CASTLIGHT HEALTH, INC.
Form 10-Q
May 03, 2019
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 March 31, 2019

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)

(Former name, former address and former fiscal year, if changed since last report)
Not applicable

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, par value $0.0001 per share	CSLT	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Not applicable

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [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 [ ]	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 April 29, 2019, there were 35,117,853 shares of the Registrant’s Class A common stock outstanding and 108,842,540 shares of the Registrant’s Class B common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CASTLIGHT HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	As of March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$66,338	$ 66,005
Marketable securities	—	11,327
Accounts receivable and other, net	34,699	26,816
Prepaid expenses and other current assets	4,351	3,680
Total current assets	105,388	107,828
Property and equipment, net	3,754	3,963
Restricted cash, non-current	1,325	1,325
Deferred commissions	19,067	20,142
Deferred professional service costs	9,672	10,133
Intangible assets, net	15,333	16,209
Goodwill	91,785	91,785
Operating lease right-of-use assets, net	15,989	—
Other assets	2,209	2,129
Total assets	$264,522	$ 253,514
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$8,760	$ 9,556
Accrued expenses and other current liabilities	13,025	15,454
Accrued compensation	5,005	5,975
Deferred revenue	23,774	20,193
Operating lease liabilities	5,928	—
Total current liabilities	56,492	51,178
Deferred revenue, non-current	944	1,030
Debt, non-current	2,789	3,254
Operating lease liabilities, non-current	13,428	—
Other liabilities, non-current	1,040	3,381
Total liabilities	74,693	58,843
Commitments and contingencies		
Stockholders’ equity:		
Class A and Class B common stock	14	14
Additional paid-in capital	615,394	609,697
Accumulated other comprehensive loss	—	—
Accumulated deficit	(425,579)	(415,040)
Total stockholders’ equity	189,829	194,671
Total liabilities and stockholders’ equity	$264,522	$ 253,514

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 March 31, 2019	Three Months Ended March 31, 2018
Revenue:		
Subscription	$33,806	$32,989
Professional services and other	1,684	3,490
Total revenue, net	35,490	36,479
Cost of revenue:		
Cost of subscription (1)	8,166	9,174
Cost of professional services and other (1)	5,944	5,769
Total cost of revenue	14,110	14,943
Gross profit	21,380	21,536
Operating expenses:		
Sales and marketing (1)	9,215	13,912
Research and development (1)	15,725	15,371
General and administrative (1)	7,293	6,825
Total operating expenses	32,233	36,108
Operating loss	(10,853)	(14,572)
Other income, net	314	128
Net loss	$(10,539)	$(14,444)
Net loss per share, basic and diluted	$(0.07)	$(0.11)
Weighted-average shares used to compute basic and diluted net loss per share	143,000	134,994

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cost of revenue:		
Cost of subscription	$219	$242
Cost of professional services and other	265	301
Sales and marketing	627	1,138
Research and development	1,704	1,654
General and administrative	1,162	1,257

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 March 31,	
	2019	2018
Net loss	$(10,539)	$(14,444)
Other comprehensive income:		
Net change in unrealized gain on available-for-sale marketable securities	—	2
Other comprehensive income	—	2
Comprehensive loss	$(10,539)	$(14,442)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

CASTLIGHT HEALTH, INC
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(unaudited)

	Class A and B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances as of December 31, 2018	141,927,205	$ 14	$ 609,697	$ —	$ (415,040)	$ 194,671
Vesting of restricted stock units	967,712	—	—	—	—	—
Exercise of stock options, net	1,060,870	—	1,680	—	—	1,680
Stock-based compensation	—	—	4,017	—	—	4,017
Comprehensive loss	—	—	—	—	(10,539)	(10,539)
Balances as of March 31, 2019	143,955,787	$ 14	$ 615,394	$ —	$ (425,579)	$ 189,829
Balances as of December 31, 2017	134,539,275	$ 13	$ 586,900	$ (22)	$ (375,334)	$ 211,557
Vesting of restricted stock units	747,311	—	—	—	—	—
Exercise of stock options, net	309,242	—	490	—	—	490
Stock-based compensation	—	—	4,633	—	—	4,633
Comprehensive loss	—	—	—	2	(14,444)	(14,442)
Balances as of March 31, 2018	135,595,828	$ 13	$ 592,023	$ (20)	$ (389,778)	$ 202,238

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net loss	$(10,539)	$(14,444)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,344	1,860
Stock-based compensation	3,977	4,592
Amortization and impairment of deferred commissions	2,491	2,853
Amortization and impairment of deferred professional service costs	969	946
Non-cash operating lease expense	1,282	—
Lease exit and related charges	—	916
Accretion and amortization of marketable securities	(126)	(131)
Changes in operating assets and liabilities:		
Accounts receivable and other, net	(7,883)	(11,196)
Deferred commissions	(1,416)	(1,171)
Deferred professional service costs	(469)	(742)
Prepaid expenses and other assets	(751)	206
Accounts payable	(849)	1,783
Operating lease liabilities	(1,382)	—
Accrued expenses and other liabilities	(1,304)	(1,237)
Deferred revenue	3,495	3,183
Accrued compensation	(970)	(6,390)
Net cash used in operating activities	(12,131)	(18,972)
Investing activities:		
Purchase of property and equipment	(204)	(388)
Purchase of marketable securities	—	(10,025)
Maturities of marketable securities	11,453	15,750
Net cash provided by investing activities	11,249	5,337
Financing activities:		
Proceeds from exercise of stock options	1,680	490
Principal payments on long-term debt	(465)	—
Net cash provided by financing activities	1,215	490
Net increase (decrease) in cash, cash equivalents and restricted cash	333	(13,145)
Cash, cash equivalents and restricted cash at beginning of period	67,330	62,644
Cash, cash equivalents and restricted cash at end of period	$67,663	$49,499
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$66,338	$48,174
Restricted cash	1,325	1,325
Total cash, cash equivalents and restricted cash	$67,663	$49,499

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”) offers a comprehensive software-as-a-service platform that simplifies health benefits navigation for millions of employees. The Castlight platform matches employees to the best resources their employers make available to them, whether they are healthy, actively seeking medical care, or managing a condition, and motivates them to take the best steps for their health. Castlight helps employers generate more value from their benefits investments by helping to improve outcomes, lower health care costs, and increase benefits satisfaction. 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. Accounting Standards and 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 condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. 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, stockholders’ equity 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, 2018.

Other than described below, there have been no changes to our significant accounting policies described in our Annual Report that have had a material impact on our consolidated financial statements and related notes.
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:

- Variable consideration included in the transaction price of the Company’s contracts with customers;
- The standalone selling price of the performance obligations in the Company’s contracts with customers;
- Assumptions used in the valuation of certain equity awards;
- The amortization period for deferred commissions and deferred professional services costs; and
- Assumptions used in the calculation of right-of-use (“ROU”) assets and lease liabilities for operating leases, including lease terms and the Company’s incremental borrowing rate.

Actual results could differ from those estimates, and such differences could be material to the Company’s consolidated financial position and results of operations.

Summary of Significant Accounting Policies

Leases

The Company determines if an arrangement is a lease and its classification at lease inception. Operating lease liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the lease commencement date to compute the present value of lease payments when the implicit rate is not readily determinable. ROU assets are measured at lease inception based on the initial measurement of the lease liability, plus any prepaid lease amounts, less any lease incentives.

The Company does not recognize ROU assets or lease liabilities for leases with a term of 12 months or less. Lease terms do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised. Generally, lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease agreements have both lease and non-lease components. The Company has elected to account for the non-lease components of its leases as part of their related lease components.

Concentrations of Risk and Significant Customers

No single direct customer accounted for more than 10% of total revenue or accounts receivable for the three months ended March 31, 2019. Castlight had one channel partner that represented approximately 24% of total revenue for three months ended March 31, 2019, and approximately 23% of accounts receivable as of March 31, 2019.

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) 2016-02, Leases, and subsequent amendments ("ASC 842") using the modified retrospective method, and chose to apply the provisions at the beginning of the period of adoption. The guidance requires lessees to put all leases that have a term of more than one year on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements. The guidance states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term.

As a result of the adoption of ASC 842 as of January 1, 2019, reporting periods beginning on and after January 1, 2019 are presented under ASC 842, while prior period amounts were not adjusted and continue to be reported in accordance with prior accounting guidance under ASC 840. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2019 an operating lease ROU asset of approximately $17.3 million and an operating lease liability of approximately $20.7 million. The difference between the operating lease ROU asset and lease liability resulted from the reclass of the deferred rent liability to the operating lease ROU asset. The standard did not materially impact the Company’s condensed consolidated statement of operations and had no impact on the cash flows. See Note 10 - Leases for more information on leases.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued by the FASB. The Company determined that the ASUs issued by the FASB in the first quarter of 2019 are either not applicable or are expected to have minimal impact on the Company's condensed consolidated financial results.

Note 3. Revenue, Deferred Revenue, Contract Balances and Performance Obligations

The Company sells to customers based in the United States through direct sales and indirect channels. Indirect channel revenue represented approximately 26% and 10% of the Company’s total revenue for the three months ended March 31, 2019 and 2018, respectively.

Deferred revenue as of March 31, 2019 and December 31, 2018 was $24.7 million and $21.2 million, respectively. Contract assets as of March 31, 2019 and December 31, 2018 were $1.2 million and $1.0 million, respectively.

$11.2 million and $15.9 million of revenue was recognized during the three months ended March 31, 2019 and 2018, respectively, that was included in the Company's deferred revenue balances at the beginning of the respective periods.

The Company recorded favorable cumulative catch-up adjustments to revenue arising from changes in estimates of transaction price of $1.4 million during the three months ended March 31, 2019. Cumulative catch-up adjustments arising from changes in estimates of transaction price were immaterial during the three months ended March 31, 2018.

The aggregate balance of remaining performance obligations from non-cancelable contracts with customers as of March 31, 2019 was $145.4 million. The Company expects to recognize approximately 70% of this balance over the next 12 months, with the remaining balance recognized thereafter. Remaining performance obligations are defined as deferred revenue and amounts yet to be billed for the non-cancelable portion of contracts.

Note 4. Deferred Costs

Changes in the balance of total deferred commissions and total deferred professional service costs during the three months ended March 31, 2019 are as follows (in thousands):

	As of December 31, 2018	Additions	Expense recognized	As of March 31, 2019
Deferred commissions	$ 20,142	$ 1,416	$ (2,491)	$ 19,067
Deferred professional service costs	10,133	508	(969)	9,672
Total deferred commissions and professional service costs	$ 30,275	$ 1,924	$ (3,460)	$ 28,739

These costs are reviewed for impairment periodically, and no material impairment charges were recorded for the three months ended March 31, 2019 and 2018.

Note 5. 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. There were no changes to goodwill for the three months ended March 31, 2019.

Intangible assets, net

The following tables set forth the fair value components of identifiable acquired intangible assets (dollars in thousands):

	March 31, 2019			
	Useful Life	Gross	Accumulated Amortization	Net
Customer relationships	10	$ 10,900	$ (2,180)	$ 8,720
Developed technology	5	10,600	(4,240)	6,360
Backlog	3	1,500	(1,314)	186
Other acquired intangible assets	1-3	900	(833)	67
Total identifiable intangible assets		$ 23,900	$ (8,567)	$ 15,333

	December 31, 2018			
	Useful Life	Gross	Accumulated Amortization	Net
Customer relationships	10	$ 10,900	$ (1,908)	$ 8,992

Developed technology	5	10,600	(3,710	) 6,890
Backlog	3	1,500	(1,256	) 244
Other acquired intangible assets	1-3	900	(817	) 83
Total identifiable intangible assets		$23,900	$ (7,691	) $16,209

8

Table of Content

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

Amortization expense from acquired intangible assets for the three months ended March 31, 2019 and 2018 was $0.9 million and $1.1 million, respectively. Amortization expense is included in cost of subscription, sales and marketing, and general and administrative expenses.

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

Remainder of 2019	$2,629
2020	3,242
2021	3,210
2022	1,620
2023	1,090
Thereafter	3,542
Total estimated amortization expense	$15,333

Note 6. 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 stockholders’ equity, except for money market mutual funds, where gains and losses are included in the results of operation.

