
Cost of subscription (1)	7,706	4,094	11,952	8,230
Cost of professional services and other (1)	4,793	4,850	8,781	9,963
Total cost of revenue	12,499	8,944	20,733	18,193
Gross profit	19,600	14,641	39,110	28,109
Operating expenses:				
Sales and marketing (1)	16,575	15,452	31,018	31,734
Research and development (1)	15,194	9,961	26,265	20,046
General and administrative (1)	6,766	6,019	15,764	14,564
Total operating expenses	38,535	31,432	73,047	66,344
Operating loss	(18,935)	(16,791)	(33,937)	(38,235)
Other income, net	12	99	205	188
Income before income taxes	$(18,923)	(16,692)	$(33,732)	(38,047)
Income tax benefit	5,206	—	5,206	—
Net loss	$(13,717)	$(16,692)	$(28,526)	$(38,047)
Net loss per Class A and B share, basic and diluted	$(0.11)	$(0.17)	$(0.24)	$(0.39)
Weighted-average shares used to compute basic and diluted net loss per Class A and B share	130,537	99,728	117,807	98,009

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue:				
Cost of subscription	$253	$120	$380	$228
Cost of professional services	597	535	1,058	1,012
Sales and marketing	2,441	2,219	4,595	4,454
Research and development	2,254	1,264	4,044	2,669
General and administrative	1,169	971	2,464	2,240

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(13,717)	$(16,692)	$(28,526)	$(38,047)
Other comprehensive income (loss):				
Net change in unrealized gain (loss) on available-for-sale marketable securities	4	30	(15)	133
Other comprehensive income (loss)	4	30	(15)	133
Comprehensive loss	$(13,713)	$(16,662)	$(28,541)	$(37,914)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Net loss	$(28,526)	$(38,047)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,758	1,585
Stock-based compensation	12,541	10,603
Amortization of deferred commissions	5,172	2,115
Release of deferred tax valuation allowance due to business combination	(5,206)	—
Change in fair value of contingent consideration liability	(643)	—
Accretion and amortization of marketable securities	84	305
Changes in operating assets and liabilities:		
Accounts receivable	(3,117)	260
Deferred commissions	(3,398)	(2,924)
Prepaid expenses and other assets	(860)	(813)
Accounts payable	(508)	(110)
Accrued expenses and other liabilities	(525)	(463)
Deferred revenue	7,202	1,585
Net cash used in operating activities	(15,026)	(25,904)
Investing activities:		
Restricted cash	(362)	—
Purchase of property and equipment	(931)	(1,242)
Purchase of marketable securities	(31,775)	(61,192)
Maturities of marketable securities	63,737	90,587
Business combination, net of cash acquired	(2,264)	—
Net cash provided by investing activities	28,405	28,153
Financing activities:		
Proceeds from the exercise of stock options	831	1,940
Proceeds from issuance of common stock and warrants	—	17,358
Payments of issuance costs related to equity	(731)	(46)
Net cash provided by financing activities	100	19,252
Net increase in cash and cash equivalents	13,479	21,501
Cash and cash equivalents at beginning of period	48,722	19,150
Cash and cash equivalents at end of period	$62,201	$40,651
Non-cash investing and financing activity:		
Non-cash purchase consideration related to acquisition of Jiff	$101,692	$—

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Organization and Description of Business
Castlight Health Inc. ("Castlight" or "the Company") has historically offered a health benefits platform that engages employees to make better health care decisions and enables employers to communicate and measure their benefit programs. The Company provides a simple, personalized, and powerful way for employees to shop for and manage their health care. At the same time, the Company enables employers to understand their employees' needs and guide them to the right care, right providers and right programs at the right time. On April 3, 2017, the Company completed its acquisition of Jiff, Inc ("Jiff"). The acquisition enables the Company to provide the full spectrum of wellbeing, healthcare decision support and a benefits hub all in one complete package. Jiff still operates as a wholly-owned subsidiary of the Company. Jiff's results of operations have been included in the Company's Condensed Consolidated Statements of Operations beginning April 3, 2017. See Note 5 for more information on the Jiff acquisition. The Company's comprehensive technology offering aggregates complex, large-scale data and applies sophisticated analytics to make health care data actionable and useful. The Company was incorporated in the State of Delaware in January 2008. The Company's 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 include Castlight and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited consolidated financial statements have been 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 results for the interim periods presented are not necessarily indicative of the results expected for any future period. The following information should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.
Use of Estimates
The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company 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 the Company's products and services
•certain assumptions used in the valuation of the Company's equity awards
• certain assumption used in the determination of the Company's contingent consideration liability
the fair value of assets acquired and liabilities assumed for business combinations
Actual results could differ from those estimates, and such differences could be material to the Company's consolidated financial position and results of operations.

