

CASTLIGHT HEALTH, INC.  
Form 10-K  
March 12, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36330

CASTLIGHT HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

26-1989091

(I.R.S. Employer

Identification Number)

Two Rincon Center  
121 Spear Street, Suite 300  
San Francisco, CA 94105

(Address of principal executive offices)

(415) 829-1400

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which  
registered

Class B Common Stock, par value \$0.0001 per  
share

New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Edgar Filing: CASTLIGHT HEALTH, INC. - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  
[x]

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

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

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was June 30, 2014, the aggregate market value of its shares (based on a closing price of \$15.20 per share) held by non-affiliates was approximately \$840.2 million. As of March 6, 2015, there were 58,474,383 shares of the Registrant's Class A common stock outstanding and 33,407,450 shares of the Registrant's Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended December 31, 2014, are incorporated by reference in Part III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

---

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>12</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>30</u>
<u>Item 2. Properties</u>	<u>30</u>
<u>Item 3. Legal Proceedings</u>	<u>30</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>30</u>
<u>Part II</u>	<u>31</u>
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>31</u>
<u>Item 6. Selected Consolidated Financial Data</u>	<u>33</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
<u>Item 8. Consolidated Financial Statements and Supplementary Data</u>	<u>47</u>
<u>Item 9. Change in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>69</u>
<u>Item 9A. Controls and Procedures</u>	<u>69</u>
<u>Item 9B. Other Information</u>	<u>69</u>
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>70</u>
<u>Item 11. Executive Compensation</u>	<u>70</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>70</u>
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	<u>70</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>70</u>
<u>Part IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>71</u>
<u>Signatures</u>	<u>72</u>
<u>Exhibits Index</u>	<u>74</u>

Table of Contents

Special Note Regarding Forward Looking Statements and Industry Data

This Annual Report on Form 10-K includes forward-looking statements. All statements, other than statements of historical fact, contained in this Annual Report on Form 10-K, including statements regarding our non-GAAP revenue, backlog, revenue and other aspects of our future results of operations, financial position and cash flows, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “would,” “could,” “should,” “intend” and “expect” and similar words are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking 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 Annual Report on Form 10-K or to conform these statements to actual results or revised expectations.

Part I

Item 1. Business

Overview

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

U.S. health care spending was forecasted to total approximately \$3.1 trillion in 2014, with \$620 billion of this amount to be paid by U.S. employers, according to the Centers for Medicare and Medicaid Services, or CMS. Despite this substantial investment, the U.S. health care system is burdened by significant waste and extreme variations in the cost and quality of care, with limited correlation between the two. Two fundamental causes of these inefficiencies have been the absence of transparent information and the misalignment of economic incentives, which make it difficult for employees and their health care providers to make judicious health care choices.

Employers bear a substantial share of this waste and inefficiency, as they pay on average more than three quarters of their employees’ health care costs according to a 2013 joint survey by the National Business Group on Health, or NBGH, and Towers Watson & Co., or Towers Watson. Over the last two decades, employers have taken various steps to attempt to mitigate this growing burden, including self-insuring and increasingly shifting costs to employees. These measures have failed to solve the fundamental problems that have undermined employers’ efforts to control costs while maintaining competitive health care benefits for their employees.

This failure is due in part to an inability to collect and analyze complex and unstructured health care data, limitations on the feasibility of highly tailored advanced benefit designs and poor integration of disparate health care systems,

applications and programs. In addition, even as employers have shifted more costs to their employees, they have been unable to engage and empower employees with useful, high-quality information about their health care choices.

1

---

Table of Contents

We believe that controlling costs and improving quality of care for employees and thereby driving efficiency in the overall health care market can be achieved by introducing a new category of cloud-based technology solutions that are capable of addressing the scale and complexity of the U.S. health care industry.

Our Enterprise Healthcare Cloud offering transforms a massive quantity of complex data into transparent and useful information. These include external data we obtain from a diverse array of sources, such as health care providers, insurance companies, governmental agencies and quality-monitoring organizations, as well as internal data generated through the usage of our applications. Our team of engineers, economists and clinicians applies sophisticated data science techniques, including predictive modeling and epidemiological analytics, that leverage our database to drive insights such as identification of high-risk patients and estimated future costs of care, thereby empowering employers with the information they need to design and implement advanced benefit plans and other benefit programs that address their specific challenges. We deliver this powerful offering through a suite of innovative, consumer-oriented applications that enables employers to engage their employees with actionable information and integrate their other health care applications and programs.

We believe that Castlight is well positioned to leverage its use of large amounts of health care related data, sophisticated data analytics, strong customer portfolio and early-mover advantage to play a role in dramatically improving the efficiency of the U.S. health care system.

Industry Background

**Significant Waste.** The health care industry in the United States is the largest in the world, according to the World Bank, and yet health care outcomes are inferior to those of many other countries. Additionally, a 2013 Institute of Medicine report estimates that approximately 30% of U.S. health care spending in 2009 was wasted due to factors such as inflated prices, the provision of unnecessary services and inefficient delivery of care.

**Dysfunctional Market.** In addition to these inefficiencies, industry dynamics have led to high variations in the cost and quality of health care services, with limited correlation between the two. Two fundamental causes driving this lack of correlation between cost and quality and the resulting market dysfunction are the absence of transparent data and the misalignment of economic incentives.

**Lack of Transparency.** Historically, employers and employees have not had access to clear information about the cost and quality of care as they consider benefit designs and health care treatment options. In some cases, health care providers and other market participants have actively resisted efforts by employers and others to obtain information about the costs and quality of health care services. Despite this resistance, the health care industry generates extensive data that is relevant to determining the cost and quality of health care services. These data reside in myriad formats and disparate databases, without a common infrastructure, and have therefore been of limited value to employers and employees in controlling costs and improving outcomes.

**Misalignment of Economic Incentives.** Historically, employees in the United States have been insulated from direct financial responsibility for much of the cost of the care they choose to receive. On average, employees paid approximately 23% of the total cost of their health care and employers paid approximately 77% in 2012, according to a joint survey by NBGH and Towers Watson. As a result, employees historically have been less sensitive to the costs of health care services than they might have been had their economic incentives been more closely linked to the total costs of care they received.

**Growing Problem for Employers.** According to the Bureau of Labor Statistics, health care benefit costs account for approximately 8% of total employee costs in the United States and are increasing rapidly. According to an August 2013 Kaiser Family Foundation survey, in 2013, approximately 61% of U.S. employees who rely on health care funded by an employer are covered by health plans by employers that have elected to self-insure (including 94% of the covered employees of U.S. employers with more than 5,000 employees), which more directly exposes employers to the volatility of health care expenses and the burdens of designing health care benefits. As a result, better managing health care expenses will have a direct impact on financial performance, making employers eager for solutions that can help them manage this growing problem.

Employers Lack a Solution. Despite intensive efforts to reduce health care expenses and improve value over many years, employers continue to face escalating costs and highly variable quality. Historical efforts to manage costs through benefit design (such as the use of health maintenance organizations, or HMOs) have been largely unsuccessful in preventing the overall growth in health care costs. More recently, employers have attempted to reduce health care costs through use of employee cost-

2

---

## Table of Contents

sharing plans or account-based health care plans, such as consumer-directed health care plans. These plans shift health care expenses to employees and thereby incentivize them to make more judicious health care spending decisions. The total employee cost share, including premiums and out-of-pocket costs, has climbed from 34.4% in 2011 to 37% in 2014, according to a 2014 joint survey by NBGH and Towers Watson. Progressive employers have also implemented benefit design strategies intended to improve quality of care and thereby lower costs by reducing medical complications and eliminating wasteful treatments. While higher cost-sharing plans and other advanced benefit design strategies have the potential to reduce costs, they are difficult to implement effectively without transparent and actionable information that enables employers and employees to identify options that provide more value for their health care dollar.

### Our Opportunity

We believe there is a significant opportunity to offer a comprehensive, technology-based solution to reduce the massive waste and inefficiencies associated with the approximately \$620 billion that self-insured employers were projected to spend on health care in the United States in 2014. By combining innovations in big data analytics, cloud-based software delivery models and consumer-oriented online and mobile applications, with our deep health care domain knowledge and platform for integrating third-party applications, we believe we are well positioned to play a central role in dramatically improving the efficiency of the U.S. health care system. We estimate, based on the number of people who rely on health care funded by self-insured employers and our estimate of the potential fee opportunity for our current products, that our total available market is greater than \$5 billion.

### Our Solution

We have developed a new category of cloud-based software that enables enterprises to understand and manage health care spending as a strategic business investment, optimize healthcare benefits for their specific employee populations, integrate disparate benefit programs and promote employee health and productivity.

The key dimensions of our Enterprise Healthcare Cloud offering include:

#### Extensive Data Foundation

Our Enterprise Healthcare Cloud offering integrates, organizes and normalizes data from across the fragmented and complex health care landscape. Much of this information has been traditionally difficult to obtain and, in many cases, inaccessible to employers, their employees and families, and benefit providers. Our offering has successfully scaled to aggregate more than a billion health care claim transactions from public and private data sources, which include our customers' health plans and other third parties, and combines these data with health care benefit information, clinical practice guidelines, user-generated data and the consumer behavior data of our users. We believe our comprehensive set of data relationships in the industry are important differentiators in our ability to deliver value to our customers and their employees and families.