As of March 31, 2019 and December 31, 2018, respectively, marketable securities consisted of the following (in thousands):

	As of March 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	$3,138	$ —	$ —	$3,138
U.S. agency obligations	16,706	—	—	16,706
Money market mutual funds	7,623	—	—	7,623
Included in cash and cash equivalents	$27,467	$ —	$ —	$27,467

	As of December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	$7,980	$ —	$ —	$7,980
U.S. agency obligations	18,158	—	—	18,158
Money market mutual funds	7,115	—	—	7,115
	33,253	—	—	33,253
Included in cash and cash equivalents	21,926	—	—	21,926
Included in marketable securities	$11,327	$ —	$ —	$11,327

Note 7. 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.
There have been no changes in valuation techniques in the periods presented. There were no significant transfers between fair value measurement levels as of March 31, 2019 and December 31, 2018. As of March 31, 2019 and December 31, 2018, there were no securities within Level 3 of the fair value hierarchy.
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):

	As of March 31, 2019		
	Level 1	Level 2	Total
Cash equivalents:			
U.S. agency obligations	$—	$16,706	$16,706
U.S. treasury securities	—	3,138	3,138
Money market mutual funds	7,623	—	7,623
	$7,623	$19,844	$27,467

	As of December 31, 2018		
	Level 1	Level 2	Total
Cash equivalents:			
U.S. agency obligations	$—	$14,811	$14,811
Money market mutual funds	7,115	—	7,115
Marketable securities:			
U.S. treasury securities	—	7,980	7,980
U.S. agency obligations	—	3,347	3,347
	$7,115	$26,138	$33,253

Gross unrealized gains and losses for cash equivalents and marketable securities as of March 31, 2019 and December 31, 2018 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 March 31, 2019 and December 31, 2018.
There were no realized gains or losses during the three months ended March 31, 2019. 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. All of the Company's securities as of March 31, 2019 and December 31, 2018 mature within one year.

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

Note 8. Property and Equipment

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

	As of	
	March 31, 2019	December 31, 2018
Leasehold improvements	$3,102	$ 3,102
Computer equipment	6,931	6,860
Software	1,097	1,097
Internal-use software	2,925	2,925
Furniture and equipment	1,072	1,018
Total	15,127	15,002
Accumulated depreciation	(11,373)	(11,039)
Property and equipment, net	$3,754	$ 3,963

Depreciation and amortization expense for the three months ended March 31, 2019 and 2018 was $0.5 million and $0.7 million, respectively. Depreciation and amortization are recorded on a straight-line basis.

Note 9. Debt

Term Loan

In connection with the Company's acquisition of Jiff, on April 3, 2017, the Company, Jiff and Silicon Valley Bank (the "Bank") agreed to refinance the existing term loan facility owed by Jiff to the Bank (the "Loan Agreement") for approximately $5.6 million (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. Obligations under the Term Loan accrue interest at a floating per annum rate equal to the greater of (A) the prime rate as published in the money rates section of The Wall Street Journal ("Prime Rate") minus 1% or (B) 0%. Interest on the Term Loan is payable monthly. 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 March 31, 2019 are as follows (in thousands):

Remainder of 2019	$1,394
2020	1,859
2021[1]	1,395
Total future maturities of debt	$4,648
Less current maturities[2]	(1,859)
Debt, non-current	$2,789

[1] Excludes the $0.5 million required to be paid as final payment on the earlier of maturity, termination or prepayment of the Term Loan.

[2] Classified within accrued expenses and other current liabilities on the condensed consolidated balance sheet as of March 31, 2019.

Revolving Line of Credit

The Loan Agreement also provides for an up to $25 million revolving credit facility (the “Revolving Line”). As of March 31, 2019, no borrowings have been made under the Revolving Line. The Revolving Line expired on April 3, 2019, its termination date.

In relation to the Loan Agreement, the Company is subject to certain financial and reporting covenants. As of March 31, 2019, none of the financial covenants, which require the Company to maintain a certain minimum liquidity ratio, are applicable. The Company was in compliance with all reporting covenants in the Loan Agreement related to the outstanding principal balance as of March 31, 2019.

Note 10. Leases

The Company's principal commitments primarily consist of obligations under leases for office space and co-location facilities for data center capacity. The leases expire at various dates through 2025 and, in some cases, include renewal options. The exercise of the option is at the sole discretion of the Company. The Company subleases certain office facilities to third parties. These leases are classified as operating leases. The Company does not have any short-term or finance leases. Information about these operating leases is disclosed in the following table (dollars in thousands):

	Three Months Ended March 31, 2019
Lease cost:	
Operating lease cost	$1,649
Variable lease cost [1]	151
Sublease income	(616)
Total lease cost	$1,184
Other information:	
Operating cash flows used in the measurement of operating lease liabilities	$1,749
Weighted-average remaining lease term - operating leases (in years)	3.5
Weighted-average discount rate - operating leases	7.45 %

[1] Includes variable payments such as common area maintenance, property taxes and insurance.

Maturities of Lease Liabilities

As of March 31, 2019, the future minimum lease payments under non-cancellable operating leases are as follows (in thousands):

Remainder of 2019	$5,336
2020	6,524
2021	5,355
2022	3,050
2023	677
2024 and later	1,111
Total lease payments	22,053
Less: Interest	(2,697)
Present value of lease liabilities	$19,356
Less: current portion	(5,928)
Operating lease liabilities, non-current	$13,428

Note 11. Contingencies

Legal Matters

From time to time, the Company may become subject to other legal proceedings, claims or litigation arising in the ordinary course of business. In addition, the Company may receive letters alleging infringement of patents or other intellectual property rights. If an unfavorable outcome were to occur in litigation, the impact could be material to the Company’s business, financial condition, cash flow or results of operations, depending on the specific circumstances of the outcome. The Company

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

accrues for loss contingencies when it is both probable that it will incur the loss and when it can reasonably estimate the amount of the loss or range of loss.

Note 12. Stock Compensation
Restricted Stock Units

A summary of restricted stock unit activity for the three months ended March 31, 2019 is as follows:

	Number of Shares Outstanding	Weighted-Average Grant Date Fair Value
Balance as of December 31, 2018	9,528,602	$ 3.54
Restricted Stock Units granted	1,189,450	$ 3.40
Restricted Stock Units vested	(967,712)	$ 3.89
Restricted Stock Units forfeited and canceled [(1)]	(655,982)	$ 3.54
Balance as of March 31, 2019	9,094,358	$ 3.48

[(1)] Includes PSUs that were granted in the prior year, which were canceled because performance targets were not achieved.

As of March 31, 2019, there was a total of $29.1 million in unrecognized compensation cost related to restricted stock units and performance stock units, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

Stock Options

A summary of stock option activity for the three months ended March 31, 2019 is as follows:

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2018	6,265,223	$ 2.65	$ 3,499
Stock option grants	200,000	$ 3.22	
Stock options exercised	(1,060,870)	$ 1.58	
Stock options forfeited and canceled	(21,987)	$ 3.04	
Balance as of March 31, 2019	5,382,366	$ 2.88	$ 8,811

The total grant-date fair value of stock options granted during the three months ended March 31, 2019 and 2018 was $0.4 million and $0.3 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:

	Three Months Ended March 31, 2019	
	2019	2018
Volatility	57%	51%
Expected life (in years)	6.06	6.06
Risk-free interest rate	2.57%	2.72% - 2.74%

Dividend yield	—%

As of March 31, 2019, the Company had $1.2 million in unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 2.5 years.

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

Note 13. Stockholders' Equity
Common Stock
As of March 31, 2019, the Company had 36,137,783 shares of Class A common stock and 107,818,004 shares of Class B common stock outstanding.
Note 14. Income Taxes

The effective tax rate for each of the three month periods ended March 31, 2019 and 2018 was zero percent, primarily as a result of the estimated tax loss for the year and the change in valuation allowance. At March 31, 2019, all unrecognized tax benefits are subject to a full valuation allowance and, if recognized, will not affect the effective tax rate.
Note 15. 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 the Company's common stock (in thousands, except per share data):

	Three Months Ended March 31,			
	2019		2018	
	Class A	Class B	Class A	Class B
Net loss	$(2,741)	$(7,798)	$(5,646)	$(8,798)
Weighted-average shares used to compute basic and diluted net loss per share	37,189	105,811	52,764	82,230
Basic and diluted net loss per share	$(0.07)	$(0.07)	$(0.11)	$(0.11)

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 March 31,	
	2019	2018
Stock options and restricted stock units	14,477	20,601
Warrants	115	115
Total	14,592	20,716

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,” “intend,” “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.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations.

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.

Overview

Castlight Health, Inc. (“Castlight”, “the Company” or "we") offers a comprehensive software-as-a-service (“SaaS”) platform that simplifies health benefits navigation for millions of employees. Our platform matches employees to the best resources their employers make available to them - whether they are healthy, actively seeking medical care, or managing a condition - and motivates them to take the best steps for their health. Castlight helps employers generate more value from their benefits investments by helping to improve outcomes, lower health care costs, and increase benefits satisfaction.

Castlight’s platform solution supports strong employee engagement and satisfaction through two foundational components: an ecosystem of deep integrations across an employer’s various health and wellbeing partners; and a predictive analytics “engine” that uses claims, demographic and user data and machine learning to personalize clinical options, benefit programs, wellbeing incentives, communications, and educational content, based on each employee’s specific health and wellbeing needs.

This unique combination of data integrations and personalization puts Castlight in a position to deliver value to employees and their employers. For employees, our platform improves their health benefits experience, with a highly-engaging, seamless mobile application and web experience, which are coupled with multi-channel communications. In addition, the platform’s rewards feature is designed to incentivize individuals to participate in health programs, optimize their care utilization, and improve their daily habits. For employers, Castlight provides a simplified, cost-effective, and flexible way to manage health benefits: allowing them to procure, deploy, manage, and measure a vast majority of their healthcare and wellbeing program vendors through a single platform.

Castlight was incorporated in the State of Delaware in January 2008. Its first generation care guidance solutions addressed the needs of employees actively seeking care or managing a chronic condition and serve as the foundation of our current care guidance offering. In 2015, we launched Castlight Action, our data-driven personalization benefits content and recommendations platform, which has been integrated into all of our products and rebranded as Castlight Genius. In April

2017, we acquired Jiff, Inc. Jiff provided an enterprise health benefits platform that served as a central hub for employee wellbeing and employee benefit programs, and is the foundation for our wellbeing offering. In 2018, Castlight launched two offerings that deliver health care and wellbeing benefits navigation in a single user experience: Engage (January) and Castlight Complete (September). The Company's principal executive offices are located in San Francisco, California.

Key Factors Affecting Our Performance

Sales of New and Additional Products. Our revenue growth rate and long-term profitability are affected by our ability to sell new and additional products to new and existing customers, directly and through our channel partners. Additionally, we believe that there is a significant opportunity to sell subscriptions to add-on products as our customers become more familiar with our offering and seek to address additional needs.

Renewals of Customer Contracts. 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.

Channel Partnerships. We have relationships with channel partners including Anthem, which complement our direct sales capabilities. These relationships allow deeper penetration into our market and enable us to promote our health benefits platform and products to create customer cross-sell opportunities.

Ecosystem Partnerships: We have relationships with digital health partners that integrate with our platform to provide a more streamlined experience for our customers and users. We also have many third-party benefit solutions integrated with our products to enable effortless access to these programs to our users. We believe these partnerships enable a single user experience that is essential to drive engagement and increase user satisfaction.

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 our products are typically three to 12 months after entering into an agreement with a customer.

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.

Seasonality. We have historically observed seasonality related to employee benefits cycles as a significantly higher proportion of our customers enter into new subscription agreements with us in the second half of the year, compared to the first half of the year. As we continue to leverage our channel relationships and expand our business, there is no assurance this seasonality will continue. The impact from any seasonality in our new customer agreements 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.

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.

Key Business Metrics

We review a number of operating metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, and make strategic decisions.

Table of Contents

Signed Annual Recurring Revenue

	As of March 31,	
	2019	2018
	(in millions)	
Signed Annual Recurring Revenue	$154.3	$163.9

Revenue recognized in any quarter is largely derived from customer agreements signed in prior quarters. Accordingly, management measures sales performance and forecasts future subscription revenue based on signed Annual Recurring Revenue (“ARR”). ARR is a forward-looking metric based on contractual terms in existence as of the applicable ARR measurement date and is subject to change resulting from a number of factors including, but not limited to, addition of new customers, changes in user counts, terminations or non-renewals, renewal terms as well as upsells and cross-sells. As discussed above, we begin recognizing revenue from new customer agreements when we have implemented our offering, which can take from approximately three to 12 months after entering into an agreement with a customer.

ARR represents the annualized value of subscription revenue under contract with customers at the end of a quarter, which we refer to for this purpose as a measurement date. To calculate ARR, we first calculate the annualized subscription value for each signed customer (whether implemented or not), as of the applicable measurement date, by multiplying the monthly contract value of the subscription services under contract by 12. We exclude from this calculation any customers that have provided us with formal notice of termination or non-renewal as of the measurement date. ARR does not take into account the (i) potential for customers to terminate, or decline to renew, their agreements with us, (ii) achievement of non-recurring or yet-to-be-earned performance guarantees, (iii) one-time engagement bonuses included within our customer contracts or (iv) revenues related to professional services, such as implementation and communications services. ARR is not determined in reference to GAAP.

Our ARR as of March 31, 2019 was $154.3 million, compared with $163.9 million as of March 31, 2018, representing a decrease of approximately 6%, primarily attributable to churn, partially offset by new customers and renewals.