Critical Accounting Policies

Except for the accounting policies below, there have been no changes to our critical accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2016.

Business Combinations, Goodwill, and Intangible Assets

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users and acquired technology, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

The Company reviews goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company has elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the Company's single reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step goodwill impairment test will be performed. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step will be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the implied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. As of June 30, 2017, no impairment of goodwill has been identified.

Acquired finite-lived intangible assets are amortized over their estimated useful lives. The Company evaluates the recoverability of its intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. The Company has not recorded any such impairment charges.

Recently Adopted Accounting Pronouncements

Stock-based Compensation

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment.” The guidance will change how companies account for certain aspects of share-based payments to employees. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The Company adopted this guidance on January 1, 2017 and accordingly recorded a cumulative-effect adjustment charge of approximately $0.4 million to the beginning accumulated deficit for the impact of electing to account for forfeiture as it occurs. The adoption of this standard did not have any impact to the Statement of Operations or the Statement of Cash Flows. The Company is subject to full valuation allowance and thus has not utilized any excess tax benefits or realized any cash tax benefit related to stock compensation expense. The adoption of this standard did not have any material impact to the Company's results of operations for three and six months ended June 30, 2017.

Recently Issued Accounting Pronouncements

Goodwill

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-4, "Intangibles—Goodwill and Other." The standard eliminates Step 2 from the goodwill impairment test, under which an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, instead requiring an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The standard will become effective for the Company beginning January 1, 2020, and early adoption is permitted. At this point in time, the Company does not intend to adopt the standard early. Based on the Company's evaluation, the standard will not have a material impact on its consolidated financial statements.

Consolidation

In October 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-17, "Consolidation." The standard addresses how companies evaluate whether a reporting entity is the primary beneficiary of a VIE by changing how the reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The standard became effective for the Company beginning January 1, 2017. Based on the Company's evaluation, the standard did not have a material impact on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases." The guidance will require lessees to put all leases on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements in a manner similar to current practice. The guidance states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance will be effective for the Company beginning January 1, 2019 and early adoption is permitted. At this point in time, the Company does not intend to adopt the standard early. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the impact of adoption on its consolidated financial statement.

Financial Instruments

In January 2016, the FASB issued ASU 2016-1, "Financial Instruments." The guidance provides a new measurement alternative for equity investments that don't have readily determinable fair values and don't qualify for the net asset value practical expedient. Under this alternative, these investments can be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment if the same issuer. This guidance will be effective for the Company beginning January 1, 2018 and earlier adoption is not permitted. The Company is evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the impact of adoption on its consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," and has since updated the ASU. This ASU replaces existing revenue recognition standards with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. The new standard will be effective for the Company beginning January 1, 2018 with early adoption permitted beginning January 1, 2017. The Company has elected not to early adopt the new standard.

The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company currently plans to adopt under the full retrospective method. However, a final decision regarding the adoption method has not been finalized at this time.

The Company is currently assessing the impact of the new standard on its accounting policies, processes, and controls, including system requirements and has assigned internal resources and has also engaged a third party service provider to assist in its assessment.

Based on its assessment to date, the Company currently believes a significant impact from the adoption of the new standard will be related to the Company's costs to fulfill as well as its costs to obtain contracts with customers. For fulfillment costs, the new standard states that an entity shall recognize an asset from the costs incurred to fulfill a contract if certain criteria are met. The Company believes these criteria will be met and these costs will be recognized as an asset under the new standard. The costs to fulfill a contract that are recognized as an asset are then amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The Company currently expenses costs to fulfill a contract when they are incurred. Similar to fulfillment costs, for costs to obtain a contract (which are primarily sales commissions and broker fees), the standard states that costs to obtain a contract shall be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The Company currently capitalizes certain sales commissions and amortizes those costs over the non-cancelable portion of its subscription contracts. Under the new standard, the amortization period for the Company's costs to obtain a contract could be longer. Lastly, based on its assessment, the Company currently believes areas of impact related to the Company's revenue recognition will be in the accounting for termination provisions, the estimation of variable consideration, the accounting for contract modifications, and the allocation of the transaction price to the Company's multiple performance obligations.