#### Sophisticated Analytics

Our team of leading engineers, economists and clinicians has developed proprietary data science techniques and robust capabilities to process and analyze our extensive data foundation and compute cost and quality data for thousands of health care services and products. Our offering transforms unstructured data from disparate sources into actionable information on price and quality of health care services. In addition, we employ predictive modeling to identify patients at risk for needing particular services and estimate their future cost of care. We also use epidemiologic analytics to personalize recommendations for employers for specific benefits programs in which they should invest based on the health characteristics of their populations. Our offering uses this analytics engine to calculate costs and identify patterns of inefficient behavior for large populations of employees and their families, thereby enabling employers to take actions to optimize benefit plans, reduce inefficient outcomes and foster behavioral change.

#### Personalized Information

We simplify the health care decision-making process for employees and their families by providing highly relevant, personalized information that encourages informed choices before, during and after receiving health care. Leveraging our robust data, analytics and search capabilities, we aim to deliver a highly personalized health care shopping



experience. In addition, we deliver personalized benefit and clinical information, as well as specific alerts about lower cost medical and

3

---

## Table of Contents

pharmaceutical options, avoidance of unnecessary services and preventative care recommendations. By empowering employees and their families with the ability to simultaneously search price, quality and relevant content on health care services and providers, we enable them to make informed “market-based” decisions that avoid excessive prices and low quality or unnecessary care, creating significant value for employers.

### Technology-Enabled Benefit Design

We additionally deliver value to employers by enabling the successful implementation of employee cost sharing plans and other advanced benefit designs that incentivize employees and their families to consume resources more judiciously. Our offering gives employers who offer employee cost sharing plans the tools and information their employees and families need, at scale, to better understand their care options, become more empowered health care consumers and spend their health care dollars wisely. In addition, we also enable and increase the effectiveness of more advanced benefit programs including reference-based benefits, centers of excellence and incentive programs, which can drive significant savings for employers. Our data, analytics and reporting capabilities allow employers to rigorously design, specify and enforce the parameters of these programs, evaluate their effectiveness and optimize their performance over time.

### Independent and Integrated Platform

As an independent technology company in the health care industry, we are a trusted provider of unbiased health care information. We believe our independence is an important attribute for our relationships with our customers, and their employees and families, and allows us to partner with health plans, health care providers and broader health care stakeholders. Furthermore, we designed our offering to seamlessly integrate with other key third-party data sources, programs and applications. These integrations streamline the user experience across a fragmented vendor set. For example, we provide employees with a consistent experience regardless of geography, plan design or health plan, while at the same time interfacing with all of the employers’ legacy systems that support their health care offerings. This integration capability is a key competitive advantage of our offering for large enterprises with national employee bases and multiple health plans. Additionally, our integration capabilities enable employers to increase use of other complementary vendor offerings by capitalizing on our ability to drive high levels of engagement. Over time, we believe our platform will become a key consolidation point for a broad array of third-party health care programs and applications.

### Universal and Engaging Interface

We have designed our offering to be ubiquitously and conveniently accessible, easy-to-use and valuable for consumers. Our applications enable user experiences similar to those of leading consumer internet sites. Our user experience design fosters user engagement and drives utilization. Our focus on an intuitive and simple user experience allows employees to conveniently shop and access information throughout the process of understanding, planning and carrying out their health care decisions. This focus enables our customers to realize higher productivity and generate better business results through broad access to more timely and reliable information. We complement these capabilities with professional services designed to drive initial user registrations and ongoing engagement.

### Our Strategy

#### Capitalize on Our Leadership in the Emerging Category of Enterprise Healthcare Management

As a pioneer in the emerging category of enterprise healthcare management, we have experienced significant demand from customers in the early commercialization of our offering. We initially targeted, and have already secured, large enterprise customers, which have provided us with data access, enhanced product development and increased scale. We intend to leverage our experiences with these large customers as we continue to build on this momentum. Our base of 168 customers as of December 31, 2014 represents only a small fraction of customers that we believe could benefit from our cloud offering. In order to capitalize on this emerging market opportunity, we intend to continue to leverage our current customer base, expand our direct sales capabilities and invest further in indirect sales channels and partnerships.

#### Continue to Invest in Customer Success

We are intensely focused on driving lasting customer success. We invest early and heavily in customer relationships and work closely with employers throughout the implementation process to configure their benefit plans to meet their specific needs and

4

---

## Table of Contents

objectives and continue to help them adapt these plans over time. We also provide integrated communications and implementation programs that help employers execute their benefit plan strategies quickly and effectively. We aim to be the catalyst that drives long-term employee engagement and lasting efficiency in health care purchases, and in turn, drive high customer satisfaction, retention and reference ability. We believe we are establishing a trusted brand with our customers as they integrate our offering into their own systems, which in turn will not only foster a lasting relationship, but also drive significant value for our customers and their employees and provide us with ongoing opportunities to deploy additional applications and capabilities.

### Further Develop Our Platform Strategy

We believe there is a significant opportunity to provide complementary software applications and services to our customers to serve their evolving benefit needs. We have only recently begun to offer additional applications to our customers and have experienced positive results. For instance, our pharmacy application, first launched in 2013, integrates prescription drug information into our offering and has been purchased by more than half of our customer base. We are currently developing new complementary applications and services to address additional benefit and engagement needs. We believe these applications will significantly increase the value our customers realize from our offering, enhancing customer satisfaction and loyalty and driving increased adoption of multiple applications by our customers. Additionally, we expect third-party developers will leverage our application program interfaces, or APIs, and our database to develop a broad range of value-added applications and services accessed via our platform, thereby further enhancing the value of our offering.

### Leverage Our Growing Independent Health Care Consumer Database

We operate a growing independent database that includes more than a billion health care claim transactions and a rapidly expanding collection of consumer behavior data, making us a trusted third-party source of reference for health care spending. Through algorithmic processing of this aggregated information on provider practices, referral patterns, patient outcomes patient needs and purchasing trends, we will continue to develop novel offerings that inform the benefit design strategies of our customers.

### Leverage Our Passionate, Mission-Driven Culture

We believe our team of employees, our corporate culture and our shared passion to change health care that unites us, are key elements of our success. The problem we aim to solve is complex and requires a variety of expertise. We have assembled a unique multi-disciplinary team of software developers, economists, behavioral scientists, clinicians, health policy experts and enterprise-focused sales and marketing personnel and have created a work environment that stimulates cross-functional innovation to effect fundamental change in health consumption behavior. The depth of these skills, our passionate culture and the creativity of our team has enabled a significant early-mover advantage in the market and allowed us to retain and attract the highest caliber talent in the industry.

### Our Applications

The Castlight Enterprise Healthcare Cloud is comprised of multiple powerful applications for employers, and their employees and families:

- Castlight Medical. Castlight Medical is our flagship Enterprise Healthcare Cloud application, which simplifies health care decision making for employees and their families by providing highly relevant, personalized information for medical services that enable informed choices before, during and after receiving health care. Castlight Medical enables employees and their families to intuitively search for robust and comprehensive information about medical providers, including personalized out-of-pocket cost estimates, clinical quality, user experience and provider demographic information. Additional features include personalized tips, evidence-based clinical guidelines, educational content, benefit guides and real-time spend and deductible information.
- Castlight Pharmacy. Castlight Pharmacy delivers information to guide employees and their families on how to manage their prescription drug spend. Our pharmacy application enables them to easily search for cost estimates for specific medications at convenient retail locations as well as mail order alternatives and presents multiple ways to save including using generic equivalents and therapeutic area alternatives. Additionally, Castlight Pharmacy is capable of



## Table of Contents

driving improved drug compliance through prescription refill reminders and interfaces with other third-party applications to change and fulfill prescriptions.

- Castlight Dental. Castlight Dental provides a comprehensive solution for employees to understand and manage their oral health and dental spend. Our dental application enables employees to search for specific dental procedures, understand the coverage and overall cost of the care, and make optimal choices. Further, Castlight Dental educates employees about common oral health conditions, driving health, productivity, and increased benefit satisfaction for employees.

- Reference Based Benefits. Our Reference Based Benefits application allows employers to set a “fair market” reference price that establishes the maximum amount paid by the employer for specified health care procedures and services. Reference Based Benefits allows employers to direct employees to high value care, while still preserving their choice of provider. Reference Based Benefits is available for a wide variety of procedures and services and provides a strong mechanism for employers to control costs.

- Rewards. Our Rewards application is a flexible incentive application designed to motivate employees to make better healthcare decisions. Employers can use Rewards to encourage employees to seek preventive care, utilize high value providers, learn about their healthcare, engage with Castlight, and a variety of other desired behaviors.

### Our Services

We provide a range of services to help employers implement and maximize the value of our offering, including:

- Communication and Engagement Services. We offer communications services to drive employee engagement with our offering that span educational presentations, email campaigns, print collateral and employer-specific media.

Communications initiatives are typically run during open enrollment, time of product launch and periodically post launch to continue to drive employee engagement and change management. The fees for these services are included as part of our professional service contracts.

- Implementation Services. We provide implementation services to our customers to ensure successful deployment of our offering, including executing required data feeds, loading customer data, configuring applications, integrating with third-party and other applications and comprehensive testing. The fees for these services are included as part of our professional service contracts.

- Customer Support. We offer end user support to ensure effective employee use of our offering. We provide live chat and telephonic support for employees and their families in the area of technical support, clarification support, including answering questions on how to use the online service, and provider search support. We also enable employees who may have limited computer access to obtain their personalized health care information using our customer support personnel. The fees for these services are included as part of subscriptions to our applications.

- Training. We offer training for key personnel of our customers, as well as training materials that our customers can provide to employees and their families before and after launching our application. The fees for these services are included as part of our implementations.

### Financial Information about Segments and Geographic Areas

We manage our operations and allocate resources as a single reportable segment. All of our revenue is recognized in the United States and all of our long-lived assets are located in the United States.