Annual Net Dollar Retention Rate

	Year Ended December 31,	
	2018	2017
Annual Net Dollar Retention Rate	82%	104%

We assess our performance on customer retention by measuring our Annual Net Dollar Retention rate (“NDR”). 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. Our NDR provides a measurement of our ability to increase revenue across our existing customer base through expansion of our additional products to existing customers, increases in user counts for existing customers and customer renewals, as offset by terminations or pricing changes. The addition or loss of a significant customer or customers during the calendar year can have a significant impact on NDR. We calculate NDR 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. In calculating NDR, we exclude one-time fees. NDR does not include subscriptions by new customers contracted since the end of the most recently completed year. We observed an annual net dollar retention rate of 82% and 104% for our signed customer base, for the years ended December 31, 2018 and 2017, respectively. The NDR of 82% at the end of 2018 was primarily due to churn, partially offset by upsells and cross-sells.

Components of Results of Operations
Revenue

We generate revenue from subscription fees from customers for access to the products 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, products sold through our online marketplace and add-on subscription products made available from our other ecosystem partners.
Our subscription fees are based primarily on the number of employees and adult dependents that employers identify as eligible to use our offering, which typically includes all of our customers' employees and adult dependents that receive health benefits.
Typically, we recognize subscription fees on a straight-line basis ratably over the contract term beginning when our products are implemented and ready for launch. 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 and the related revenues have been recognized are reflected as contract assets, recorded as accounts receivable in our condensed consolidated financial statements.

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.
Costs 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, bonuses, benefits and stock-based compensation), hosting costs of our cloud-based service, cost of subcontractors, expenses for service delivery (which includes call center support), amortization of internal-use software, depreciation of owned computer equipment and software, amortization of intangibles related to developed technology and backlog, and allocated overhead.

Cost of professional services and other revenue consists primarily of employee-related expenses (including salaries, bonuses, benefits and stock-based compensation) associated with these services, the cost of subcontractors, deferred and amortized professional services costs, 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 subscription revenue is expensed as we incur the costs. The cost of professional services and other revenue, to the extent they are incurred and are directly attributable to fulfillment of performance obligations under a customer contract, are deferred and amortized over the benefit period of five years.

Operating Expenses

Operating expenses consist of sales and marketing, research and development and general and administrative expenses.
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, marketing

programs, amortization of intangibles related to customer relationships and allocated overhead. All commissions earned by our sales force and third party referral fees are deferred and amortized generally over a period of five years.

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

General and Administrative. General and administrative expenses consist primarily of employee-related expenses (including salaries, bonuses, benefits and stock-based compensation) for finance and accounting, legal, human resources and

Table of Contents

management information systems personnel, legal costs, professional fees, other corporate expenses, acquisition-related costs, and allocated overhead.

Overhead Allocation. Expenses associated with our facilities and IT costs are allocated between cost of revenues and operating expenses based on employee headcount determined by the nature of work performed.

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 March 31,	
	2019	2018
Revenue:		
Subscription	95 %	90 %
Professional services and other	5 %	10 %
Total revenue, net	100 %	100 %
Cost of revenue:		
Cost of subscription	23 %	25 %
Cost of professional services and other	17 %	16 %
Total cost of revenue	40 %	41 %
Gross margin percentage	60 %	59 %
Operating expenses:		
Sales and marketing	26 %	38 %
Research and development	44 %	42 %
General and administrative	21 %	19 %
Total operating expenses	91 %	99 %
Operating loss	(31)%	(40)%
Other income, net	1 %	— %
Net loss	(30)%	(40)%

Revenue

	Three Months Ended March 31,			
	2019	2018	% Change	$ Change
	(In thousands, except percentages)			
Revenue:				
Subscription	$33,806	$32,989	2%	$ 817
Professional services and other	1,684	3,490	(52)%	(1,806)
Total revenue, net	$35,490	$36,479	(3)%	$ (989)

Total revenue for the three months ended March 31, 2019 decreased by $1.0 million, or 3%, primarily due to customer terminations in 2018, partially offset by customer launches in 2018 and 2019. Professional services and other revenue decreased primarily due to revenue related to non-recurring professional services in the three months ended March 31, 2018.

Table of Contents

Costs and Operating Expenses

	Three Months Ended March 31,			
	2019	2018	% Change	$ Change
	(In thousands, except percentages)			
Cost of revenue:				
Subscription	$8,166	$9,174	(11)%	$(1,008)
Professional services and other	5,944	5,769	3 %	175
Total cost of revenue	$14,110	$14,943	(6)%	$(833)
Gross margin (loss) percentage:				
Subscription	76 %	72 %		
Professional services and other	(253)%	(65)%		
Total gross margin	60 %	59 %		
Gross profit	$21,380	$21,536	(1)%	$(156)

Cost of subscription revenue for the three months ended March 31, 2019 decreased by $1.0 million, or 11%, primarily due to a decrease of $0.4 million in data fees and a decrease of $0.4 million in employee-related expenses.

Cost of professional services revenue for the three months ended March 31, 2019 increased by $0.2 million or 3%. The increase is primarily due to a $0.3 million increase in employee-related expenses, arising primarily from headcount growth to support our new customer launches.

Gross margin for the three months ended March 31, 2019 remained relatively flat.

Sales and Marketing

	Three Months Ended March 31,			
	2019	2018	% Change	$ Change
	(In thousands, except percentages)			
Sales and marketing	$9,215	$13,912	(34)%	$(4,697)

Sales and marketing expense for the three months ended March 31, 2019 decreased by $4.7 million, or 34%, primarily due to decreases of $3.0 million in employee-related expenses primarily due to the reduction in force in the third quarter of 2018, $0.4 million in third-party referral fees, $0.3 million in travel-related expenses and $0.3 million in marketing programs.

Research and Development

	Three Months Ended March 31,			
	2019	2018	% Change	$ Change
	(In thousands, except percentages)			
Research and development	$15,725	$15,371	2 %	$ 354

Research and development expense for the three months ended March 31, 2019 increased by $0.4 million, or 2%. The overall increase was primarily due to an increase in employee-related expenses of $0.6 million.

Table of Contents

General and Administrative

	Three Months Ended March 31,			
	2019	2018	% Change	$ Change
	(In thousands, except percentages)			
General and administrative	$7,293	$6,825	7 %	$ 468

General and administrative expense for the three months ended March 31, 2019 increased by $0.5 million, or 7%. The overall increase was primarily due to an increase in employee-related expenses of $0.3 million.

Liquidity and Capital Resources

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Net cash used in operating activities	$(12,131)	$(18,972)
Net cash provided by investing activities	11,249	5,337
Net cash provided by financing activities	1,215	490
Net increase (decrease) in cash, cash equivalents and restricted cash	$333	$(13,145)

As of March 31, 2019, our principal sources of liquidity were cash and cash equivalents totaling $66.3 million, which were held for working capital purposes. Our securities are comprised of U.S. agency obligations, U.S. treasury securities and money market funds.

Since our inception, we have financed our operations primarily through sales of equity securities and, to a lesser extent, payments from our customers. We believe that our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, new customer acquisitions, subscription renewal activity, the timing and extent of spending to support development efforts, the introduction of new and enhanced services offerings and the continuing market acceptance of our cloud-based subscription services. Although we currently are not a party to any agreement and do not have any understanding with any third parties with respect to potential investments in, or acquisitions of, businesses or technologies, we may in the future enter into these types of arrangements.

On April 3, 2017, Castlight, Jiff and Silicon Valley Bank agreed to refinance the existing term loan facility owed by Jiff to the Silicon Valley Bank. The loan agreement provides for an approximately $5.6 million term loan and up to a $25 million revolving credit facility. The revolving credit facility expired on April 3, 2019, its termination date. Refer to Note 9-Debt to the condensed consolidated financial statements for further information on our debt.

We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

Operating Activities

Cash used in operating activities for the three months ended March 31, 2019 and 2018 was $12.1 million and $19.0 million, respectively. The decrease in cash used in operations resulted primarily from lower average year-to-date headcount. Cash used in operations reflected our net loss of $10.5 million for the three months ended March 31, 2019, adjusted by $9.9 million in non-cash expenses, including stock-based compensation of $4.0 million, amortization of deferred costs of $3.5 million, depreciation and amortization of $1.3 million and non-cash operating lease expense of $1.3 million. Uses of cash included an increase in accounts receivable of $7.9 million, primarily as a result of the timing of billings and collections. Other uses of cash included a decrease in accounts payable and other accruals of $2.2 million primarily due to timing of volume of payments to our ecosystem partners, a decrease in accrued compensation of $1.0 million primarily due to payout of 2018 bonuses, an increase in deferred costs of $1.9 million, a decrease in operating lease liabilities of $1.4 million and an increase in other assets of $0.8 million. These uses of cash were partially offset by an increase in deferred revenue of $3.5 million, primarily as a result of higher billings than revenue recognized.

Table of Contents

Investing Activities

Cash provided by investing activities for the three months ended March 31, 2019 and 2018 was $11.2 million and $5.3 million, respectively. Net cash provided by investing activities was primarily attributable to $11.5 million of maturities of marketable securities, partially offset by purchases of $0.2 million of property and equipment.

Financing Activities

Cash provided by financing activities for the three months ended March 31, 2019 and 2018 was $1.2 million and $0.5 million, respectively. Net cash provided by financing activities during the three months ended March 31, 2019 was due to proceeds from the exercise of employee stock options of $1.7 million, partially offset by the payments on long-term debt of $0.5 million.

Contractual Obligations and Commitments

Our principal commitments primarily consist of obligations under leases for office space and a term loan facility with Silicon Valley Bank and co-location facilities for data center capacity. Our existing lease agreements provide us with the option to renew and generally provide for rental payments on a graduated basis. Our future operating lease obligations would change if we entered into additional operating lease agreements as we expand our operations and if we exercised these options. See Note 9 –Debt and Note 10–Leases to the condensed consolidated financial statements for a discussion of our term loan and lease commitments, respectively. There were no other material changes in the Company's contractual obligations from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2018 other than those discussed in Note 11–Contingencies to the condensed consolidated financial statements.

Other than the term loan and lease commitments discussed in Note 9 –Debt and Note 10–Leases, respectively, to the condensed consolidated financial statements, we do not have commitments under lines of credit, or other such debt arrangements. We do not have any material non-cancelable purchase commitments as of March 31, 2019.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are therefore not exposed to the financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

Critical Accounting Policies and Estimates

There were no significant changes to our critical accounting policies during the three months ended March 31, 2019, as described in our Annual Report on Form 10-K for the year ended December 31, 2018. Effective January 1, 2019, we adopted ASU 2016-02, Leases ("ASC 842"). As a result of this adoption, we were required to make certain estimates and assumptions. See Note 2 - Accounting Standards and Significant Accounting Policies under the captions "Use of Estimates," "Summary of Significant Accounting Policies," and "Recently Adopted Accounting Pronouncements" for more information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

We had cash and cash equivalents totaling $66.3 million as of March 31, 2019 and cash, cash equivalents and marketable securities totaling $77.3 million as of December 31, 2018. These are invested primarily in U.S. agency obligations, U.S. treasury securities and money market funds. The cash and cash equivalents are held for working capital and other general corporate purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes. All our investments are denominated in U.S. dollars.

Table of Contents

Our cash equivalents are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Our fixed-income portfolio is subject to interest rate risk.
An immediate increase or decrease of 100-basis points in interest rates would result in an immaterial change in the market value of our investments as of March 31, 2019. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

We also have interest rate exposure as a result of our loan agreement, which provides a term loan and revolving credit facility, as described in Note 9–Debt to the condensed consolidated financial statements. We currently do not hedge this risk. As of March 31, 2019, we had $4.6 million of borrowings outstanding under the term loan and no borrowings outstanding under the revolving credit facility. The revolving credit facility expired on April 3, 2019, its termination date. Borrowings outstanding under the term loan are subject to variable interest rates based on the prime rate as published in the money rates section of The Wall Street Journal. Changes in the prime rate will affect the interest on borrowings under the loan agreement. However, a 50-basis point increase in the interest rate on the term loan would not materially increase interest expense during 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report.

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

Based on our management’s evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2019, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In January 2019, we implemented changes to our lease related policies and processes to support the adoption of ASU 2016-02, Leases (“ASC 842”). We have also updated internal controls over financial reporting to ensure compliance with the new accounting and disclosure rules.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, see Note 11 - Contingencies of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, which is incorporated herein by reference.

From time to time, we may become subject to other legal proceedings, claims or litigation arising in the ordinary course of business. We are not presently a party to any other legal proceedings that in the opinion of our management, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition, or cash flows.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations and future prospects could be materially and adversely affected. In that event the market price of our Class B common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We rely on channel partners for a substantial portion of our sales, and if our channel partner relationships are unsuccessful then our sales results will be adversely affected and the growth of our business will be harmed.

Our sales strategy relies on relationships we have developed with health plans, benefits consultants, brokers and other industry participants, and we are continuing to invest in, and expect to continue to increase our reliance on, these relationships with channel partners to access customers and grow our overall sales. However, there can be no assurance that our channel partner relationships will be successful, or will result in access to additional customers or growth in sales. Our channel partnerships do not always meet our expectations and could fail for a variety of reasons, including changes in our partners' business priorities, insufficient or misaligned incentives for our partners to assist us with sales, competition, or other factors.