While the Company continues to assess the potential impacts of the new standard, including the areas described above, and anticipates the standard could have a material impact on its consolidated financial statements, the Company does not know or cannot reasonably estimate quantitative information related to the impact of the new standard on the Company's consolidated financial statements at this time.

Note 3. Marketable Securities

All of the Company's cash equivalents and marketable securities are classified as "available-for-sale" securities. These securities are reported at fair value, with the related unrealized gains and losses included in accumulated other comprehensive income, a component of shareholders' equity.

At June 30, 2017 and December 31, 2016, respectively, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2017				
U.S. agency obligations	$ 48,188	$ 1	$ (14)	$48,175
U.S. treasury securities	9,985	—	(2)	9,983
Money market mutual funds	10,026	—	—	10,026
	68,199	1	(16)	68,184
Included in cash and cash equivalents	34,363	—	—	34,363
Included in marketable securities	$ 33,836	$ 1	$ (16)	$33,821

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2016				
U.S. agency obligations	$ 33,019	$ 5	$ (3)	$33,021
U.S. treasury securities	37,864	—	(2)	37,862
Money market mutual funds	7,965	—	—	7,965
	78,848	5	(5)	78,848
Included in cash and cash equivalents	12,966	—	—	12,966
Included in marketable securities	$ 65,882	$ 5	$ (5)	$65,882

Note 4. Fair Value Measurements

The Company measures its financial assets and liabilities at fair value at each reporting period using a fair value hierarchy that requires that the Company 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.
The Company classifies its contingent consideration liability in connection with the acquisition of Jiff within the Level 3 category, as factors used to develop the estimated fair value are unobservable inputs that are not supported by market activity. The Company estimates the fair value of the contingent consideration liability based on the Monte Carlo Simulation Model. The fair value of the contingent consideration is calculated with numerous projected outcomes, the results of which are averaged and then discounted to estimate the present value. Some of the more significant assumptions inherent in the development of the Monte Carlo Simulation, include bookings and revenue forecasts, asset-level volatility, stock price volatility, correlation between stock price and revenue, risk-free rate, weighted average cost of capital ("WACC"), and stock price.
Except for new valuation for contingent consideration liability, there have been no changes in valuation techniques in the periods presented. There were no significant transfers between fair value measurement levels as of June 30, 2017 and December 31, 2016.
The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis using the above input categories (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Cash equivalents:				
Money market mutual funds	$10,026	$—	$ —	$10,026
U.S. agency obligations	24,337	—	—	24,337
Marketable securities:				
U.S. agency obligations	—	23,838	—	23,838
U.S. treasury securities	—	9,983	—	9,983
	$34,363	$33,821	$ —	$68,184
Other current liabilities:				
Contingent consideration liability(1)	$—	$—	$ 28	$28

(1) Change in fair value is recorded in general and administrative expenses in the Company's condensed consolidated statement of operations.

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Cash equivalents:				
Money market mutual funds	$7,965	$—	$ —	$7,965
U.S. treasury securities	—	5,000	—	5,000
Marketable securities:				
U.S. agency obligations	—	33,021	—	33,021
U.S. treasury securities	—	32,862	—	32,862
	$7,965	$70,883	$ —	$78,848

Gross unrealized gains and losses for cash equivalents and marketable securities as of June 30, 2017 and December 31, 2016 were not material. The Company does not believe the unrealized losses represent other-than-temporary impairments based on the Company's evaluation of available evidence as of June 30, 2017 and December 31, 2016.

There were no realized gains or losses during the six months ended June 30, 2017. All of the Company's marketable securities at June 30, 2017 and December 31, 2016 mature within one year. 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.

The following is a reconciliation of the Level 3 contingent consideration liability (in thousands):

	Total
Balance as of December 31, 2016	$—
Initial fair value as of acquisition date	671
Re-measurement of fair value on June 30, 2017	(643)
Balance as of June 30, 2017	$28

(1) Changes in fair value are recorded in general and administrative expenses in our condensed consolidated statements of operations.

The fair value estimate of this liability was $0.7 million at the date of acquisition and changes in the fair value of the contingent consideration liability subsequent to the acquisition date, such as changes in the probability assessment and the fair value of our common stock, will be recognized in earnings in the period when the change in the estimated fair value occurs. During the quarter ended June 30, 2017, the Company recognized a $0.6 million gain related to change in the fair value of the contingent consideration liability in its condensed consolidated statements of operations.