### Customers

We completed implementation for our first customer in 2010, and as of December 31, 2014, we have 168 signed customers which includes 45 signed Fortune 500 customers. Together our customers encompass millions of eligible employees and their families. Our customers consist primarily of large self-insured employers, representing a wide range of industries, such as education, manufacturing, retail, technology and government, and including some of the largest employers in the United States.

## Table of Contents

We define a customer as a separate and distinct buying entity, such as a company, an educational or government institution, or a distinct business unit of a large corporation, which has entered into a master subscription agreement with us to access our cloud applications, including customers that are in the process of deploying our applications. For the year ended December 31, 2014, the Administrative Committee of the Wal-Mart Stores, Inc., Associates' Health and Welfare Plan, or the Wal-Mart Plan, represented approximately 14% of our total revenue. The initial term of our agreement with the Wal-Mart Plan expires on December 31, 2015 and the Wal-Mart Plan has no obligation to renew its subscriptions for our offering after this term expires. We or the Wal-Mart Plan may terminate the agreement prior to December 31, 2015 under certain circumstances.

### Employees and Culture

We view our employees and company culture as critical assets for our business and a source of competitive strength. Our leadership team is focused on supporting our employees and fostering our unique culture. We believe this has enabled us to attract and retain some of the best minds in technology and health care to build and advance our offerings.

As of December 31, 2014, we had a total of 345 full-time employees. We also engage contractors and consultants. None of our employees is represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good. Our future success will depend upon our ability to attract and retain qualified personnel. Competition for qualified personnel remains intense, and we may not be successful in retaining our key employees or attracting skilled personnel.

### Sales and Marketing

We sell our applications and services through our direct sales organization. Our direct sales team comprises enterprise-focused field sales professionals who are organized by geography and account size. Our field professionals are supported by a sales operations staff, including product technology experts, lead generation professionals and sales data experts. We maintain relationships with key industry participants including benefit consultants, brokers, group purchasing organizations and health plan partners.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs and strategic relationships. Our marketing programs target human resource, benefits and finance executives in addition to technology and health professionals, senior business leaders and health care channel partners. Our principal marketing programs include use of our website to provide information about our company and our software services, as well as learning opportunities for potential customers, demand generation, field marketing events, integrated marketing and direct e-mail campaigns and participation in, and sponsorship of, user conferences, industry events, trade shows and customer conferences.

### Research and Development

Our ability to compete depends, in large part, on our continuous commitment to rapidly introduce new application services, technologies, features and functionality. Our research and development organization is responsible for the design, development, testing and certification of our offering. We focus our efforts on developing new applications and core technologies and further enhancing the usability, functionality, reliability, performance and flexibility of our offering.

Research and development expenses were \$22.9 million, \$15.2 million, and \$9.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### Technology and Operations

We have designed our technology infrastructure to provide a highly available and secure multi-tenant cloud-based offering. Our multi-tenant platform allows us to use a common data model and consistent management practices for all customers with multiple possible configurations, while securely partitioning each customer's application data. This approach provides significant operating leverage and improved efficiency as it helps us reduce our fixed cost base and minimize unused capacity on our hardware.

Overall, the architecture, deployment and management of our technology are focused on:





## Table of Contents

- Scalability. We have developed a robust and scalable data architecture infrastructure, which allows for automated loading and normalization of numerous data sources, including more than a billion claim transactions in our data warehouse.
- Standardization. Our technology assimilates unstructured data from disparate sources, and employs unique algorithms to convert these data into user-friendly information for our users. Additionally, we operate using Services Oriented Architecture principles, with a platform of services that serve to deliver the application in a scalable and standardized way.
- Security. We maintain a formal and comprehensive security program designed to ensure the security and integrity of customer data, protect against security threats or data breaches and prevent unauthorized access to the data of our customers. We strictly regulate and limit all access to on-demand servers and networks at our production and remote backup facilities. All users are authenticated, authorized and validated before they can access our system. Users must have a valid user ID and associated password to log on to our services. We require Transport Layer Security between the user's browser and our servers to protect data during transfer.

We have a standard Java and Ruby on Rails based development environment, with the majority of our software written in industry standard software programming languages. We develop our native mobile applications for all the other platforms (iOS, Android and Windows Phone) using a robust Java services layer for providing shared functionality. Our operating system and databases are open source, including the Linux operating system, MySQL and MongoDB databases and Apache Tomcat for the application servers. We also use Greenplum for our analytics database.

We currently host our applications and serve all of our customers from data centers located in Arizona and Colorado. We rely on third-party vendors to operate these data centers, which are designed to host computer systems that require high levels of availability and have redundant subsystems and compartmentalized security zones. We utilize commercially available hardware for our data center servers.

We apply a wide variety of strategies to achieve better than 99% uptime, excluding scheduled maintenance. We achieved over 99.9% uptime over the last 12 months. Systems are continually monitored for any signs of problems and preemptive action is taken when necessary. Encrypted backup files are transmitted over secure connections to a redundant server storage device in a secondary data center. Our data center facilities employ advanced measures to ensure physical integrity, including redundant power and cooling systems and advanced fire and flood prevention.

### Compliance and Certifications

Our software services and data are located at independently managed facilities. We require that those vendors obtain third-party security examinations relating to security and data privacy. Statement on Standards for Attestation Engagements, or SSAE, No. 16, Reporting on Controls at a Service Organization, replaced SAS- 70 Type II examinations as the authoritative standard for reporting on service organizations. Our vendors' SSAE examination is conducted at least every 12 months by an independent third-party auditor, and addresses, among other areas, physical and environmental safeguards for production data centers, data availability and integrity procedures, change management procedures and logical security procedures. We conduct an annual internal audit based upon ISO 27001 principles and criteria that addresses, among other areas, security, data privacy and operational controls.

### Strategic Relationships

We have established a number of strategic relationships to deepen and complement our platform and applications. These relationships include health care payers, consulting and implementation services provider and broader health care partners.

Data Collaborations. We work with health plans, pharmacy benefit managers, or PBMs, and dental plans to support our mutual customers. Our partners include many national and regional health plans, PBMs, and dental insurers. These collaborations provide us with claims and other data on behalf of our employer customers. We have developed technologies in collaboration with several payer partners including real-time integrated APIs and our Reference Based Benefits application.

Content and Product Relationships. We have relationships with leading content and product companies that complement our offering by making specialized content and functionality available to our customers. These include a variety of public and

8

---

## Table of Contents

private data vendors and organizations. Additionally, we integrate with broader health care partners to provide a more integrated and streamlined experience for our users.

**Implementation Relationships.** We work directly with our customers to implement our offering and engage consulting firms to supplement our ability to provide customer implementation services and supply our communications services.

### Competition

The market for enterprise health care cloud solutions is in an early stage of development, but is rapidly evolving and competitive. We currently face competition from independent third-party tool vendors, such as Change Healthcare Corporation, ClearCost Health, Healthcare Blue Book, HealthSparq Inc. and Truven Health Analytics Inc., as well as from health plans, such as Aetna Inc., Anthem Inc., Cigna Corporation, and United Healthcare Group, Inc. We expect competition to increase as other established and emerging companies enter our industry, as customer requirements evolve, and as new products and technologies are introduced.

The principal competitive factors in our industry include:

- capability for customization through configuration, integration, security, scalability and reliability of applications;
- ease of use and rates of user adoption;
- cloud-based delivery model;
- breadth and depth of application functionality;
- competitive and understandable pricing;
- size of customer base and level of user adoption;
- depth of access to third-party data sources;
- ability to integrate with legacy enterprise infrastructures and third-party applications;
- ability to innovate and respond rapidly to customer needs and regulatory changes;
- domain expertise in benefits and health care consumerism;
- accessible on any browser or mobile device;
- clearly defined implementation timeline;
- financial stability of the vendor; and
- customer branding and styling.

While we believe that we compete favorably on the basis of these factors, many of our competitors have longer operating histories, significantly greater financial, technical, marketing, distribution or other resources and greater name recognition than we do. In addition, many of our competitors have strong relationships with current and potential customers and extensive knowledge of the health care industry. As a result, we may not always compare favorably with respect to certain of the above factors. We may not be able to compete successfully against current and future competitors, and our business, results of operations and financial condition may be harmed if we fail to meet these competitive pressures.

### Intellectual Property

We rely on a combination of patent, trademark, copyright and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish, maintain and protect our proprietary rights. These laws, procedures and restrictions provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated. In addition, we may not be able to prevent others from developing technology that is similar to, but not the same as our proprietary technology. We generally require employees, consultants, customers, suppliers and partners to execute confidentiality agreements with us that restrict the disclosure of our intellectual property. We also require our employees and consultants to execute invention assignment agreements with us that protect our intellectual property rights.

## Table of Contents

As of December 31, 2014, we had one issued patent and five patent applications pending in the United States. Our patent expires on July 27, 2031. We own and use trademarks on or in connection with our applications and services, including both unregistered common law marks and issued trademark registrations in the United States. We also have trademark applications pending to register marks in the United States. We have also registered numerous Internet domain names. Although we rely on intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our applications are more essential to establishing and maintaining our technology leadership position.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop applications with the same functionality as our offering. In addition, policing unauthorized use of our technology and intellectual property rights is difficult and may not be effective.

We expect that we and others in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of applications in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time. Any such claim could pose a substantial distraction to the management of our company. A successful claim of this type may be costly and could require us to spend substantial time and effort in making our offering noninfringing.