In addition, our reliance on sales through channel partners could put downward pressure on the total revenue we are able to generate, and could result in existing customers electing to use alternative or lower-functionality versions of our products that we may elect to provide through channel partners. The concentration of a material portion of business with any given channel partner could also create tensions with other companies we do business with, including health plans on whom we rely to receive data and offer our services.

Certain relationships we will enter or have entered into with channel partners will require substantial investments of our resources to support these initiatives. There can be no assurance that the investments we make to develop and support these channel relationships, or the effort required to do so, will provide a positive return on our investment in the near term, or at all. If any of these events materialize, our business and results of operations could be materially adversely affected.

If our new products and services are not adopted by our customers, or if we fail to continue to innovate and develop new products and services that are adopted by customers, then our revenue and operating results will be adversely affected.

Prior to our acquisition of Jiff, we derived a substantial majority of our revenue from sales of our legacy care guidance platform, and our longer-term operating results and continued growth depend in part on our ability to successfully develop and sell new products and services that our new and existing customers want and are willing to purchase. In addition to our legacy core Castlight platform (now marketed as our care guidance solution), we continue to introduce a number of products and cross-sells, such as our latest offering of Castlight Complete, Care Guidance Navigator, Wellbeing Navigator, Elevate and Engage, but it is uncertain whether these products and services will result in significant revenue or comprise a significant portion of our total revenue. In addition, based on our belief that our customers are interested in acquiring wellness-related products, we devoted substantial efforts to our acquisition of Jiff, and expect to continue to devote substantial efforts to the integration and expansion of that portion of the business. We have also invested, and will continue to invest, significant resources in research and development to enhance our existing offering and introduce new high quality products and services. If

Table of Contents

existing customers are not willing to make additional payments for such new products, or if new customers do not value such new products, our business and operating results will be harmed. If we are unable to predict user preferences or our industry changes, or if we are unable to modify our offering 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, appropriately timed with market opportunity or effectively communicated and brought to market.

If our existing customers do not continue or renew their agreements with us, renew at lower fee levels or decline to purchase additional products and services from us, our business and operating results will suffer.

We expect to derive a significant portion of our revenue from renewal of existing customer agreements and sales of additional products and services to existing customers. Revenue recognized in any quarter is largely derived from customer agreements signed in prior quarters. As a result, achieving a high renewal rate of our customer agreements and selling additional products and services is critical to our future operating results.

We may experience significantly more difficulty than we anticipate in renewing existing customer agreements or in renewing them upon favorable terms, particularly as we seek to convert customers who initially purchased our transparency-only offering to our full platform offering. Factors that may affect the renewal rate for our offering, terms of those renewals and our ability to sell additional products and services include:

- the price, performance and functionality of our offering;
- our customers' user counts and benefit design features;
- the availability, price, performance and functionality of competing or alternative solutions;
- the potential for customers that are able to access lower-functionality versions of our offering that we provide through health plans or other channel partners to opt to use the lower-functionality versions of our offering;
- our ability to develop complementary products and services;
- our continued ability to access the pricing and claims data necessary to enable us to deliver reliable data in our cost estimation and price transparency offering to customers;
- the stability, performance and security of our hosting infrastructure and hosting services;
- changes in health care laws, regulations or trends; and
- the business environment of our customers, in particular, headcount reductions by our customers.

We enter into master services agreements with our customers. These agreements generally have stated terms of three years. Our customers have no obligation to renew their subscriptions for our offering after the term expires. In addition, our customers may negotiate terms less advantageous to us upon renewal, which may reduce our revenue from these customers. Factors that are not within our control may contribute to a reduction in our contract revenue. For instance, our customers may reduce their number of employees, which would result in a corresponding reduction in the number of employee users eligible for our offering and thus a lower aggregate monthly services fee. Our future operating results also depend, in part, on our ability to sell new products and services to our existing customers. If our customers fail to renew their agreements, renew their agreements upon less favorable terms or at lower fee levels, or fail to purchase new products and services from us, our revenue may decline or our future revenue may be constrained.

In addition, a significant number of our customer agreements allow customers to terminate such agreements for convenience at certain times, typically with one to three months advance notice. We typically incur the expenses associated with integrating a customer's data into our health care database and related training and support prior to recognizing meaningful revenue from such customer. Customer subscription revenue is not recognized until our products are implemented for launch, which is generally from three to 12 months from contract signing. If a customer terminates its agreement early and revenue and cash flows expected from a customer are not realized in the time period expected or not realized at all, our business, operating results and financial condition could be adversely affected.

We operate in a competitive industry, and if we are not able to compete effectively, our business and operating results will be harmed.

The market for our products and services is competitive, and we expect the market to attract increased competition, which could make it hard for us to succeed. We currently face competition for portions of our offering from a range of companies, including healthcare information technology companies and specialized software and solution providers that offer similar solutions, often at substantially lower prices, and that are continuing to develop additional products and becoming more sophisticated and effective. Our market is in an early stage of development, but is rapidly evolving and competitive. We

Table of Contents

currently face competition from both existing and emerging vendors across a variety of categories, from specialists in the care guidance and wellbeing areas of the market, to broader offerings that compete with our full health navigation platform. There are a number of independent companies we compete with across the various functions of our health navigation platform. Care guidance competitors include Accolade, ClearCost Health, Compass, HealthAdvocate, Healthcare Bluebook, and Quantum Health. Wellbeing competitors include Limeade, VirginPulse, and Vitality. Platform competitors include Evive, Optum/Rally, Sharecare, and Welltok.

In addition, large, well-financed health plans, with whom we cooperate and on whom we depend in order to obtain the pricing and claims data we need to deliver our offering to customers, have in some cases developed or acquired their own wellbeing and care guidance tools and provide these solutions to their customers at discounted prices or often for free. These health plans include, for example, Aetna Inc., Cigna Corporation, Health Services Corporation, and UnitedHealth Group, Inc. Competition from specialized software and solution providers, health plans and other parties may result in pricing pressure, which may lead to price decline in certain product segments, which could negatively impact our sales, profitability and market share. In addition, if health plans perceive continued cooperation with us as a threat to their business interests, they may take steps that impair our access to pricing and claims data, or that otherwise make it more difficult or costly for us to deliver our offering to customers.

Some of our competitors, in particular health plans, have greater name recognition, longer operating histories and significantly greater resources than we do. Furthermore, our current or potential competitors may be acquired by third parties with greater available resources. 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 and may have the ability to initiate or withstand substantial price competition. 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 solutions in the marketplace. The field of healthcare and the services related to healthcare are subject to change, and there has been consolidation in the industry. 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. Our competitors could also be better positioned to serve certain segments of our market, such as customers that desire a more narrow solution, which could create additional price pressure. In light of these factors, even if our offering is more effective than those of our competitors, current or potential customers might accept competitive offerings in lieu of purchasing our offerings.

Our proprietary software may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm our business and operating results.

Proprietary software development is time-consuming, expensive and complex, and may involve unforeseen difficulties. We may encounter technical obstacles, and it is possible that we will discover additional problems that prevent our proprietary products from operating properly. We are currently developing new features and services in our proprietary software for all of our offerings. If any of our offerings does not function reliably or fails to achieve customer expectations in terms of performance, customers could assert liability claims against us or attempt to cancel their contracts with us. This could damage our reputation and impair our ability to attract or maintain clients which would adversely affect our operating results.

Moreover, data services that are as complex as those we offer have in the past contained, and may in the future develop or contain, undetected defects or errors. Material performance problems, defects or errors in our existing or new software and products and services may arise in the future and may result from interface of our offering with systems and data that we did not develop and the function of which is outside of our control or undetected in our testing. These defects and errors and any failure by us to identify and address them could result in loss of revenue or market share, diversion of development resources, injury to our reputation and increased service and maintenance costs. Defects or errors in our health benefits platform might discourage existing or potential customers from purchasing our offering from us. Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors may be substantial and could adversely affect our operating results.

Any failure to offer high-quality technical support services may adversely affect our relationships with our customers and harm our financial results.

Table of Contents

Our customers depend on our support organization to resolve any technical issues relating to our offering. In addition, our sales process is highly dependent on the quality of our offering, our business reputation and on strong recommendations from our existing customers. Any failure to maintain high-quality and highly-responsive technical support, or a market perception that we do not maintain high-quality and highly-responsive support, could harm our reputation, adversely affect our ability to sell our offering to existing and prospective customers, and harm our business, operating results and financial condition.
We offer technical support services with our offering and may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services, particularly as we increase the size of our customer base. We also may be unable to modify the format of our support services to compete with changes in support services provided by competitors. It is difficult to predict customer demand for technical support services and if customer demand increases significantly, we may be unable to provide satisfactory support services to our customers and their employees. Additionally, increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results.
If we cannot implement our offering for customers in a timely manner, we may lose customers and our reputation may be harmed.
Our customers have a variety of different data formats, enterprise applications and infrastructure and our offering must support our customers’ data formats and integrate with complex enterprise applications and infrastructures. If our platform does not currently support a customer’s required data format or appropriately integrate with a customer’s applications and infrastructure, or if an existing customer switches to unsupported infrastructure, then we may have to configure our platform to do so, which increases our expenses. Additionally, we do not control our customers’ implementation schedules. As a result, if our customers do not allocate internal resources necessary to meet their implementation responsibilities or if we face unanticipated implementation difficulties, the implementation may be delayed. Further, our implementation capacity has at times constrained our ability to successfully implement our offering for our customers in a timely manner, particularly during periods of high demand. If the customer implementation process is not executed successfully or if execution is delayed, we could incur significant costs, customers could become dissatisfied and decide not to increase usage of our offering, or not to use our offering beyond an initial period prior to their term commitment or, in some cases, revenue recognition could be delayed. Our data dependencies and implementation procedures differ for each new product that we launch. Accordingly, our ability to convert sales of new products into billings and revenue depends on our ability to create a scalable launch infrastructure in each case. In addition, competitors with more efficient operating models with lower implementation costs could penetrate our customer relationships.

Additionally, large and demanding enterprise customers, who currently comprise the majority of our customer base, may request or require specific features or functions unique to their particular business processes, which increase our upfront investment in sales and deployment efforts and the revenue resulting from the customers under our typical contract length may not cover the upfront investments. If prospective large customers require specific features or functions that we do not offer, then the market for our offering will be more limited and our business could suffer.

In addition, supporting large customers could require us to devote significant development services and support personnel and strain our personnel resources and infrastructure. Furthermore, if we are unable to address the needs of these customers in a timely fashion or further develop and enhance our offering, or if a customer or its employees are not satisfied with our quality of work, our offering or professional services then we could incur additional costs to address the situation. In addition, we may be required to issue credits or refunds for prepaid amounts related to unused services, the timing of recognition of revenue for, and the profitability of, that work might be impaired and the customer’s dissatisfaction with our offering could damage our ability to expand the number of products and services purchased by that customer. These customers may not renew their agreements, seek to terminate their relationship with us or renew on less favorable terms. Moreover, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to retain or compete for new business with current and prospective customers. If any of these were to occur, our revenue may fail to grow at historical rates or at all, or may even decline, and our operating results could be adversely affected.

If we fail to manage our growth effectively, our expenses could increase more than expected, our revenue may not increase and we may be unable to implement our business strategy.

Table of Contents

We have experienced significant growth since our inception, both organic and through acquisitions, which puts strain on our business, operations and employees. Future revenues may not grow at the same rates they have historically or may even stagnate or decline. To manage our current and anticipated future growth effectively, we must continue to maintain and enhance our IT infrastructure, financial and accounting systems and controls. Moreover, we may from time to time decide to undertake cost savings initiatives, such as the reductions in workforce we implemented in 2016 and 2018, or disposing of, or otherwise discontinuing certain products, in an effort to focus our resources on key strategic initiatives and streamline our business. We must also attract, train and retain a significant number of qualified personnel in key areas such as research and development, sales and marketing, customer support, professional services, and management, and the availability of such personnel, in particular software engineers, may be constrained. These and similar challenges, and the related costs, may be exacerbated by the fact that our headquarters is located in the San Francisco Bay Area.

A key aspect to managing our growth is our ability to scale our capabilities to implement our offering satisfactorily with respect to both large and demanding enterprise customers, who currently comprise the majority of our customer base, as well as smaller customers. Large customers often require specific features or functions unique to their particular business processes, which at a time of rapid growth or during periods of high demand, may strain our implementation capacity and hinder our ability to successfully implement our offering to our customers in a timely manner. We may also need to make further investments in our technology and automate portions of our offering or services to decrease our costs, particularly as we grow sales of our health benefits platform to smaller customers. If we are unable to address the needs of our customers or their employees, or our customers or their employees are unsatisfied with the quality of our offering or services, they may not renew their agreements, seek to cancel or terminate their relationship with us or renew on less favorable terms. In addition, many of our customers adjust their benefit plan designs, benefits providers and eligibility criteria at the start of each new benefits plan year, requiring additional configurations for those customers. As our customer base grows, the complexity of these activities can increase. If we fail to automate these operations sufficiently and implement these changes on a timely basis or are unable to implement them effectively, our business may suffer.