Note 5. Business Combinations

On April 3, 2017, the Company completed its acquisition of Jiff. Jiff provides an enterprise health benefits platform that serves as a central hub for employee wellbeing and employee benefit programs. The acquisition enables the Company to provide the full spectrum of wellbeing, healthcare decision support and a benefits hub all in one complete package. The Company acquired Jiff for approximately 27,000,000 in shares and options.

At the closing on April 3, 2017, Venrock, a holder of more than 5% of the Company's capital stock, acquired a total of 3,965,979 shares of the Company's Class B common stock in exchange for its shares of Jiff capital stock. Venrock will also receive its pro rata share of any additional contingent consideration further described below. Bryan Roberts, the Company's former Chairman and current Lead Independent Director of the Company's Board of Directors is a Partner at Venrock. Accordingly, this was a related party transaction.

The Company's Board appointed a Special Committee (comprised solely of disinterested directors) to which it delegated the full and exclusive power, authority and discretion of the Castlight Board to evaluate, assess, and approve the Jiff transaction on its behalf, including retaining a financial advisor for an opinion on the fairness of the financial conditions of the transaction. The transaction was approved solely by the Special Committee which concluded that the transaction terms were fair to Castlight and the transaction was in the best interests of Castlight and its stockholders.

As part of the merger, certain stockholders and option holders will receive an aggregate of 1,000,000 shares of the Company's Class B common stock or options if the Jiff business achieves at least $25 million in revenue in 2017 and an aggregate of 3,000,000 shares of Class B common stock or options if the Jiff business achieves at least $25 million in net new bookings during 2017 ("the milestones"). All options for Jiff common stock held by Jiff employees who became employees of the combined company were converted into options to purchase the Company's Class B common stock.

The following table summarizes the components of the purchase consideration transferred based on the closing price of the Company's stock as of the acquisition date (in thousands):

	Fair value
Fair value of Company Class B common stock (25,054,049 shares @ $3.65 per share)	$91,447
Fair value of contingent consideration	671
Fair value of assumed Jiff options attributable to pre-combination services	9,574
Transaction costs paid on behalf of Jiff	4,498
Estimated purchase price consideration	$106,190

For the Jiff options assumed as part of the acquisition, the Company applied the ratio of pre-combination service provided, on a grant-by-grant basis, to the total service period and applied this ratio to the acquisition date fair value of the Jiff awards.

The Company determined that the contingent consideration shares associated with the milestones are one unit of account and the Company classified the contingent consideration as a liability as the arrangement can be settled in a variable number of shares and is not considered fixed-for-fixed. Based on the probability of completing the milestones and changes in the fair value of the Company's common stock, the Company used a Monte Carlo Simulation to determine the fair value of the contingent consideration liability which was $0.7 million at the date of acquisition and less than $0.1 million at June 30, 2017. The Company classified the contingent consideration liability as a current liability on the condensed consolidated balance sheet and the contingent consideration liability will be subsequently remeasured to fair value at each reporting date. See Note 4 for the fair value measurement disclosure on the contingent consideration liability.

The Company has accounted for this acquisition as a business combination. The method requires, among other things, that assets acquired and liabilities assumed in a business combination be recognized at their fair values as of the acquisition date.

The allocation of purchase consideration to assets and liabilities is not yet finalized. We continue to evaluate the fair value of certain assets and liabilities related to the acquisition of Jiff. Additional information, which existed as of the acquisition date but was at that time unknown to us, may become known to us during the remainder of the measurement period. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill. The preliminary estimated fair values of assets acquired and liabilities assumed, specifically, the tax-related liabilities, may be subject to change as additional information is received. The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisition of Jiff were recognized as follows (in thousands):

Cash	$2,234
Current assets	5,159
Other assets	1,971
Acquired intangible assets	23,900
Goodwill	91,398
Total assets acquired	124,662
Deferred revenue	(1,857)
Other current liabilities	(5,805)
Debt	(5,578)
Noncurrent liabilities	(5,232)

Total net assets acquired	$106,190

The fair values assigned to tangible assets acquired, liabilities assumed and identifiable intangible assets are based on management's estimates and assumptions. The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The goodwill balance is primarily attributed to the cross-selling opportunities, cost synergies, and a knowledgeable and experienced workforce which play an important role in the integration of the acquired customers and technology. The goodwill balance is not deductible for U.S. income tax purposes.