### Regulatory Environment

Participants in the health care industry are required to comply with extensive and complex U.S. laws and regulations at the federal and state levels. Although many regulatory and governmental requirements do not directly apply to our business, our customers are required to comply with a variety of U.S. laws, and we may be affected by these laws as a result of our contractual obligations. We have attempted to structure our operations to comply with applicable legal requirements, but there can be no assurance that our operations will not be challenged or impacted by enforcement initiatives.

### Health Care Reform

Our business could be affected by changes in health care laws, including without limitation, the Patient Protection and Affordable Care Act, or ACA, which was enacted in March 2010 and is currently in the process of being implemented. ACA is changing how health care services are covered, delivered and reimbursed through expanded coverage of individuals, changes in Medicare program spending and insurance market reforms.

While many of the provisions of ACA and other health care reform legislation will not be directly applicable to us, they may affect the business of many of our customers, which may in turn affect our business. Although we are unable to predict with any reasonable certainty or otherwise quantify the likely impact of ACA or other health care reform on our business model, financial condition, or results of operations, negative changes in the business of our customers and the number of individuals they insure may negatively impact our business.

### Requirements Regarding the Privacy and Security of Personal Information

HIPAA and Other Privacy and Security Requirements. There are numerous U.S. federal and state laws and regulations related to the privacy and security of personal health information. In particular, regulations promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations, collectively HIPAA, establishes privacy and security standards that limit the use and disclosure of protected health information and require the implementation of administrative, physical and technical safeguards to ensure the confidentiality, integrity and availability of individually identifiable health information in electronic form. Our health plan customers, as well as health care clearinghouses and certain providers with which we may have or may establish business relationships, are covered entities that are regulated under HIPAA. The Health Information Technology for Economic and Clinical Health Act, or HITECH, which became effective on February 17, 2010, significantly expanded HIPAA's privacy and security requirements. Among other things, HITECH 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 protected health information in connection with providing a service for or on behalf of a covered entity. Under HIPAA and our contractual agreements with our customers, we are considered a “business associate” to our customers and thus are directly subject to HIPAA’s privacy and security standards. In order to provide our covered entity clients with services that involve the use or disclosure of protected health information,

Table of Contents

HIPAA requires our clients to enter into business associate agreements with us. Such agreements must, among other things, require us to:

- limit how we will use and disclose the protected health information;
- implement reasonable administrative, physical and technical safeguards to protect such information from misuse;
- enter into similar agreements with our agents and subcontractors that have access to the information;
- report security incidents, breaches and other inappropriate uses or disclosures of the information; and
- assist the client in question with certain of its duties under the privacy standards.

If we are unable to properly protect the privacy and security of health information entrusted to us, our offering may be perceived as unsecure, we may incur significant liabilities, and customers may curtail their use of or stop using our offering.

In addition to HIPAA regulations, we may be subject to other state and federal privacy laws, including laws that prohibit unfair or deceptive practices and laws that place specific requirements on use of data. We cannot provide assurance regarding how the various privacy and security laws will be interpreted, enforced or applied to our operations.

While we have implemented a privacy and security program, any perception of our practices as unfair or deceptive, whether or not consistent with current regulations and industry practices, may subject us to public criticism, private class actions, reputational harm or claims by regulators, which could disrupt our business and expose us to increased liability.

**Data Protection and Breaches.** In recent years, there have been a number of well-publicized data breaches involving the improper use and disclosure of individuals' personal information of individuals. Many states have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals and state officials. In addition, under HIPAA, we must report breaches of unsecured protected health information to our contractual partners within 60 days of discovery of the breach. Notification must also be made to HHS and, in certain circumstances involving large breaches, to the media.

We have implemented and maintain physical, technical and administrative safeguards intended to protect all personal data and have processes in place to assist us in complying with all applicable laws, regulations and contractual requirements regarding the protection of these data and properly responding to any security breaches or incidents. However, we cannot be sure that these safeguards are adequate to protect all personal data or assist us in complying with all applicable laws and regulations regarding the privacy and security of personal data and responding to any security breaches or incidents. Furthermore, in many cases, applicable state laws, including breach notification requirements, are not preempted by the HIPAA privacy and security standards and are subject to interpretation by various courts and other governmental authorities, thereby complicating our compliance efforts. Additionally, state and federal laws regarding deceptive practices may apply to public assurances we give to individuals about the security of services we provide on behalf of our contractual customers.

**Other Requirements.** In addition to HIPAA, numerous other U.S. state and federal laws govern the collection, dissemination, use, access to and confidentiality of individually identifiable health information and health care provider information. Some states also are considering new laws and regulations that further protect the confidentiality, privacy and security of medical records or other types of medical information. In many cases, these state laws are not preempted by the HIPAA privacy standards and may be subject to interpretation by various courts and other governmental authorities. Further, Congress and a number of states have considered or are considering prohibitions or limitations on the disclosure of medical or other information to individuals or entities located outside of the United States.

Available Information

Edgar Filing: CASTLIGHT HEALTH, INC. - Form 10-K

You can obtain copies of our Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our website at [www.castlighthealth.com](http://www.castlighthealth.com) as soon as reasonably practicable following our filing of any of these reports with the SEC. The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically

Table of Contents

with the SEC at [www.sec.gov](http://www.sec.gov). The contents of these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

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

We have incurred significant net losses in each year since our incorporation in 2008 and expect to continue to incur net losses for the foreseeable future. We experienced net losses of \$85.9 million, \$62.2 million and \$35.0 million, during the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, we had an accumulated deficit of \$217.2 million. The 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 anticipate that cost of revenue and operating expenses will increase substantially in the foreseeable future as we seek to continue to grow our business, enhance our offering and acquire customers. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. 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 applications and services could prevent us from attaining profitability. Furthermore, to the extent we are successful in increasing our customer base, we could also incur increased 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 losses, combined with our expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. We expect to continue to incur 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, and such capital may not be available on reasonable terms, if 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 Castlight Medical 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. Our limited operating history limits our ability to forecast our future 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 applications and services, determining prices for our applications, unforeseen expenses and 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 Enterprise Healthcare Cloud 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

12

---

Table of Contents

customer acquisition costs. If we fail to implement these changes on a timely basis or are unable to implement them effectively due to our limited experience with the new infrastructure or factors beyond our control, our business may suffer.

The market for our offering is immature and volatile, and if it does not 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. The enterprise healthcare management software market is new and unproven, and it is uncertain whether it 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 Enterprise Healthcare Cloud offering, the ability of our applications 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 applications 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 not develop at all, or it might develop more slowly than we expect, either of which could significantly 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 and reacting to relevant business, legal and regulatory trends, which could harm our business. If any of these events occur, it could materially adversely affect our business, financial condition or results of operations.

If our security measures are breached and unauthorized access to a customer's data are obtained, 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, as well as protected health information, or PHI, of our customers and their employees, 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 applicable laws or regulations 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 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

Table of Contents

employees on our systems, we cannot ensure the complete integrity or security of such data in our systems as we would not control access. 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.

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 enter into new subscription agreements with us or renew previous agreements in the third and fourth quarters of the year compared to the first and second quarters;
- the timing of recognition of revenue, including possible delays in the recognition of revenue due to lengthy and sometimes unpredictable implementation timelines;
- 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 applications, 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 applications and services sold 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
- impact 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 if our offering achieves certain metrics, such as a certain rate of employee engagement, which 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 applications 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.

If we fail to manage our rapid 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 rapid growth in recent periods, which puts strain on our business, operations and employees. For example, we grew from 287 full-time employees at December 31, 2013 to 345 full-time employees at December 31, 2014. We have increased the size of our customer base from 106 customers at December 31, 2013 to 168 customers at December 31, 2014 and our revenue has increased from \$13.0 million for the year ended December 31, 2013 to \$45.6 million for the year ended December 31, 2014. We anticipate that we will continue to rapidly expand our operations. 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. We must also attract, train and retain a significant number of qualified sales and marketing personnel, customer support personnel, professional services personnel, software engineers, technical personnel and management personnel, 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 are 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 substantial 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 Enterprise Healthcare Cloud 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.

Failure to effectively manage our rapid 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 applications 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 would 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 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, often request or require 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 fail 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 are growing rapidly, 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 pricing and claims data managed by a limited number of health plans and other third parties.

In order to deliver the full functionality offered by our Enterprise Healthcare Cloud, we need 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 data-sharing relationships with certain health plans and other third parties, including most, but not all, of the largest health plans in the United States. 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 arrangement.

Table of Contents

The terms of the agreements 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 agreements 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 may be terminated if the underlying customer contracts do not continue, or may otherwise be subject to termination or non-renewal.

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 pricing and claims data, increase the costs charged to us for access to data, provide data to us in more limited or less useful formats, or restrict our permitted uses of data. Furthermore, some health plans have developed or are developing their own proprietary price and quality estimation tools and may perceive continued cooperation with us as a competitive disadvantage and choose to limit or discontinue our access to pricing and claims data. Failure to continue to maintain and expand our access to pricing and claims data may adversely impact our ability to continue to serve existing customers and expand our offering to new customers.

If our access to pricing and claims data is 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.

If our existing customers do not continue or renew their agreements with us, renew at lower fee levels or decline to purchase additional applications 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 applications and services to existing customers. As a result, achieving a high renewal rate of our customer agreements and selling additional applications and services is critical to our future operating results.

However, we have a limited operating history, and to date have not yet reached the end of the original term for the vast majority of our existing customer agreements. Accordingly, we do not yet have enough experience with customer renewals to predict our customer renewal rate and may experience significantly more difficulty than we anticipate in renewing existing customer agreements. Factors that may affect the renewal rate for our offering and our ability to sell additional applications and services include:

- the price, performance and functionality of our offering;
- the availability, price, performance and functionality of competing solutions;
- our ability to develop complementary applications and services;
- our continued ability to access the pricing and 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 applications 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 applications 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

applications are implemented for launch, which is generally from three to nine months from contract signing. If a customer terminates its agreement early and

16

---



Table of Contents

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.