We may experience additional challenges with managing our growth relating to our acquisition of Jiff. The operation and integration of the acquired technologies has required, and we expect will continue to require, substantial financial costs and substantial management attention. If we fail to effectively manage the continued integration process in a timely manner, our business and financial results may suffer.

Failure to effectively manage our growth could also 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, financial losses, loss of productivity or business opportunities and result in loss of employees and reduced productivity of remaining employees. Our growth is expected to require significant capital expenditures and might divert financial resources from other projects such as the development of new products and services. In addition, data and content fees, which are one of our primary operational costs, are not fixed as they vary based on the source and condition of the data we receive from third parties, and if they remain variable or increase over time, we would not be able to realize the economies of scale that we expect as we grow renewals and implementation of new customers, which may negatively impact our gross margin. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue may not increase or might grow more slowly than expected and we might be unable to implement our business strategy. The quality of our offering might also suffer, which could negatively affect our reputation and harm our ability to retain and attract customers.

We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled employees or key subcontractor services could adversely affect our business.

Our success depends largely upon the continued services of our key executive officers. These executive officers are at-will employees and therefore may terminate employment with us at any time with no advance notice. We do not maintain “key person” insurance for any of these executive officers or any of our other key employees. We also rely on our leadership team in the areas of research and development, marketing, services and general and administrative functions. 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 replacement of one or more of our executive officers or other key employees would likely involve significant time and cost and may significantly delay or prevent the achievement of our business objectives.

To continue to execute our growth strategy, we also must attract and retain highly skilled personnel, particularly in research and development and sales and marketing. Competition is intense for engineers with high levels of experience in designing and developing software and Internet-related services, particularly in the San Francisco Bay Area where we are

Table of Contents

located. 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 with Software-as-a-Service, or SaaS, experience or experience working with the health care market is limited overall. In addition, many of the companies with which we compete for experienced personnel have greater resources than we have. We supplement our hired skilled personnel through the use of subcontractors, particularly in the area of research and development, a significant portion of which perform services outside of the United States. If these subcontractors cease to perform services for us for any reason, our ability to meet our development goals may be impaired, and our business and future growth prospects could be severely harmed.

In addition, in making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the stock options or other equity instruments they are to receive in connection with their employment. Volatility or performance trends in the price of our stock might, therefore, adversely affect our ability to attract or retain highly skilled personnel. Furthermore, the requirement to expense stock options and other equity instruments might discourage us from granting the size or type of stock option or equity awards that job candidates require to join our company. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

Our marketing efforts depend significantly on our ability to receive positive references from our existing customers.

Our marketing efforts depend significantly on our ability to call on our current customers to provide positive references to new, potential customers. Given our limited number of long-term customers, the loss or dissatisfaction of any customer could substantially harm our brand and reputation, inhibit the market adoption of our offering and impair our ability to attract new customers and maintain existing customers. Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

If our security measures are breached and customer's data are compromised, our offering may be perceived as insecure, we may incur significant liabilities, our reputation may be harmed and we could lose sales and customers.

Our offering involves the storage and transmission of customers' proprietary information, personally identifiable information, and protected health information of our customers' employees and their dependents, which is regulated under the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations, collectively HIPAA. Because of the extreme sensitivity of this information, the security features of our offering are very important. If our security measures, some of which are managed by third parties, are breached or fail, unauthorized persons may be able to obtain access to sensitive customer or employee data, including HIPAA-regulated protected health information. A security breach or failure could result from a variety of circumstances and events, including third-party action, employee negligence or error, malfeasance, computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors, and catastrophic events.

If our security measures were to be breached or fail, our reputation could be severely damaged, adversely affecting customer or investor confidence, customers may curtail their use of or stop using our offering and our business may suffer. In addition, we could face litigation, damages for contract breach, penalties and regulatory actions for violation of HIPAA and other laws or regulations applicable to data protection and significant costs for remediation and for measures to prevent future occurrences. In addition, any potential security breach could result in increased costs associated with liability for stolen assets or information, repairing system damage that may have been caused by such breaches, incentives offered to customers or other business partners in an effort to maintain the business relationships after a breach and implementing measures to prevent future occurrences, including organizational changes, deploying additional personnel and protection technologies, training employees and engaging third-party experts and consultants. While we maintain insurance covering certain security and privacy damages and claim expenses we may not carry insurance or maintain coverage sufficient to compensate for all liability and such insurance may not be available for renewal on acceptable terms or at all, and in any event, insurance coverage would not address the reputational damage that could result from a security incident.

We outsource important aspects of the storage and transmission of customer information, and thus rely on third parties to manage functions that have material cyber-security risks. These outsourced functions include services such as software design and product development, software engineering, database consulting, call center operations, co-location data centers, data-center security, IT, network security and Web application firewall services. We attempt to address these risks by requiring outsourcing subcontractors who handle customer information to sign business associate agreements contractually requiring those subcontractors to adequately safeguard personal health data and in some cases by requiring such outsourcing subcontractors to undergo third-party security examinations. However, we cannot assure you that these contractual measures and other safeguards will adequately protect us from the risks associated with the storage and transmission of customers proprietary and protected health information.

We may experience cyber-security and other breach incidents that may remain undetected for an extended period. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against us, we may be unable to anticipate these techniques or to implement adequate preventive measures. In addition, in the event that our customers authorize or enable third parties to access their data or the data of their employees on our systems, we cannot ensure the complete integrity or security of such data in our systems as we would not control that access. Third parties may also attempt to fraudulently induce our employees or customers and their employees into disclosing sensitive information such as user names, passwords or other information or otherwise compromise our security measures in order to gain access to customer information, which could result in significant legal and financial exposure, a loss of confidence in the security of our offering, interruptions or malfunctions in our operations, and, ultimately, harm to our future business prospects and revenue. Because our offering offers single sign-on capabilities for our customers and their employees to point solutions offered by our partners, unauthorized access to our offering could also result in security breaches of customer information and data in offerings by our partners. We may be required to expend significant capital and financial resources to invest in security measures, protect against such threats or to alleviate problems caused by breaches in security. If an actual or perceived breach of our security occurs, or if we are unable to effectively resolve such breaches in a timely manner, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers or suffer other reputational harm.

Regardless of the merits of any such suit, defending it could be costly and divert management’s attention from leading our business.

We have a history of significant GAAP losses, which we expect to continue for the foreseeable future, and we may never achieve or sustain profitability in the future.

We have incurred significant GAAP net losses in each year since our incorporation in 2008 and expect to continue to incur GAAP net losses for at least fiscal year 2019. We experienced GAAP net losses of $10.5 million, $39.7 million, $51.9 million and $58.7 million during the three months ended March 31, 2019, and the years ended 2018, 2017, and 2016, respectively. As of March 31, 2019, we had an accumulated deficit of $425.6 million. The GAAP losses and accumulated deficit were primarily due to the substantial investments we made to grow our business, enhance our technology and offering through research and development and acquire and support customers. We announced a restructuring program in July 2018 to reduce our workforce and better align our operations with evolving business needs, under which we reduced our expected expenses by approximately 12%. However, our estimates and forecasts relating to the success of our cost-savings measures may prove to be inaccurate. We anticipate that cost of revenue and operating expenses will increase in the foreseeable future as we seek to continue to grow our business, enhance our offerings and acquire additional customers. Many of our efforts to generate revenue from our business are new and unproven, and any failure to increase our revenue or generate revenue from new products and services could prevent us from achieving or maintaining profitability. Furthermore, to the extent we are successful in increasing our customer base, we could also incur increased GAAP losses because costs associated with entering into customer agreements are generally incurred up front, while customers are generally billed over the term of the agreement. Our prior GAAP losses, combined with our expected future GAAP losses, have had and will continue to have an adverse effect on our stockholders’ equity and working capital. We expect to continue to incur GAAP operating losses for the foreseeable future and may never become profitable on a quarterly or annual basis, or if we do, we may not be able to sustain profitability in subsequent periods. As a result of these factors, we may need to raise additional capital through debt or equity financings in order to fund our operations, which could be dilutive to stockholders, and such capital may not be available on reasonable terms, or at all.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

We were founded in 2008, began building the first version of our care guidance platform in 2009, did not complete our first customer sale and implementation until 2010 and did not make substantial investments in sales and marketing until 2012. Jiff was founded in 2010 and had its first customer implementation in 2013 before being acquired by us in April of 2017. The limited operating histories of these two businesses, standalone and as combined, limit our ability to forecast our future

Table of Contents

operating results and such forecasts are subject to a number of uncertainties, including our ability to plan for and model future growth.

We have encountered and will continue to encounter risks and uncertainties frequently experienced by new and growing companies in rapidly changing industries, such as determining appropriate investments of our limited resources, market adoption of our existing and future offerings, competition from other companies, acquiring and retaining customers, managing customer deployments, hiring, integrating, training and retaining skilled personnel, developing new products and services, determining prices for our products, handling unforeseen expenses and managing challenges in forecasting accuracy. If our assumptions regarding these and other similar risks and uncertainties, which we use to plan our business, are incorrect or change as we gain more experience operating our business or due to changes in our industry, or if we do not address these risks and uncertainties successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

In addition, we may need to change our current operations infrastructure in order for us to achieve profitability and scale our operations efficiently, which makes our future prospects even more difficult to evaluate. For example, in order to grow sales of our health benefits platform to smaller customers in a financially sustainable manner, we may need to further automate implementations, tailor our offering and modify our go-to-market approaches to reduce our service delivery and customer acquisition costs. If we fail to implement these changes on a timely basis or are unable to implement them effectively, our business may suffer.

We may be unable to fully realize the anticipated benefits of the Jiff acquisition.

Following the acquisition of Jiff, Inc., as a combined company we have been and will continue to be required to devote significant management attention and resources to the adoption and migration to our integrated platform. As a combined company, we may fail to realize some or all of the anticipated benefits of the acquisition if the integration process is not successful or is more costly than expected. As a combined company we may encounter difficulties in the integration process that include the following:

- the inability to successfully market and sell the combined product offerings;
- lost sales and customers as a result of certain customers deciding not to migrate their pre-combination product selection to our combined product:
- complexities associated with managing the combined businesses;
- creating uniform standards, controls, procedures, policies and information systems;
- performance shortfalls as a result of the diversion of management's attention caused by integrating the companies' operations and functionality, or developing new functionality; and
- potential loss of brand awareness or confusion as a result of our re-branding activities.

It is possible that the need to support pre-combination legacy product offerings could result in the diversion of management's attention, the disruption or interruption of, or the loss of momentum in, the ongoing business or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability as a combined company to maintain relationships with customers, partners and employees or its ability to achieve the anticipated benefits of the acquisition, or could reduce the earnings or otherwise adversely affect the business and financial results of the combined company. Moreover, in addition to the possible failure to realize the anticipated benefits of any acquisition, including revenues or return on investment assumptions, we may be exposed to unknown liabilities or impairment charges as a result of such acquisitions.

The market for our offering is immature and volatile, and if it does not further develop, if it develops more slowly than we expect, or if our offering does not drive employee engagement, the growth of our business will be harmed.

Our market is immature and volatile, and it is uncertain whether we will achieve and sustain high levels of demand and market adoption. Our success depends to a substantial extent on the willingness of employers to increase their use of our health navigation platform, the ability of our products to increase employee engagement, as well as on our ability to demonstrate the value of our offering to customers and their employees and to develop new products that provide value to customers and users. If employers do not perceive the benefits of our offering or our offering does not drive employee engagement, then our market might develop more slowly than we expect, or even shrink, which could significantly and adversely affect our operating results. In addition, we have limited insight into trends that might develop and affect our business. We might make errors in predicting

Table of Contents

and reacting to relevant business, legal and regulatory trends, which could harm our business. If any of these events occur, it could materially and adversely affect our business, financial condition or results of operations.

In addition, we have devoted substantial efforts to our acquisition of Jiff, and expect to continue to devote substantial efforts to the operation and integration of the Jiff and Castlight functionalities. We have undertaken these efforts based on our belief that our customers are interested in a combined suite of offerings that address both health benefit management and wellness needs. However, if customer demand for a combined suite of offerings is lower than expected, then our business will be harmed and our operating results will suffer.

Our quarterly results may fluctuate significantly, which could adversely impact the value of our Class B common stock.

Our quarterly results of operations, including our revenue, gross margin, net loss and cash flows, may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, our quarterly results should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, including, without limitation, those listed elsewhere in this "Risk Factors" section and those listed below:

- the addition or loss of large customers, including through acquisitions or consolidations of such customers;
- seasonal and other variations in the timing of the sales of our offering, as a significantly higher proportion of our customers either enter into new subscription agreements or renew previous agreements with us in the second half of the year.
- the timing of recognition of revenue, including possible delays in the recognition of revenue due to lengthy and sometimes unpredictable implementation timelines or changes brought about by new accounting pronouncements;
- failure to meet our contractual commitments under service-level agreements with our customers;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- our access to pricing and claims data managed by health plans and other third parties, or changes to the fees we pay for that data;
- the timing and success of introductions of new products, services and pricing by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or strategic partners;
- our ability to attract new customers;
- customer renewal rates and the timing and terms of customer renewals;
- network outages or security breaches;
- the mix of products and services sold or renewed during a period;
- general economic, industry and market conditions;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies; and
- other impacts of new accounting pronouncements.