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

The following table sets forth the fair value components of identifiable acquired intangible assets (in thousands) and their estimated useful lives (in years):

	Fair Value	Useful Life
Customer relationships	$10,900	10
Developed technology	10,600	5
Backlog	1,500	3
Other acquired intangible assets	900	1-3
Total identifiable intangible assets	$23,900	

Customer relationships represent the fair value of projected cash flows that will be derived from the sale of products to Jiff's existing customers based on existing, in-process, and future versions of the underlying technology. Developed technology represents Jiff's benefits platform. The Company used the relief from royalty method to value the developed technology. To determine the net cash flow that a market participant would expect to realize from licensing the Company's technology, the Company estimated a net royalty rate, which excludes any expenses that would be incurred to maintain the current functionality of the technology.

The Company has included the financial results of Jiff in the condensed consolidated statements of operations from the date of acquisition. For the three and six months ended June 30, 2017 approximately $3.2 million of revenue attributable to Jiff was included in the consolidated results of operations, the associated operating loss was immaterial. The Company incurred $3.0 million of total acquisition-related costs for the six months ended June 30, 2017 that were recognized in general and administrative expenses.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and Jiff as if the companies were combined as of the beginning of 2016. The historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination and factually supportable. The unaudited pro forma financial information presented includes the business combination accounting effects resulting from the acquisition, including amortization charges from acquired intangible assets, stock-based compensation, and acquisition-related costs. The unaudited pro forma financial information as presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of 2016.

The unaudited pro forma financial information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Total revenue	$32,065	$25,109	$63,452	$48,454
Net loss	$(16,828)	$(25,020)	$(35,730)	$(51,501)

The pro forma revenue and net income reflects material, nonrecurring adjustments, such as the tax benefit of $5.2 million that resulted from the acquisition, non-recurring acquisition-related compensation expense and non-recurring deferred revenue fair value adjustments.

12

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

Note 6. Goodwill and Intangible Assets

Goodwill

Currently, all of the Company’s goodwill relates to the acquisition of Jiff. The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill.

The changes in the carrying amount of goodwill as of June 30, 2017 were as follows (in thousands):

Net balance as of December 31, 2016	$—
Acquisition of Jiff	91,398
Net balance as of June 30, 2017	$91,398

Intangible assets, net

The following table sets forth the fair value components of identifiable acquired intangible assets (in thousands) and their estimated useful lives (in years) as of June 30, 2017 were as follows (in thousands):

	Intangible Assets, Gross			Accumulated Amortization			Acquired Intangibles, Net	
	Dec 31, 2016 (1)	Additions	June 30, 2017	Dec 31, 2016	Expense	June 30, 2017	June 30, 2017	Useful Life
Customer relationships	$—	$10,900	$10,900	$—	$(273)	$(273)	10,627	10
Developed technology	—	10,600	10,600	—	(530)	(530)	10,070	5
Backlog	—	1,500	1,500	—	(221)	(221)	1,279	3
Other acquired intangible assets	—	900	900	—	(192)	(192)	708	1-3
Total identifiable intangible assets	$—	$23,900	$23,900	$—	$(1,216)	$(1,216)	$ 22,684	

(1) The Company had no intangible assets prior to the acquisition of Jiff.

Amortization expense from acquired intangible assets for the three and six months ended June 30, 2017 was $1.2 million and is included in cost of revenue subscription, general and administrative, and sales and marketing expenses.

Estimated amortization expense for acquired intangible assets for the following five years and thereafter is as follows (in thousands):

2017	2,431
2018	4,044
2019	3,505
2020	3,242
2021	3,210
Thereafter	6,252
Total estimated amortization expense	22,684

13

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

Note 7. Debt

Term Loan

In connection with the Company's acquisition of Jiff, on April 3, 2017, the Company, Jiff and Silicon Valley Bank ("Bank") agreed to refinance the existing term loan facility owed by Jiff to the Bank (the "Loan Agreement") for approximately $5.6 million term loan (the "Term Loan"). The Term Loan requires interest-only payments for the period May 2017 through September 2018, followed by 36 monthly payments of principal and interest. The maturity date of the Term Loan is September 1, 2021.

In addition to principal and interest payments, the Company is also required to pay $0.5 million as final payment on the earlier of maturity, termination or prepayment of the Term Loan. The Company accrues for the final payment over the life of the Term Loan using the effective interest method.

The future maturities of the Term Loan by year as of June 30, 2017 are as follows (in thousands):
Remainder of 2017 $—
2018