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 year ended December 31, 2014, the Administrative Committee of the Wal-Mart Stores, Inc., Associates' Health and Welfare Plan represented approximately 14% of our total revenue. In addition, in our year ended December 31, 2014, our top 10 customers by revenue accounted for 46% of our total revenue. 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. 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. 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 Enterprise Healthcare Cloud offering, 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 health care needs, that frequently involves not only our offering but also those 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 as we continue to expand our direct sales force and thereby increase the percentage of our sales personnel with less experience in selling our service, expand into new territories and add additional applications and services. If our sales cycle lengthens or our substantial upfront sales and implementation investments do not result in sufficient sales to justify our investments, our operating results may be harmed.

Table of Contents

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 industry is heavily regulated and is constantly evolving due to the changing political, legislative and regulatory landscape and other factors. Many health care 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. 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 applications 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 state and federal 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.

We are subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA 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, or PHI. The Health Information Technology for Economic and Clinical Health Act, or 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. 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 the federal and state regulatory authorities empowered to enforce HIPAA, which include 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 state 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.

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,

18

---

Table of Contents

we may be subject to claims of deceptive practices, which could lead to significant liabilities and consequences, including, 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 the past year against companies who conduct SMS texting programs. Many of those suits have resulted in multi-million dollar settlements to the plaintiffs.

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

To date we have derived a substantial majority of our revenue from sales of our Castlight Medical application, and our longer-term operating results and continued growth depend in part on our ability to successfully develop and sell new applications and services that our customers want and are willing to purchase. In addition to our Castlight Medical application, we have recently introduced a number of new applications, such as our Castlight Pharmacy, Castlight Rewards, Castlight Reference Based Benefits, and Castlight Dental, but it is uncertain whether these applications and services will result in significant revenue or comprise a significant portion of our total revenue. In addition, we have invested, and will continue to invest, significant resources in research and development to enhance our existing offering and introduce new high quality applications and services. If existing customers are not willing to make additional payments for such new applications, or if new customers do not value such new applications, our business and operating results may 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 brought to market.

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

While the Enterprise Healthcare Cloud market is in an early stage of development, the market is competitive and we expect it to attract increased competition, which could make it hard for us to succeed. We currently face competition for sub-components of our offering from a range of companies, including 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. These competitors include but are not limited to Change Healthcare Corporation, ClearCost Health, Healthcare Bluebook, HealthSparq and Truven Health Analytics Inc. 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 their own cost and quality estimation tools and provide these solutions to their customers at discounted prices or often for free. These health plans include, for example, Aetna Inc., Anthem, Inc., Cigna 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. 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 the enterprise health care cloud market, such as customers that

Table of Contents

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.

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 massive, 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 substantially all of our revenue from sales to customers that are self-insured employers. The demand for 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 the Patient Protection and Affordable Care Act, or the ACA, which was enacted in March 2010 and is currently being implemented. For example, 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 implementation of the ACA 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 application 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 are developed that replace existing offerings, our existing or future offerings could be rendered obsolete and our business could be adversely 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 applications 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 applications and services, enhance our existing offering and services, enhance our operating infrastructure and potentially acquire complementary businesses and technologies. For the years ended December 31, 2014 and 2013, our net cash used in operating activities was \$54.6 million and \$50.1 million, respectively. Our future capital requirements may be significantly different from our current estimates and will depend on many factors including our growth rate, subscription renewal activity, 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 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, during the recent economic instability, it has been difficult for many companies 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.

Table of Contents

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 discover additional problems that prevent our proprietary applications from operating properly. We are currently implementing software with respect to a number of new applications and services, including our Castlight Pharmacy, Castlight Rewards, Castlight Reference Based Benefits, and Castlight Dental. If our offering does not function reliably or fails to achieve client expectations in terms of performance, clients 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.

Moreover, data services are 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 applications 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 Enterprise Healthcare Cloud might discourage existing or potential clients 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.

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, then we must 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 is not satisfied with the quality of work performed by us or with the offering delivered or professional services rendered, then we could incur additional costs to address the situation, we may be required to issue credits or refunds for pre-paid amounts related to unused services, 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 applications 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 compete for new business with current and prospective customers. If any of these were to occur, our revenue may decline and our operating results could be adversely affected.

Table of Contents

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

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.

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 Enterprise Healthcare Cloud through computer hardware that is currently located in two third-party data centers in Colorado and Arizona, each of which are operated by the same IT hosting company. While we control and have access to our 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. The owner of our data centers has 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 operator is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

Problems faced by our third-party data center locations could adversely affect the experience of our customers. The operator of the data centers could decide to close the facilities without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by the operator 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 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 or cause such data centers and systems to fail. Any changes in third-party service levels at our data centers 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, 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 clients 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 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.

Table of Contents

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 costs 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. 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 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 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.

If we cannot maintain our corporate culture as we grow, we could lose the transparency, courage, community, passion and excellence 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 transparency, courage, community, passion and excellence. As we grow and change, we may find it difficult to maintain these important aspects of 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.

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.

Table of Contents

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 four 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 applications 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 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 applications 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
- redesign 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

Table of Contents

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 acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.

We may in the future seek to acquire or invest in businesses, applications and services or technologies that we believe could complement or expand our offering, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

In addition, we have limited experience in acquiring other businesses. If we acquire additional businesses, we may not be able to integrate the acquired personnel, operations and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- unanticipated costs or liabilities associated with the acquisition;
- difficulty integrating the accounting systems, operations and personnel of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- 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;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire 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.

Acquisitions 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 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.

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, beginning with our annual report for the year ending December 31, 2015, provide a management report on the internal control over financial reporting.





Table of Contents

Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an “emerging growth company”, as defined in the JOBS Act. 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.

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 an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class B common stock less attractive to investors.

We are an emerging growth company, as defined under the JOBS Act. For as long as we continue to be 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 will 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 due to the Company's history of tax losses. We have provided a full valuation allowance for our deferred tax

Table of Contents

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 a 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. 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 applications 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 applications 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.

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 enterprise health care cloud market 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 are 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 Ownership of 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 public offering and may continue to fluctuate. These fluctuations could cause you to lose all or part of your investment in our 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;



Table of Contents

sales of shares of our Class B common stock by us or our stockholders;  
announcements of technological innovations, new applications 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 securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

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 intend to sell their shares, and may make it more difficult for you to sell your Class B common stock at a time and price that you 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 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 common stock will have the effect of concentrating voting control with our executive officers (including our Chief Executive Officer) and directors and their affiliates; this will limit or preclude your 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

Table of Contents

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 consist of our founders, directors, executives, employees, will continue to be able to control the corporate matters listed above if any such matter is submitted to our stockholders for approval even if they come to own less than 50% of the outstanding shares of our common stock. As of December 31, 2014, our executive officers and directors and their affiliates own 37.2% of our outstanding Class A common stock and Class B Common Stock, combined. However, because of our dual class common stock structure our executive officers and directors and their affiliates have 54.7% of the total votes in each of the matters identified in the list above. This concentrated control by our Class A common stockholders 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 our capital stock that you may feel are in your best interest as one of our stockholders.

Transfers by holders of Class A common stock will generally result in those shares converting to Class B common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class A common stock to 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, our executive officers (including our Chief Executive Officer), directors and their affiliates retain a significant portion of their holdings of Class A common stock for an extended period of time, they could continue to control a majority of the combined voting power of our Class A common stock and Class B common stock with respect to each of the matters identified in the list above.

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.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Consequently, stockholders must rely on sales of their Class B common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

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;



Table of Contents

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 capital 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 supermajority approval by holders of at least two-thirds of our outstanding common stock; 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 Class A common stock 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. The holders of our Class A common stock own 64.5% and the holders of our Class B common stock own 35.5% of the outstanding shares of Class A common stock and Class B common stock, combined. However, because of our dual class common stock structure these holders of our Class A common stock have 94.8% and holders of our Class B common stock have 5.2% of the total votes with respect to the matters specified above. In all other circumstances, holders of our Class A common stock 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 64.5% and holders of our Class B common stock have 35.5% of the total votes.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters are located in San Francisco, California, where we occupy facilities totaling approximately 32,571 square feet under a sublease which expires in 2017 and another facility totaling approximately 13,459 square feet under a sublease which expires in 2015. We use these facilities for administration, sales and marketing, research and development, engineering, customer support and professional services. We believe that our existing facilities are adequate to meet our current needs, and we intend to procure additional space as needed as we add employees and expand our operations. We believe that, if required, suitable additional or substitute space would be available to accommodate any such expansion of our operations.

Item 3. Legal Proceedings

We may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, we may receive letters alleging infringement of patents or other intellectual property rights. We are not a party to any material legal proceedings, nor are we aware of any pending or threatened litigation that would have a material adverse effect on our business, operating results, cash flows or financial condition should such litigation be resolved unfavorably.

Item 4. Mine Safety Disclosures

None.

30

---

Table of Contents

## PART II

## Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

## (a) Market Information for Common Stock

Our common stock is listed on the New York Stock Exchange under the symbol “CSLT.”

The following table sets forth for the period beginning on March 14, 2014 (the date our common stock commenced trading on the New York Stock Exchange) through December 31, 2014 the high and low sales prices of our common stock as reported by the New York Stock Exchange.