We are particularly subject to fluctuations in our quarterly results of operations since the costs associated with entering into customer agreements and implementing our offerings are generally incurred prior to launch, while we generally recognize revenue over the term of the agreement beginning at launch. In addition, some of our contracts with customers provide for one-time bonus payments, or in some cases fee reductions, if our offering does, or does not, achieve certain metrics, such as a certain rate of employee engagement. These bonuses or reductions may lead to additional fluctuations in our quarterly operating results. In certain contracts, employee engagement may refer to the number of first time registrations by employees of our customers and in other cases it may refer to return usage of our products by employees. Any fluctuations in our quarterly results may not accurately reflect the underlying performance of our business and could cause a decline in the trading price of our Class B common stock.

We incur significant upfront costs in our customer relationships, and if we are unable to maintain and grow these customer relationships over time, we are likely to fail to recover these costs and our operating results will suffer.

We devote significant resources and incur significant upfront costs to establish relationships with our customers and implement our offering and related services, particularly in the case of large enterprises that in the past have requested or required specific features or functions unique to their particular business processes. Accordingly, our operating results will depend in substantial part on our ability to deliver a successful customer experience and persuade our customers to maintain and grow their relationship with us over time. For example, if we are not successful in implementing our offering or delivering a successful customer experience, a customer could terminate or decline to renew their agreement with us, we would lose or be unable to recoup the significant upfront costs that we had expended on such customer and our operating results would suffer. As we grow, our customer acquisition costs could outpace our build-up of recurring revenue, and we may be unable to reduce our total operating costs through economies of scale such that we are unable to achieve profitability.

Our ability to deliver our full offering to customers depends in substantial part on our ability to access data and other resources that are managed by a limited number of health plans and other third parties.

In order to deliver the full functionality offered by our health benefits platform, we need continued access, on behalf of our customers, to sources of pricing and claims data, much of which is managed by a limited number of health plans and other third parties. We have developed various long-term and short-term processes to obtain data from certain health plans and other third parties. We are limited in our ability to offer the full functionality of our offering to customers of health plans with whom we do not have a data-sharing or joint customer support process or arrangement.

The terms of the arrangements under which we have access to data managed by health plans and other third parties vary, which can impact the offering we are able to deliver. Many of our arrangements with health plans and third parties have terms that limit our access to and permitted uses of claims or pricing data to the data associated with our mutual customers. Also, some agreements, processes, or arrangements may be terminated if the underlying customer contracts do not continue, or may otherwise be subject to termination or non-renewal in whole or in part.

In addition, in order to deliver current and potential future functionality of our full health navigation platform, including third-party integrated services, we need access to other resources and services that are largely or fully controlled by third-party integration partners. While we have developed and expect to continue to develop relationships with third parties in order to allow us and our customers to access these resources and services, we are exposed to the risk that third parties may limit or eliminate our access, which would hinder our ability to provide certain integrated health navigation functionality to our customers and harm our business.

The health plans and other third parties that we currently work with may, in the future, change their position and limit or eliminate our access to data and resources, increase the costs for access, provide data and resources to us in more limited or less useful formats, or restrict our permitted uses of data and resources. Furthermore, some health plans and third parties that we rely on to supply data and resources have developed or are developing their own proprietary products and services that may compete with aspects of our platform, and so may perceive continued cooperation with us as a competitive disadvantage and choose to limit or discontinue our access to these data and resources. Failure to continue to maintain and expand our access to suitable pricing and other data and resources may adversely impact our ability to continue to serve existing customers and expand our offering to new customers.

If our access to the data and resources necessary to deliver health navigation functionality is eliminated, reduced or becomes more costly to us, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results would suffer.

A significant portion of our revenue comes from a limited number of customers, the loss of which would adversely affect our financial results.

Historically, we have relied on a limited number of customers for a substantial portion of our total revenue. For the three months ended March 31, 2019, our top 10 customers by revenue accounted for approximately 28% of our total revenue. In calculating our top 10 customers by revenue, we include only direct customers, not channel partners. In addition, one of our channel partners accounted for approximately 24% of total revenue for the three months ended March 31, 2019. We rely on our reputation and recommendations from key customers in order to promote our offering to potential customers. The loss of any of our key customers, or a failure of some of them to renew or expand user subscriptions, could have a significant impact on the growth rate of our revenue, reputation and our ability to obtain new customers. For example, during the third quarter of 2018, one of our largest customers adopted a new benefits strategy and did not renew its agreement with us, and that agreement expired on December 31, 2018. In addition, mergers and acquisitions involving our customers could lead to cancellation or non-renewal of our agreements with those customers or by the acquiring or combining companies, thereby reducing the number of our existing and potential customers.

Because we generally bill our customers and recognize revenue over the term of the contract, near term declines in new or renewed agreements may not be reflected immediately in our operating results and may be difficult to discern.
Most of our revenue in each quarter is derived from agreements entered into with our customers during previous quarters. Consequently, a decline in new or renewed agreements in any one quarter may not be fully reflected in our revenue for that quarter. Such declines, however, would negatively affect our revenue in future periods and the effect of significant downturns in sales of and market demand for our offering, and potential changes in our rate of renewals or renewal terms, may not be fully reflected in our results of operations until future periods. Accordingly, management measures sales performance and forecasts future subscription revenue based on signed annual recurring revenue, or ARR. ARR is a forward-looking metric based on contractual terms in existence as of the end of a reporting period and is subject to change resulting from a number of factors including, but not limited to, addition of new customers, changes in user counts, terminations or non-renewals, as well as upsells and cross-sells. For all of these reasons, the amount of subscription revenue we actually recognize may be different from ARR at the end of a period in which it was recorded. In addition, we may be unable to adjust our cost structure rapidly, or at all, to take account of reduced revenue. Our subscription model also makes it difficult for us to rapidly increase our total revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable term of the agreement. Accordingly, the effect of changes in the industry impacting our business or changes we experience in our new sales may not be reflected in our short-term results of operations.

Our sales and implementation cycle can be long and unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

The sales cycle for our health benefits platform, from initial contact with a potential lead to contract execution and implementation, varies widely by customer, ranging from three to 24 months. Some of our customers undertake a significant and prolonged evaluation process, including whether our offering meets a customer's unique benefits program needs, that frequently involves not only the review of our offering but also of our competitors, which has in the past resulted in extended sales cycles. Our sales efforts involve educating our customers about the use, technical capabilities and benefits of our offering. Moreover, our large enterprise customers often begin to deploy our service on a limited basis, but nevertheless demand extensive configuration, integration services and pricing concessions, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our offering widely enough across their organization to justify our substantial upfront investment. It is possible that in the future we may experience even longer sales cycles, more complex customer needs, higher upfront sales costs and less predictability in completing some of our sales. In addition, even after contracts are signed, our implementation timelines can delay recognition of related revenue for several periods. If our sales cycle lengthens or our substantial upfront sales and implementation investments do not result in sufficient sales or revenue to justify our investments, our operating results may be harmed.

The health care industry is heavily regulated. Our failure to comply with regulatory requirements could create liability for us, result in adverse publicity and otherwise negatively affect our business.

The health care and wellness industries are heavily regulated and constantly evolving due to the changing political, legislative and regulatory landscape and other factors. Many health care and wellness laws are complex, and their application to specific services and relationships may not be clear. Further, some health care laws differ from state to state and it is difficult to ensure our business complies with evolving laws in all states. Our operations may be adversely affected by enforcement initiatives. By offering partner applications we may become subject to additional regulations that don't ordinarily apply to our own core business. Our failure to accurately anticipate the application of these laws and regulations to our business, or any other failure to comply with regulatory requirements, could create liability for us, result in adverse publicity and negatively affect our business. For example, failure to comply with these requirements could result in the unwillingness of current and potential customers to work with us. Federal and state legislatures and agencies periodically consider proposals to revise aspects of the legal rules applicable to the health care industry, or to revise or create additional statutory and regulatory requirements. Such proposals, if implemented, could impact our operations, the use of our offering and our ability to market new products and services, or could create unexpected liabilities for us. We cannot predict what changes to laws or regulations might be made in the future or how those changes could affect our business or our operating costs.

If we fail to comply with applicable health information privacy and security laws and other applicable state, federal and international privacy and security laws, we may be subject to significant liabilities, reputational harm and other negative consequences, including decreasing the willingness of current and potential customers to work with us.

Table of Contents

We are subject to data privacy and security regulation within the jurisdictions where our users reside; these regulations address matters central to our business, including privacy and data protection, personal information, content, data security, data retention and deletion, and user communications. For example, we are subject to the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations (collectively "HIPAA"), which established uniform federal standards for certain "covered entities," which include health care providers and health plans, governing the conduct of specified electronic health care transactions and protecting the security and privacy of protected health information ("PHI"). The Health Information Technology for Economic and Clinical Health Act ("HITECH") which became effective on February 17, 2010, makes HIPAA's privacy and security standards directly applicable to "business associates," which are independent contractors or agents of covered entities that create, receive, maintain, or transmit PHI in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce HIPAA's requirements and seek attorney's fees and costs associated with pursuing federal civil actions.

A portion of the data that we obtain and handle for or on behalf of our customers is considered PHI, subject to HIPAA as well as other regulations. Under HIPAA and our contractual agreements with our HIPAA covered entity health plan customers, we are considered a "business associate" to those customers, and are required to maintain the privacy and security of PHI in accordance with HIPAA and the terms of our business associate agreements with customers, including by implementing HIPAA-required administrative, technical and physical safeguards. We have incurred, and will continue to incur, significant costs to establish and maintain these safeguards and, if additional safeguards are required to comply with HIPAA regulations or our customers' requirements, our costs could increase further, which would negatively affect our operating results. Furthermore, if we fail to maintain adequate safeguards, or we or our agents and subcontractors use or disclose PHI in a manner prohibited or not permitted by HIPAA or our business associate agreements with our customers, or if the privacy or security of PHI that we obtain and handle is otherwise compromised, we could be subject to significant liabilities and consequences, including, without limitation:

- breach of our contractual obligations to customers, which may cause our customers to terminate their relationship with us and may result in potentially significant financial obligations to our customers;
- investigation by regulatory authorities empowered to enforce HIPAA and other applicable regulations, including but not limited to the U.S. Department of Health and Human Services and state attorneys general, and the possible imposition of civil penalties;
- private litigation by individuals adversely affected by any violation of HIPAA, HITECH or comparable laws for which we are responsible; and
- negative publicity, which may decrease the willingness of current and potential future customers to work with us and negatively affect our sales and operating results.

In addition, we are subject to various state laws, including the California Consumer Privacy Act ("CCPA"), which recently was enacted by California, where our corporate headquarters is located. The CCPA will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information, when it goes into effect on January 1, 2020. Legislators have stated that they intend to propose amendments to the CCPA before it goes into effect, and it remains unclear what, if any, modifications will be made to this legislation or how it will be interpreted. We cannot yet predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

We also have ongoing compliance obligations with respect to applicable portions of the EU General Data Protection Regulation ("GDPR"), which became effective on May 25, 2018, which we have to comply with to the extent we have applicable users in the European Union, and we cannot assure you that our compliance efforts will be effective. The introduction of new products or expansion of our activities may subject us to additional laws and regulations. We have incurred, and will continue to incur, significant costs to establish and maintain compliance with new regulations that may apply to us, which would negatively affect our operating results.

Further, we publish statements to end users of our services that describe how we handle and protect personal information. If federal or state regulatory authorities or private litigants consider any portion of these statements to be untrue, we may be subject to claims of deceptive practices, which could lead to significant liabilities and consequences, including,

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Table of Contents

without limitation, costs of responding to investigations, defending against litigation, settling claims and complying with regulatory or court orders.
We also send SMS text messages to potential end users who are eligible to use our service through certain customers and partners. While we get consent from or on behalf of these individuals to send text messages, federal or state regulatory authorities or private litigants may claim that the notices and disclosures we provide, form of consents we obtain or our SMS texting practices are not adequate. These SMS texting campaigns are potential sources of risk for class action lawsuits and liability for our company. Numerous class-action suits under federal and state laws have been filed in recent years against companies who conduct SMS texting programs. Many of those suits have resulted in multi-million dollar settlements to the plaintiffs.