	High	Low
Year ended December 31, 2014		
First Quarter (from March 14, 2014)	\$ 41.95	\$ 20.40
Second Quarter	24.95	10.05
Third Quarter	\$ 16.50	\$ 10.56
Fourth Quarter	\$ 13.44	\$ 10.76

## Dividend Policy

We have never declared or paid dividends on our capital stock. We do not expect to pay dividends on our capital stock for the foreseeable future. Instead, we anticipate that all of our earnings, if any, will be used for the operation and growth of our business. Any future determination to declare cash dividends would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition and liquidity requirements, restrictions that may be imposed by applicable law and our contracts and other factors deemed relevant by our board of directors.

## Stockholders

As of December 31, 2014, there were 85 stockholders of record of our Class A common stock (not including beneficial holders of stock held in street names), as well as 17 stockholders of record of our Class B common stock (not including beneficial holders of stock held in street names).

## Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

## Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the NYSE Composite Index and the Standard & Poor Systems Software Index for the period beginning on March 14, 2014 (the date our common stock commenced trading on the New York Stock Exchange) through December 31, 2014, assuming an initial investment of \$100. Data for the NYSE Composite Index and the Standard & Poor Systems Software Index assume reinvestment of dividends.

Table of Contents

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	3/2014	4/2014	5/2014	6/2014	7/2014	8/2014	9/2014	10/2014	11/2014	12/2014
Castlight Health, Inc.	100.00	\$40.7	\$39.2	\$43.1	\$37.4	\$30.2	\$33.5	\$29.3	\$29.8	\$29.3
NYSE Composite S&P	100.00	\$99.4	\$102.6	\$105.2	\$107.4	\$106.2	\$107.8	\$102.0	\$110.8	\$108.1
Supercomposite Application Software Index	100.00	\$91.9	\$92.4	\$98.2	\$101.0	\$101.0	\$103.1	\$95.6	\$110.1	\$106.2

## (b) Use of Proceeds from Public Offering of Common Stock

On March 19, 2014, we closed our initial public offering (IPO), in which we sold 12.8 million shares of Class B common stock at a price to the public of \$16.00 per share. The aggregate offering price for shares sold in the offering was approximately \$204.2 million. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-193840), which was declared effective by the SEC on March 13, 2014. The offering commenced March 13, 2014 and did not terminate before all of the securities registered in the registration statement were sold. Goldman, Sachs & Co. and Morgan Stanley & Co. LLC acted as joint book running managers for the offering, and Allen & Company LLC, Stifel, Nicolaus & Company, Incorporated, Canaccord Genuity Inc., and Raymond James & Associates, Inc. acted as co-managers of the offering. We raised approximately \$185.6 million in net proceeds from the offering, after deducting underwriter discounts and commissions of approximately \$14.3 million and other offering expenses of approximately \$4.3 million.

Table of Contents

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on March 14, 2014 pursuant to Rule 424(b). No direct or indirect payments were made by us to any of our directors or officers or their associates, to persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries. Pending the uses described, we have invested the net proceeds in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

## (c) Issuer Purchases of Equity Securities

None.

## Item 6. Selected Consolidated Financial Data

The following tables present selected historical consolidated financial data for our business. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes and other information included elsewhere in this prospectus.

We derived the consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013, from our audited consolidated financial statements and the notes thereto included in Part IV, Item 15 in this Annual Report on Form 10-K. We derived the consolidated statement of operations data for the year ended December 31, 2011 and the consolidated balance sheet data as of December 31, 2012 and 2011 from our audited consolidated financial statements that are not included in this Annual Report on 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,			
	2014	2013	2012	2011
	(in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Revenue:				
Subscription	\$41,602	\$11,655	\$3,395	\$1,569
Professional services	4,003	1,318	759	306
Total revenue	45,605	12,973	4,154	1,875
Cost of revenue(1):				
Cost of subscription	10,472	6,246	3,242	1,210
Cost of professional services	17,300	11,058	5,286	1,068
Total cost of revenue	27,772	17,304	8,528	2,278
Gross loss	17,833	(4,331	) (4,374	) (403
Operating expenses:				
Sales and marketing(1)	62,065	33,742	15,829	5,978
Research and development(1)	22,917	15,219	9,718	10,157
General and administrative(1)	19,009	9,047	5,212	3,563
Total operating expenses	103,991	58,008	30,759	19,698
Operating loss	(86,158	) (62,339	) (35,133	) (20,101
Other income, net	218	157	129	181
Net loss	\$(85,940	) \$(62,182	) \$(35,004	) \$(19,920
Net loss per share, basic and diluted(2)	\$(1.16	) \$(6.28	) \$(4.44	) \$(3.27
Weighted-average shares used to compute basic and diluted net loss per share(2)	74,381	9,895	7,885	6,093

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



Table of Contents

	Year Ended December 31,			
	2014	2013	2012	2011
	(in thousands)			
Cost of revenue	\$1,400	\$125	\$107	\$12
Sales and marketing	5,933	919	551	335
Research and development	2,556	603	242	302
General and administrative	4,312	780	411	333

Net loss per share is computed by dividing net loss by the weighted-average number of shares of our common (2) stock outstanding during the period, less the weighted-average unvested shares of common stock subject to repurchase.

	As of December 31,			
	2014	2013	2012	2011
	(in thousands)			
Consolidated Balance Sheets Data:				
Cash and cash equivalents	\$17,425	\$25,154	\$42,534	\$23,280
Marketable securities	175,057	42,017	77,612	25,968
Working capital	170,559	54,944	115,389	48,521
Property and equipment, net	3,630	2,631	1,136	328
Total assets	223,274	83,517	128,148	51,614
Total deferred revenue	27,360	11,473	4,205	865
Total liabilities	47,084	27,444	13,113	3,108
Convertible preferred stock	—	180,423	180,423	80,572
Total stockholders' equity (deficit)	176,190	(124,350 )	(65,388 )	(32,066 )

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes appearing at the end of this filing. Some of the information contained in this discussion and analysis or set forth elsewhere in this filing, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this filing for a discussion of important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements contained in the following discussion and analysis.

## Overview

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

Since our inception in 2008, we have been committed to improving the efficiency of the U.S. healthcare industry. From 2008 to 2010, we focused our efforts on research and development to build our consumer healthcare database, our analytic capabilities and the initial version of our cloud-based application, Castlight Medical. After its release in

2010, we have continued to enhance that application, as well as release Castlight Pharmacy, Castlight Rewards, Castlight Reference Based Benefits and Castlight Dental. These applications are delivered to our customers, and their employees and families, via our cloud-based offering and leverage consumer-oriented design principles that drive engagement and ease of use.



Table of Contents

We market and sell our Enterprise Healthcare Cloud offering to self-insured companies in a broad range of industries and governmental entities. As of December 31, 2014, we had 168 signed customers, of which 115 customers have implemented our offering, which we refer to as launched customers. In comparison, we had 106 signed customers, including 48 launched customers, as of December 31, 2013. Our customers as of December 31, 2014 included 45 Fortune 500 companies and collectively represent millions of eligible employees and their adult dependents. We sell our offering solely in the United States, and we market to our customers and potential customers primarily through our direct sales force.

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

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

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

**Key Factors Affecting Our Performance**

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

**Annual Net Dollar Retention Rate and Average Annual Revenue.** We believe that our ability to retain our customers and expand their subscription revenue growth over time will be an indicator of the stability of our revenue base and the long-term value of our customer relationships. Because we typically enter into long-term contracts with our customers, only a small percentage of our customer agreements have reached the end of their original terms and, as a result, we have not observed a large enough sample of renewals to derive meaningful conclusions. Based on our limited experience, we observed an annual net dollar retention rate of 103% for our signed customer base, for the year ended December 31, 2014. Additionally, our average annual revenue per launched customer grew approximately 17% for the year ended December 31, 2014 compared to the year ended December 31, 2013. We calculate annual net dollar retention rate for a given period as the aggregate annualized subscription contract value as of the last day of that year from those customers that were also customers as of the last day of the prior year, divided by the aggregate annualized subscription contract value from all customers as of the last day of the prior year. We calculate annualized subscription contract value for each customer as the expected monthly recurring revenue of our customers multiplied by 12. Recurring revenue excludes one-time fees. We calculate average annual revenue per launched customer for a given period, as the annualized revenue as of the last day of the year, divided by average customers launched during the same period.

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

## Table of Contents

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

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

### Components of Results of Operations

#### Revenue

We generate revenue from subscription fees from customers for access to selected applications in the Castlight Enterprise Healthcare Cloud 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 families.

We recognize subscription fees on a straight-line basis ratably over the contract term beginning when our applications are implemented and ready for launch, which is based on the implementation timelines discussed above. Our customer agreements generally have a term of three years. We generally invoice our customers in advance on a monthly, quarterly or annual basis. Amounts that have been invoiced are initially recorded as deferred revenue. Amounts that have not been invoiced are not reflected in our consolidated financial statements. We generally invoice our implementation services upon contract signing on a fixed-fee basis, which is generally when we commence work. As a result of variability in our billing terms, the deferred revenue balance does not represent the total value of our customer contracts, nor do changes in deferred revenue serve as a reliable indicator of our future subscription revenue in a given period. The weighted average billing term for customers that we billed in 2014 was 5.5 months compared with 6.1 months for customers that we billed in 2013. The cumulative weighted average billing term for all customers signed as of December 31, 2014 was 5.3 months compared to 5.4 months as of December 31, 2013.

#### Costs and Operating Expenses

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

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

Cost of professional services revenue consists primarily of employee-related expenses associated with these services, the cost of subcontractors and travel costs. 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.