Our growth depends in part on the success of our strategic relationships with third parties.
In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, including Anthem, Inc. We have continued to expand our ongoing relationship with Anthem, including Anthem's offering of Engage, a Castlight-powered health navigation platform, and our development and support of the base technology underlying Anthem's core care guidance offering. Apart from channel partners and data partners, our offering also includes the integration of products supplied by strategic partners, who offer complementary products and services. We rely on these strategic partners in the timely and successful deployment of our offering to our customers. If the products provided by these partners have defects or do not operate as expected, if the services provided by these partners are not completed in a timely manner, if our partners have organizational or supply issues, or if we do not effectively integrate and support products supplied by these strategic partners, then we may have difficulty with the deployment of our offering that may result in loss of, or delay in, revenues, increased service and support costs and a diversion of development resources. We also may compete in some areas with these same partners. If these strategic partners fail to perform or choose not to cooperate with us on certain projects, in addition to the effects described above, we could experience loss of customers and market share; and failure to attract new customers or achieve market acceptance for our products. Identifying partners, negotiating and documenting relationships and building integrations with them, requires significant time and resources. If we are unsuccessful in establishing or maintaining our relationships with Anthem, or other third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer use of our platform or increased revenue.

Shifts in health care benefits trends, including any potential decline in the number of self-insured employers, or the emergence of new technologies may render our offering obsolete or require us to expend significant resources in order to remain competitive.
The U.S. health care industry is extensive and complex, with a number of large market participants with conflicting agendas, is subject to significant government regulation and is currently undergoing significant change. Changes in our industry, for example, towards private health care exchanges or away from high deductible health plans, or the emergence of new technologies as more competitors enter our market, could result in our offering being less desirable or relevant.

For example, we currently derive the vast majority of our revenue from customers that are self-insured employers. The demand for significant portions of our offering depends on the need of self-insured employers to manage the costs of health care services that they pay on behalf of their employees. While the percentage of employers who are self-insured has been increasing over the past decade, there is no assurance that this trend will continue. Various factors, including changes in the health care insurance market or in government regulation of the health care industry, could cause the percentage of self-insured employers to decline, which would adversely affect the market for our offering and would negatively affect our business and operating results. Furthermore, such trends and our business could be affected by changes in health care spending resulting from changes in the law like we saw with the Patient Protection and Affordable Care Act (the "ACA"). Under the ACA, the federal government and several state governments established public exchanges in which consumers can purchase health insurance. In the event that the ACA, any amendment or repeal of the ACA, or other changes to the legal landscape causes our customers to change their health care benefits plans or move to use of exchanges such that it reduces the need for our offering, or if the number of self-insured employers otherwise declines, we would be forced to compete on additional product and service attributes or to expend significant resources in order to alter our offering to remain competitive.

If health care benefits trends shift or entirely new technologies, services or programs are developed that replace or disrupt existing offerings, our existing or future offerings could be rendered obsolete and our business could be adversely

Table of Contents

affected. In addition, we may experience difficulties with software development, industry standards, design or marketing that could delay or prevent our development, introduction or implementation of new products and enhancements.

We may require additional capital to support business growth, and this capital might not be available to us on acceptable terms or at all.

Our operations have consumed substantial amounts of cash since inception and we intend to continue to make significant investments to support our business growth, respond to business challenges or opportunities, develop new products and services, enhance our existing offering and services, enhance our operating infrastructure and potentially acquire complementary businesses and technologies. For the three months ended March 31, 2019 and March 31, 2018, our net cash used in operating activities was $12.1 million and $19.0 million, respectively. Our future capital requirements may be significantly different from our current estimates and will depend on many factors including our growth rate, new customer acquisitions, subscription renewal activity, operation and integration of the Jiff and Castlight functionalities, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced services offerings and the continuing market acceptance of our cloud-based subscription services. Accordingly, we might need to engage in equity or debt financings or collaborative arrangements to secure additional funds. If we raise additional funds through further 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 Class B 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. We might have to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to our technologies or offering that we otherwise would not relinquish. In addition, it may be difficult to obtain financing in the public markets or to obtain debt financing, and we might not be able to obtain additional financing on commercially reasonable terms, if at all. 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 growth and to respond to business challenges could be significantly limited.

We depend on data centers operated by third parties for our offering, and any disruption in the operation of these facilities could adversely affect our business.

We provide our Castlight health navigation platform through computer hardware that is currently located in two geographically-dispersed third-party data centers in the U.S., each of which are operated by the same IT hosting company. Our Wellbeing services are hosted on Amazon Web Services hardware through virtual private clouds. While we control and have access to our owned servers and all of the components of our network that are located in these external data centers, we do not control the operation of these facilities and there could be performance or availability issues outside our control. The owners of our data centers and hosting services have no obligation to renew the agreements with us on commercially reasonable terms, or at all. If we are unable to renew these types of agreements on commercially reasonable terms, or if our data center operators and hosting services are acquired or cease operations, we may be required to transfer our servers and other infrastructure to new data center facilities or hosting services, and we may incur significant costs and possible service interruption in connection with doing so. Problems faced by our third-party data center and hosting locations could adversely affect the experience of our customers. The operators of the data centers and hosting services could decide to close the facilities or change and suspend their service offerings without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by the operators of the data centers 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. Additionally, if our data centers and hosting facilities are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. For example, a rapid expansion of our business could affect the service levels at our data

centers and hosting locations or cause such data centers and systems to fail. Any changes in third-party service levels at our data centers and hosting locations or any disruptions or other performance problems with our product offering could adversely affect our reputation and may damage our customers’ stored files or result in lengthy interruptions in our services. Interruptions in our services might reduce our revenue, increase our costs associated with remediation or cause us to issue refunds to customers for prepaid and unused subscriptions, subject us to potential liability or adversely affect our renewal rates.
The information that we provide to our customers, and their employees and families, could be inaccurate or incomplete, which could harm our business, financial condition and results of operations.

We provide price, quality and other health care-related information for use by our customers, and their employees and families, to search and compare options for health care services. Third-party health plans and our customers provide us with most of these data. Because data in the health care industry is fragmented in origin, inconsistent in format and often incomplete, the overall quality of data in the health care industry is poor, and we frequently discover data issues and errors. If the data that we provide to our customers are incorrect or incomplete or if we make mistakes in the capture or input of these data, our reputation may suffer and our ability to attract and retain customers may be harmed.

In addition, a court or government agency may take the position that our storage and display of health information exposes us to personal injury liability or other liability for wrongful delivery or handling of health care services or erroneous health information. While we maintain insurance coverage, this coverage may prove to be inadequate or could cease to be available to us on acceptable terms, if at all. Even unsuccessful claims could result in substantial costs, harm to our reputation and diversion of management resources. A claim brought against us that is uninsured or under-insured could harm our business, financial condition and results of operations.

If we cannot maintain our corporate culture as we grow, we could lose the elements of our culture that we believe contribute to our success and our business may be harmed.

We believe that a critical asset for our business, and a source of our competitive strength, is our unique company culture, which we believe fosters a high level of cross-functional collaboration and desire for excellence in our performance and product. As we grow and change, we may find it difficult to maintain these important aspects of our corporate culture. The continued integration of the Jiff and Castlight functionalities, or the business and personnel of any acquisitions we may make in the future, may present additional challenges to our ability to maintain our corporate culture. Any failure to preserve our culture could also negatively affect our ability to attract and retain personnel, our reputation and our ability to continue to build and advance our offering and may otherwise adversely affect our future success.

If we fail to develop widespread brand awareness cost-effectively, our business may suffer.

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread adoption of our offering and attracting new customers. Brand promotion activities may not generate customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts, or to achieve the widespread brand awareness that is critical for broad customer adoption of our offering.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success depends in part on our ability to enforce our intellectual property and other proprietary rights. We rely upon a combination of patent, trademark, copyright and trade secret laws, as well as license and access agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring certain of our employees, consultants and contractors to enter into confidentiality, noncompetition and assignment of inventions agreements. These laws, procedures and restrictions provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated. While we have three U.S. patent applications pending, and we currently have one issued U.S. patent, we cannot ensure that any of our pending patent applications will be granted or that our issued patent will adequately protect our intellectual property. In addition, if any patents are issued in the future, they may not provide us with any competitive advantages, or may be successfully challenged by third parties. 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 solutions similar to ours, or use trademarks similar to ours, each of which could materially harm our business. Further, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our offering, and policing unauthorized use of our technology and intellectual property rights is difficult and may not be effective. The failure to adequately protect our intellectual property and other proprietary rights could materially harm our business.

We could incur substantial costs as a result of any claim of infringement of another party’s intellectual property rights.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. Companies in the Internet and technology industries are increasingly bringing and becoming subject to suits alleging infringement of proprietary rights, particularly patent rights, and our competitors and other third parties may hold patents or have pending patent applications, which could be related to our business. These risks have been amplified by the increase in third parties, which we refer to as non-practicing entities, whose sole or primary business is to assert such claims. We expect that we may receive in the future notices that claim we or our customers using our offering have misappropriated or misused other parties' intellectual property rights, particularly as the number of competitors in our market grows and the functionality of products amongst competitors overlaps. If we are sued by a third party that claims that our technology infringes its rights, the litigation, whether or not successful, could be extremely costly to defend, divert our management's time, attention and resources, damage our reputation and brand and substantially harm our business. We do not currently have an extensive patent portfolio of our own, which may limit the defenses available to us in any such litigation.

In addition, in most instances, we have agreed to indemnify our customers against certain third-party claims, which may include claims that our offering infringes the intellectual property rights of such third parties. Our business could be adversely affected by any significant disputes between us and our customers as to the applicability or scope of our indemnification obligations to them. The results of any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease offering or using technologies that incorporate the challenged intellectual property;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms, to sell or use the relevant technology; or
- incur substantial costs and reallocate resources to redesign our technology to avoid infringement.

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement claims against us or any obligation to indemnify our customers for such claims, such payments or costs could have a material adverse effect upon our business and financial results.

Our use of open source technology could impose limitations on our ability to commercialize our software platform.

Our offering incorporates open source software components that are licensed to us under various public domain licenses. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. There is little or no legal precedent governing the interpretation of many of the terms of these licenses and therefore the potential impact of such terms on our business is somewhat unknown. There is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our software platform. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose our source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur and we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our offering, discontinue sales of our offering in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could cause us to breach customer contracts, harm our reputation, result in customer losses or claims, increase our costs or otherwise adversely affect our business and operating results.

We may face risks related to securities litigation that could result in significant legal expenses and settlement or damage awards.

We have been in the past and may in the future become subject to claims and litigation alleging violations of the securities laws or other related claims, which could harm our business and require us to incur significant costs. For example, during the second quarter of 2015, four purported securities class action lawsuits, which were later consolidated into a single action, 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 initial public offering. On October 28, 2016, the Court approved a mediated cash settlement of an aggregate amount of $9.5 million. As a result of the settlement, we recorded a net charge of $2.9 million to general and administrative expense in 2016. This amount represents the portion of settlement that was not covered by insurance and legal fees incurred in 2016 regarding this matter. Future litigation may require significant attention from management and could result in significant legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

Table of Contents

The development and expansion of our business through acquisitions of other companies or technologies or other strategic transactions could divert our management's attention, result in dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.

On April 3, 2017, we completed our acquisition of Jiff, and issued approximately 27 million shares and options to former Jiff equity holders, representing approximately 20% of the combined company on a fully-diluted basis. The process of integrating the Jiff business, team and technology has created, and could continue to create, unforeseen operating difficulties and expenditure requirements. We may not be able to effectively manage the combined Castlight and Jiff business or effectively integrate the personnel, operations and technologies of Jiff or any other company we may acquire in the future.

As we have done in the past, we may in the future seek to acquire or invest in businesses, products and services or technologies or enter into other strategic transactions that we believe could complement or expand our offering, enhance our technical capabilities or otherwise offer growth opportunities. We have limited experience in acquiring other businesses and entering into strategic transactions. We may not achieve any of the anticipated benefits of any of these strategic transactions. The pursuit of potential acquisitions and other strategic transactions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions and strategic alliances or transactions, whether or not they are consummated. We may not achieve any of the anticipated benefits or stated objectives from these or other strategic transactions we may enter into in the future.

Factors affecting our ability to achieve the benefits of the Jiff acquisition, other acquisitions or other strategic alliances could include:

- inability to integrate or benefit from acquired technologies or services or strategic collaborations or alliances in an efficient, effective or profitable manner;
- unanticipated costs or liabilities associated with the acquisition or strategic transaction;
- challenges in achieving strategic objectives, cost savings and other benefits expected from such transactions;
- the lack of unilateral control over a strategic alliance and the risk that strategic partners have business goals and interests that are not aligned with ours;
- delays, difficulties or unexpected costs in the integration, assimilation, implementation or modification of platforms, systems, functions, technologies and infrastructure to support the combined business or strategic alliance, as well as maintaining and integrating accounting systems and operations, uniform standards, controls (including internal accounting controls), procedures and policies;
- difficulty converting the customers of the acquired business onto our platform and contract terms, including disparities in the revenue, licensing, support or professional services model of the acquired company;
- diversion of management's attention from other business concerns;
- adverse effects to our existing business relationships with business partners and customers as a result of the acquisition or strategic transaction;
- the potential loss of key employees;
- the risk that we do not realize a satisfactory return on our investments;
- diversion of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition or strategic transaction.

In addition, a significant portion of the purchase price of Jiff, and other companies we acquire or invest in, may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations.