36

---

Table of Contents

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

Gross profit consists of total revenue, less cost of revenue. Gross margin is the percentage of gross profit to revenue. Sales and Marketing. Sales and marketing expenses consist primarily of employee-related expenses (including salaries, sales commissions and bonuses, benefits and stock-based compensation), travel-related expenses and marketing programs. Commissions earned by our sales force that can be associated specifically with the non-cancellable portion of a subscription contract are deferred and amortized over the non-cancellable period. Accordingly, commission expense can be materially impacted by changes in the termination provisions of customer contracts that we execute in a given period compared with previous periods.

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

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

**Results of Operations**

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

	Year Ended December 31,			
	2014	2013	2012	
Revenue:				
Subscription	91	% 90	% 82	%
Professional services	9	% 10	% 18	%
Total revenue	100	% 100	% 100	%
Cost of revenue:				
Cost of subscription	23	% 48	% 78	%
Cost of professional services	38	% 85	% 127	%
Total cost of revenue	61	% 133	% 205	%
Gross margin (loss) percentage	39	% (33)	)% (105)	)%
Operating expenses:				
Sales and marketing	136	% 260	% 381	%
Research and development	50	% 117	% 234	%
General and administrative	42	% 70	% 125	%
Total operating expenses	228	% 447	% 740	%
Operating loss	(189)	)% (480)	)% (845)	)%
Other income, net	—	% 1	% 2	%
Net loss	(189)	)% (479)	)% (843)	)%

Table of Contents

## Revenue

	Year Ended December 31,			2013 to 2014 % change	2012 to 2013 %change	
	2014	2013	2012			
Revenue:						
Subscription	\$41,602	\$11,655	\$3,395	257	% 243	%
Professional services	4,003	1,318	759	204	% 74	%
Total revenue	\$45,605	\$12,973	\$4,154	252	% 212	%

## 2014 compared to 2013

Total revenue for the year ended December 31, 2014, increased \$32.6 million, or 252%. The increase in total revenue was primarily attributable to revenue from customers launched during the year as well as incremental revenue from customers launched in the prior year. We had 115 launched customers at the end of 2014 compared with 48 launched customers at the end of 2013. Customers launched in 2014 and 2013 contributed to 48% and 55%, of total revenue in the respective years. Increase in annual bookings also contributed to the increase in revenue. Annual bookings, which is defined as the estimated total billings from contract execution through one year after launch for all sales to new and existing customers during a calendar year, was \$44.3 million for the year ended December 31, 2014 compared to \$32.4 million for the year ended December 31, 2013.

## 2013 compared to 2012

Total revenue for the year ended December 31, 2013, increased \$8.8 million, or 212%. The increase in total revenue was primarily attributable to revenue from customers launched during 2013 as well as incremental revenue from customers launched in 2012. We had 48 launched customers at the end of 2013 compared with 15 launched customers at the end of 2012. Customers launched in 2013 and 2012 contributed to 55% and 52% of total revenue in the respective years.

## Costs and Operating Expenses

	Year Ended December 31,			2013 to 2014 % change	2012 to 2013 %change	
	2014	2013	2012			
Cost of revenue:						
Subscription	\$10,472	\$6,246	\$3,242	68	% 93	%
Professional services	17,300	11,058	5,286	56	% 109	%
Total cost of revenue	\$27,772	\$17,304	\$8,528	60	% 103	%
Gross margin (loss) percentage						
Subscription	75	% 46	% 5	%		
Professional services	(332	)% (739	)% (596	)%		
Total gross margin (loss) percentage	39	% (33	)% (105	)%		
Gross profit (loss)	\$17,833	\$(4,331	) \$(4,374	) (512	)% (1	)%

## 2014 compared to 2013

Table of Contents

Cost of subscription revenue increased \$4.2 million or 68% primarily due to increased data and infrastructure costs and increased customer support related to our growing customer base. Data and infrastructure costs accounted for \$2.9 million of the increase and customer support costs increased \$1.0 million in 2014 compared with the prior year.

Cost of professional services revenue increased \$6.2 million or 56% primarily due to more than a 100% increase in the number of implementations we completed during 2014. Employee-related expenses accounted for \$2.7 million of the increase and third party services costs increased \$3.0 million in 2014 compared with the prior year. The impact of the increase in launch activity was partially offset by efficiencies we derived from improved processes and automation related to our implementations of our Castlight Medical product during 2014.

2013 compared to 2012

Cost of subscription revenue increased \$3.0 million or 93% primarily due to \$2.5 million increase in data and infrastructure costs, as we continue to support our growing customer base.

Cost of professional services revenue increased \$5.8 million or 109% primarily due to employee-related costs we incurred to support an increase in the number of customer implementations in 2013 compared with 2012.

Overall gross margin blends the effects of the gross margins derived from subscription revenues and the gross losses generated from professional services. Gross margin for the year ended December 31, 2014 improved from a gross loss for the year ended December 31, 2013, primarily as the cost of subscription revenue as a percentage of total revenue continues to decrease over time, as a number of the associated costs, such as costs associated with data acquisition, include fixed elements. Improvements in overall gross margin for the year ended December 31, 2014 were primarily attributable to specific and durable cost reductions in the year, such as our efforts to reduce customization for launches, and the continued growth in the number of launched customers in relation to customers in the implementation phase.

Historically, we have viewed the gross losses we incur on customer implementations as a strategic investment in customer satisfaction. As Castlight's solutions have become more established in the market we have reduced discounting of professional services, which should contribute to improving gross margins over time. To reach our long-term gross margin goal of 70 to 75% we plan to continue to grow our base of high margin subscription revenues and also improve the margin profile of our professional services offerings.

Sales and Marketing

	Year Ended December 31,			2013 to 2014 % change	2012 to 2013 % change
	2014	2013	2012		
Sales and marketing	\$62,065	\$33,742	\$15,829	84	% 113

2014 compared to 2013

Sales and marketing increased \$28.3 million or 84% primarily attributable to a \$17.7 million increase in employee-related expenses as we continued to expand our sales force to address new opportunities and grow our customer base. The increase was also driven by an increase of \$6.4 million in marketing expenses, primarily attributable to the Castlight Enterprise Healthcare Cloud Summit and public relation events such as the HR Technology Conference and Exposition, that enabled us to engage with human resources executives, benefits leaders and other decision-makers. The increase was also attributable to a \$2.6 million expense associated with warrants granted in December 2013 to a third-party service provider and \$1.1 million in travel and entertainment expenses.

2013 compared to 2012

Sales and marketing increased \$17.9 million or 113% primarily attributable to an \$11.3 million increase in employee-related expenses as we continued to expand our sales force to address new opportunities and grow our customer base. The increase





Table of Contents

was also driven by an increase of \$2.6 million in brand and product marketing costs and an increase of \$1.2 million for travel and entertainment expense.

## Research and Development

	Year Ended December 31,			2013 to 2014 % change	2012 to 2013 % change
	2014	2013	2012		
Research and development 2014 compared to 2013	\$22,917	\$15,219	\$9,718	51	% 57

Research and development expense increased \$7.7 million or 51% primarily attributable to a \$5.6 million increase in employee-related expenses as we continued to hire engineering talent to drive innovation and new products, and a \$0.9 million increase in expenses related to the use of sub-contractors to assist in our development efforts, such as our monthly releases of new features and functionality on existing products, development of implementation tools and new products like Castlight Dental.

## 2013 compared to 2012

Research and development expense increased \$5.5 million or 57% primarily attributable to a \$5.2 million increase in employee-related expenses as we continued to hire engineering talent to drive innovation and new products.

## General and Administrative

	Year Ended December 31,			2013 to 2014 % change	2012 to 2013 % change
	2014	2013	2012		
General and administrative 2014 compared to 2013	\$19,009	\$9,047	\$5,212	110	% 74

General and administrative expense increased \$10.0 million or 110% primarily attributable to an \$8.2 million increase in employee-related expenses associated with an increase in personnel and a \$1.4 million increase in accounting and legal services to support the growth of our business and public company infrastructure.

## 2013 compared to 2012

General and administrative expense increased \$3.8 million or 74% primarily attributable to a \$1.8 million increase in employee-related expenses which were primarily associated with \$1.4 million in sub-contractor costs and higher professional fees of \$0.7 million for accounting and legal services to support the growth of our business.

## Liquidity and Capital Resources

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net cash used in operating activities	\$(54,637)	\$(50,064)	\$(29,325)
Net cash (used in) provided by investing activities	(142,548)	32,260	(51,504)
Net cash provided by financing activities	189,456	424	100,083
Net (decrease) increase in cash and cash equivalents	\$(7,729)	\$(17,380)	\$19,254

## Table of Contents

As of December 31, 2014, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$198.7 million, which were held for working capital purposes. Our cash, cash equivalents and marketable securities are comprised primarily 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, cash equivalents and marketable securities 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, subscription renewal activity, the timing and extent of spending to support development efforts, our expansion of sales and marketing activities, the introduction of new and enhanced services offerings and the continuing market acceptance of our cloud-based applications. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies and intellectual property rights. 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

For the year ended December 31, 2014, cash used in operating activities was \$54.6 million. The negative cash flows resulted primarily from our net loss of \$85.9 million, adjusted for \$23.8 million in non-cash expenses that primarily included stock-based compensation of \$14.2 million, warrant expense of \$2.6 million and amortization of deferred commissions of \$4.1 million. Working capital uses of cash included an increase in accounts receivable of \$6.0 million primarily as a result of overall growth of our business and in part related to the timing of billings and collections. Deferred commissions also increased by \$4.9 million pertaining to the non-cancellable portion of contracts signed in the year, as we increased our customer base from 106 in 2013 to 168 at the end of 2014. These increases were offset by an increase in deferred revenue of \$15.9 million, as a result of contracts signed in the period with associated upfront fees.