The acquisition of Jiff resulted, and other acquisitions and strategic transactions could also result, in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business or other strategic transaction fails to meet our expectations, our operating results, business and financial position may suffer.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class B common stock may be negatively affected.

Table of Contents

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, provide a management report on the internal control over financial reporting. Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until we cease to be an "emerging growth company", as defined in the JOBS Act, on December 31, 2019. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We are in the process of designing and implementing the internal control over financial reporting required to comply with this obligation, which process will be time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm concludes we have a material weakness in our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our Class B common stock could be negatively affected and we could become subject to investigations by the New York Stock Exchange, on which our securities are listed, the SEC or other regulatory authorities, which could require us to obtain additional financial and management resources.

Changes in accounting principles may cause previously unanticipated fluctuations in our financial results, and the implementation of such changes may impact our ability to meet our financial reporting obligations.

We prepare our financial statements in accordance with U.S. GAAP which are subject to interpretation or changes by the Financial Accounting Standards Board, or FASB, the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future which may have a significant effect on our financial results. For example, effective January 1, 2018, we adopted Accounting Standard Codification Topic 606 ("ASC 606"), Revenue from Contracts with Customers. We adopted the requirements of the new standard utilizing the full retrospective method, which required us to recast prior reporting periods. While the adoption of the new standard did not change the cash flows we receive from our contracts with customers, the changes to our reporting practices and the fluctuations in our reported revenue could cause a decline and/or fluctuations in the price of our common stock.

The adoption of ASC 606 significantly impacted our costs to fulfill as well as our 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. 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. Prior to adoption, we expensed costs to fulfill a contract when they were incurred, capitalized certain sales commissions and amortized those costs over the non-cancelable portion of our subscription contracts. Under the new standard, the amortization period for our costs to obtain a contract could be longer. Additionally, the timing of revenue recognition for certain of our revenue arrangements was impacted by the changes imposed by the new standard. Any difficulties in implementation of changes in accounting standards, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

We incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer

Protection Act, as well as rules and regulations subsequently implemented by the SEC and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls, changes in corporate governance practices and required filing of annual, quarterly and current reports with respect to our business and operating results. Compliance with these requirements increases our legal and financial compliance costs and makes some activities more time consuming and costly. In addition, our management and other personnel divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which will increase when we are no longer an emerging growth company, as defined by the JOBS Act.

Operating as a public company makes it more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. This could also make it more difficult for us to attract and retain qualified people to serve on our board of directors, our board committees or as executive officers.

We are classified as an emerging growth company, and the reduced disclosure requirements applicable to emerging growth companies may make our Class B common stock less attractive to investors.

Until December 31, 2019, we will continue to be an emerging growth company, as defined under the JOBS Act. For as long as we are an emerging growth company, we intend to take advantage of certain 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 and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our Class B common stock less attractive because we rely on these exemptions. If some investors find our Class B common stock less attractive as a result, there may be a less active trading market for our Class B common stock and our stock price may be more volatile.

We will remain an emerging growth company until the earliest of (i) the end of the year in which the market value of our Class B common stock that is held by non-affiliates exceeds $700 million as of June 30, (ii) the end of the year in which we have total annual gross revenue of $1 billion or more during such year, (iii) the date on which we issue more than $1 billion in non-convertible debt in a three-year period or (iv) December 31, 2019.

We may not be able to utilize a significant portion of our net operating loss or research tax credit carryforwards, which could adversely affect our profitability.

Our primary tax jurisdiction is the United States. All of our tax years are open to examination by U.S. federal and state tax authorities. We have provided a full valuation allowance for our deferred tax assets due to the uncertainty surrounding the future realization of such assets. Therefore, no benefit has been recognized for the net operating loss carryforwards and other deferred tax assets. The net operating loss could expire unused and be unavailable to reduce future income tax liabilities, which could adversely affect our profitability.

Economic uncertainties or downturns in the general economy or the industries in which our customers operate could disproportionately affect the demand for our offering and negatively impact our results of operations.

General worldwide economic conditions have experienced periods of significant downturn, and market volatility and uncertainty remain widespread, making it extremely difficult for our customers and us to accurately forecast and plan future business activities. For example, in June 2016, the decision by referendum to withdraw the United Kingdom (U.K.) from the European Union caused significant volatility in global stock markets, including those in the U.S., and fluctuations in currency exchange rates. The results of this referendum, or other global events, may continue to create global economic uncertainty not only in the U.K., but in other regions, including where we do business. In addition, these conditions could cause our customers or prospective customers to decrease headcount, benefits or human resources budgets, which could decrease corporate spending on our products and services, resulting in delayed and lengthened sales cycles, a decrease in new customer acquisition and loss of customers. Furthermore, during challenging economic times, our customers may have difficulty gaining timely access to sufficient credit or obtaining credit on reasonable terms, which could impair their ability to make timely payments to us and adversely affect our revenue. If that were to occur, our financial results could be harmed. Further, challenging economic conditions might impair the ability of our customers to pay for the products and services they already have purchased from us and, as a result, our write-offs of accounts receivable could increase. We cannot predict the timing, strength, or duration of any economic slowdown or recovery. If the condition of the general economy or markets in which we operate worsens, our business could be harmed.

42

Table of Contents

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.
Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Our estimates and forecasts relating to the size and expected growth of the market for our products and services may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all.
Natural or man-made disasters and other similar events may significantly disrupt our business and negatively impact our results of operations and financial condition.
Our offices may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, power outages, fires, floods, nuclear disasters and acts of terrorism or other criminal activities, which may render it difficult or impossible for us to operate our business for some period of time. For example, our headquarters is located in the San Francisco Bay Area, a region known for seismic activity. Any disruptions in our operations related to the repair or replacement of our office could negatively impact our business and results of operations and harm our reputation. In addition, we may not carry business insurance sufficient to compensate for losses that may occur. Any such losses or damages could have a material adverse effect on our business, results of operations and financial condition. In addition, the facilities of significant customers, health plans or major strategic partners may be harmed or rendered inoperable by such natural or man-made disasters, which may cause disruptions, difficulties or material adverse effects on our business.
Risks Related to Our Class B Common Stock
The stock price of our Class B common stock may be volatile or may decline regardless of our operating performance.

The market price of our Class B common stock has fluctuated significantly since our initial public offering and may continue to fluctuate. These fluctuations could cause you to lose all or part of your investment in our Class B common stock. Factors, many of which are beyond our control, that could cause additional fluctuations in the market price of our Class B common stock include the following:

- overall performance of the equity markets;
- our operating performance and the performance of other similar companies;
- changes in the estimates of our operating results that we provide to the public or our failure to meet these projections;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company or our failure to meet these estimates or the expectations of investors or changes in recommendations by securities analysts that elect to follow our Class B common stock;
- sales of shares of our Class B common stock by us or our stockholders, including same day sales to cover tax withholdings as a result of settlement of restricted stock units;
- announcements of technological innovations, new products or enhancements to services, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- disruptions in our services due to computer hardware, software or network problems;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- the economy as a whole, market conditions in our industry and the industries of our customers;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business; and
- the size of our market float.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in new securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

Table of Contents

If there are substantial sales of shares of our Class B common stock, the price of our Class B common stock could decline.

The price of our Class B common stock could decline if there are substantial sales of our Class B common stock, particularly sales by our directors, executive officers and significant stockholders, or the perception in the market that the holders of a large number of shares of our Class B common stock intend to sell their shares, and may make it more difficult for stockholders to sell Class B common stock at a time and price that they deem appropriate. We are unable to predict the effect that sales may have on the prevailing market price of our Class B common stock.

In addition, certain of our stockholders have rights, subject to some conditions, to require us to file registration statements covering their shares and to include their shares in registration statements that we may file for ourselves or our stockholders. Registration of the resale of these shares under the Securities Act would generally result in the shares becoming freely tradable without restriction. Any sales of securities by existing stockholders could adversely affect the trading price of our Class B common stock. We also registered shares of Class B common stock that we have issued and may issue under our employee equity incentive and employee stock purchase plans. These shares may be sold freely in the public market upon issuance.

The dual class structure of our Class A and Class B common stock will have the effect of concentrating significant voting influence or control with our executive officers, directors and their affiliates; this will limit or preclude a stockholder's ability to influence corporate matters.

Each share of Class A common stock and each share of Class B common stock has one vote per share, except on the following matters (in which each share of Class A common stock has ten votes per share and each share of Class B common stock has one vote per share):

- adoption of a merger or consolidation agreement involving our company;
- a sale, lease or exchange of all or substantially all of our property and assets;
- a dissolution or liquidation of our company; or
- every matter, if and when any individual, entity or “group” (as such term is used in Regulation 13D of the Exchange Act) has, or has publicly disclosed (through a press release or a filing with the SEC) an intent to have, beneficial ownership of 30% or more of the number of outstanding shares of Class A common stock and Class B common stock, combined.

Because of our dual class common stock structure, the holders of our Class A common stock, who in large part consist of our founders, early investors, directors, executives, employees, will continue to be able to exert significant influence over the corporate matters listed above if any such matter is submitted to our stockholders for approval even if they own less than 50% of the outstanding shares of our Class A and Class B common stock, combined. As of March 31, 2019, holders of our Class A common stock owned approximately 25% of the outstanding shares of our Class A and Class B common stock, combined, however, holders of our Class A common stock, including our executive officers and directors and their affiliates, have approximately 77% of the voting power of our outstanding capital stock with respect to the matters specified above. This concentrated control by holders of our Class A common stock will limit or preclude the ability of a holder of our Class B common stock to influence those corporate matters for the foreseeable future and, as a result, we may take actions that our stockholders do not view as beneficial. The market price of our Class B common stock could be adversely affected by the structure. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for capital stock that a stockholder may feel are in its best interests.

Transfers by holders of our Class A common stock will generally result in those shares converting to our Class B common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of our Class A common stock to our Class B common stock will have the effect, over time, of increasing the relative voting power of those holders of Class A common stock who retain their shares in the long term. If, for example, directors and their affiliates retain a significant portion of their holdings of our Class A common stock for an extended period of time, they could continue to significantly influence the combined voting power of our Class A and Class B common stock with respect to each of the matters identified in the list above.

44

Table of Contents

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

The trading market for our Class B common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class B common stock or publish inaccurate or unfavorable research about our business, our Class B common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class B common stock could decrease, which might cause our Class B common stock price and trading volume to decline.

Anti-takeover provisions under Delaware law and in our restated certificate of incorporation and restated bylaws could make a merger, tender offer, or proxy contest difficult, limit attempts by our stockholders to replace or remove members of our board of directors or current management and depress the trading price of our Class B common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders.

In addition, our restated certificate of incorporation and restated bylaws contain provisions that may make the acquisition of our company or changes in our board of directors or management more difficult, including the following:

- Our board of directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause, which may delay the replacement of a majority of our board of directors or impede an acquirer from rapidly replacing our existing directors with its own slate of directors.
- Subject to the rights of the holders of any series of preferred stock to elect directors under specified circumstances, only our board of directors has the right to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.
- Our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder, or holders, controlling a majority of our Class A and Class B common stock are not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings, which special meetings may only be called by the chairman of our board, our chief executive officer, our president, or a majority of our board of directors.
- Certain litigation against us can only be brought in Delaware.
- Our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, by our board of directors without the approval of the holders of Class B common stock, which makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.
- Advance notice procedures and additional disclosure requirements apply for stockholders to nominate candidates for election as directors or to bring matters before a meeting of stockholders, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.
- Our restated certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates.
- Amendment of the anti-takeover provisions of our restated certificate of incorporation require super majority approval by holders of at least two-thirds of our outstanding Class A and Class B common stock, combined. and

In certain circumstances pertaining to change in control, the sale of all or substantially all of our assets and liquidation matters, and on all matters if and when any individual, entity or group has, or has publicly disclosed an intent to have, beneficial ownership of 30% or more of the number of outstanding shares of our Class A and Class B common stock, combined, holders of our Class A common stock are entitled to ten votes per share and holders of our Class B common stock are entitled to one vote per share. As of March 31, 2019, holders of our Class A common stock owned approximately 25% and holders of our Class B common stock owned approximately 75% of the outstanding shares of our Class A and Class B common stock, combined. However, because of our dual class common stock structure these holders of our Class A common stock have approximately 77% and holders of our Class B common stock have approximately 23% of the total votes with respect to the matters specified above. In all other circumstances, holders of our Class A and Class B common stock are each entitled to one vote per share, and in these other circumstances the holders of our Class A common stock have approximately 25% and holders of our Class B common stock have approximately 75% of the total votes.

Item 6. Exhibits
(a) Exhibits.

Exhibit Number	Description of Document	Incorporate by Reference Form	File No.	Filing Date	Exhibit	Filed Herewith
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.					X
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.					X
32.1*	Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.					X
32.2*	Certification of Chief Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

* The certifications on Exhibit 32 hereto are deemed not “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		CASTLIGHT HEALTH, INC.	
Date:	May 3, 2019	By:	/s/ Siobhan Nolan Mangini
			Siobhan Nolan Mangini
			Chief Financial Officer (Principal Financial Officer)