For the year ended December 31, 2013, cash used in operating activities was \$50.1 million. The negative cash flows resulted primarily from our net loss of \$62.2 million, adjusted for \$6.5 million in non-cash expenses that primarily included stock-based compensation of \$2.4 million and amortization of deferred commissions of \$2.5 million. Working capital uses of cash included an increase in deferred commissions of \$5.0 million, pertaining to the non-cancellable portion of contracts signed in the year, as we increased our customer base from 47 in 2012 to 106 at the end of 2013. These increases were offset by an increase in deferred revenue of \$7.3 million, as a result of contracts signed in the period with associated upfront fees.

For the year ended December 31, 2012, cash used in operating activities was \$29.3 million. The negative cash flows resulted primarily from our net loss of \$35.0 million, adjusted for \$2.1 million in non-cash expenses that primarily included stock-based compensation of \$1.3 million. Working capital uses of cash included an increase in deferred commissions of \$3.0 million, pertaining to the non-cancellable portion of contracts signed in the year. These increases were offset by an increase in deferred revenue of \$3.3 million and increase in accrued compensation of \$4.6 million. The increase in deferred revenue was as a result of contracts signed in the period with associated upfront fees. The increase in accrued compensation was as a result of bonus incentive program that the company had introduced in the prior year.

### Investing Activities

Cash (used in) or provided by investing activities for the year ended December 31, 2014, December 31, 2013, and December 31, 2012 was \$(142.5) million, \$32.3 million, and \$(51.5) million respectively. This was primarily the result of the timing of purchases, sales and maturities of marketable securities, during these periods. Following the initial public offering of our Class B common stock in March 2014, we purchased a significant amount of marketable securities.

### Financing Activities

For the year ended December 31, 2014, financing activities provided \$189.5 million, primarily due to the proceeds from our initial public offering of Class B common stock. For the year ended December 31, 2013, cash provided by financing activities was not significant. For the year ended December 31, 2012, cash provided by financing activities was \$100.1 million, primarily attributable to \$99.9 million net proceeds from our issuance of the Series D convertible preferred stock.

#### Backlog

We have generally signed multiple-year subscription contracts for our cloud-based subscription services. The timing of our invoices to the customer is a negotiated term and thus varies among our subscription contracts. For multiple-year

Table of Contents

agreements, it is common to invoice an initial amount at contract signing for implementation work that is deferred followed by subsequent annual, quarterly or monthly invoices, once we launch a customer, which is when our product is usable by the customer. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements and are considered by us to be backlog. The amount of our total backlog for subscription and professional services contracts, which we define as including both cancellable and non-cancellable portions of our customer agreements that we have not yet billed, was approximately \$162.0 million as of December 31, 2014 and \$108.7 million as of December 31, 2013. Our total backlog does not take into account contractual provisions that give customers a right to terminate their agreements with us. The amount of our backlog for subscription and professional services contracts was approximately \$60.9 million at December 31, 2014 and \$50.9 million as of December 31, 2013, respectively, for the non-cancellable portions of our customer agreements that we have not yet billed. We fulfill backlog associated with a customer contract when the customer implementation process is complete. Our implementation timelines can vary between three and nine months for Castlight Medical and from six to longer than twelve months for our other applications, 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 and therefore, are subject to significant uncertainties, which can have a material impact on our total backlog and non-cancellable backlog that we fulfill in the current year.

We expect that the amount of our backlog relative to the total value of our contracts will change from period to period for several reasons, including the amount of cash collected early in the contract term, the specific timing and duration of large customer subscription agreements, varying invoicing cycles of subscription agreements, potential customer upsells dependent on our customer agreements, the specific timing of customer renewal and changes in customer financial circumstances. Accordingly, we believe that fluctuations in our backlog may not be a reliable indicator of our future revenue.

**Contractual Obligations and Commitments**

Our principal commitments primarily consist of obligations under leases for office space and co-location facilities for data center capacity. As of December 31, 2014, the future non-cancellable minimum payments under these commitments were as follows (in thousands):

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases for facilities(1)	\$3,000	\$1,325	\$1,675	\$—	\$—
Data center costs(2)	612	369	243	—	—
Total	3,612	1,694	1,918	—	—

(1) Operating leases for facilities space represents our principal commitments, which consists of obligations under leases for office space.

(2) Data center costs represent costs associated with service agreements for our data centers in Colorado and Arizona. 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. Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude purchase orders for goods and services. Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

**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.

Table of Contents

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in Note 2 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies that we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

We derive our revenue from sales of cloud-based subscription service contracts, including support, and professional services contracts. We sell subscriptions to our cloud-based subscription service through contracts that are generally three years in length.

Our cloud-based subscription service contracts do not provide customers with the right to take possession of the software supporting the cloud-based service and, as a result, are accounted for as service contracts.

We commence revenue recognition for our cloud-based subscription service and professional services when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been provided to the customer;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Our subscription and professional service arrangements do not contain refund provisions for fees earned related to services performed. We do, however, have commitments under service-level agreements, as discussed under "Warranties and Indemnification" in the Notes to Consolidated Financial Statements.

**Subscription Revenue.** Subscription revenue recognition commences on the date that our cloud-based service is made available to the customer, which is considered the launch date, provided all of the other criteria described above are met. Revenue is recognized based on the terms in our customer contracts, which can provide for (a) a variable periodic fee based upon the actual or contractual number of users that is recognized to revenue based on the actual or contractual number of users or (b) a fixed fee that is recognized to revenue on a straight-line basis over the contractual term of the arrangement.

Certain of our cloud-based subscription arrangements include performance incentives that are generally based upon employee engagement. Fees for performance incentives are considered contingent revenue, and are recognized over the remaining term of the related subscription arrangement commencing at the time they are earned.

**Professional Services Revenue.** Professional services revenue is comprised of implementation services related to our cloud-based subscription service, as well as follow-on professional services to assist our customers in further adopting our cloud-based subscription service, and communications services. Nearly all of our professional services contracts are sold on a fixed-fee basis. We do not have standalone value for our implementation services. Accordingly, we recognize implementation services revenue in the same manner as the associated cloud-based subscription service, beginning on the launch date, provided all other criteria described above have been met. For follow-on professional services that are sold separately from the cloud-based subscription service, we recognize revenue as the services are delivered. Communication services revenue is recognized over the contractual term, generally one year, commencing when the revenue recognition criteria have been met.

## Table of Contents

**Multiple Deliverable Arrangements.** To date, we have generated substantially all our revenue from multiple deliverable arrangements consisting of multi-year cloud-based subscription services and professional services, including implementation services and communication services. For arrangements with multiple deliverables, we evaluate whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered. If one or more of the deliverables do not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with our cloud-based subscription service, and revenue for the combined unit is recognized over the remaining term of the cloud-based subscription service.

Our deliverables have standalone value if we or any other vendor sells a similar service separately. We have concluded that we have standalone value for our cloud-based subscription service as we sell these services separately through renewals and for our communication services as other vendors sell similar services separately. Conversely, we have concluded that our implementation services do not have standalone value, as we and others do not yet sell these services separately. Accordingly, we consider the separate units of accounting in our multiple deliverable arrangements to be the communication services and a combined deliverable comprised of cloud-based subscription services and implementation services.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangements accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence, or VSOE, of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence, or TPE, of selling price is used to establish the selling price if it exists. If TPE does not exist, we estimate the best estimated selling price, or BESP. VSOE does not currently exist for any of our deliverables. Additionally, we do not believe TPE is a practical alternative due to differences in our cloud-based subscription service compared to other parties and the availability of relevant third-party pricing information for our cloud-based subscription service and our other services. Accordingly, for arrangements with multiple deliverables that can be separated into different units of accounting, we allocate the arrangement fee to the separate units of accounting based on our BESP. The amount of arrangement fee allocated is limited by contingent revenue, if any.

We determine BESP for our deliverables by considering our overall pricing objectives and market conditions. This includes evaluating our pricing practices, our list prices, the size of our transactions, historical sales and our go-to-market strategy. The determination of BESP is made through consultation with and approval by management. For financial statement presentation purposes, we allocate the fees from our combined units of accounting to subscription and professional services based upon their relative selling price.

### **Deferred Commissions**

Deferred commissions are the incremental costs that are directly associated with the non-cancellable portion of cloud-based subscription service contracts with customers and consist of sales commissions paid to our direct sales force. The commissions are deferred and amortized over the non-cancellable terms of the related contracts. The deferred commission amounts are recoverable through the future revenue streams under the non-cancellable customer contracts. Amortization of deferred commissions is included in sales and marketing expense in the consolidated statements of operations.

### **Stock-Based Compensation**

Compensation expense related to stock-based transactions, including employee, consultant and non-employee director stock option awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of

the awards, which is generally four years. For restricted stock units, fair value is based on the closing price of our Class B common stock on the grant date.

Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.



Table of Contents

These assumptions are estimated as follows:

**Volatility.** We determine the price volatility factor based on the historical volatilities of our peer group as we do not have a sufficient trading history for our common stock. To determine our peer group of companies, we consider public enterprise cloud-based application providers and health information systems companies and select those that are similar to us with regards to nature of business, customer base, service offerings and markets served. We did not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

**Expected Life.** The expected life represents the period that our stock-based awards are expected to be outstanding. We determined the expected life assumption based on the vesting terms, exercise terms and contractual terms of the options.

**Risk-Free Interest Rate.** We base the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the options for each option group.

**Dividend Yield.** We have not paid and do not plan to pay cash dividends in the foreseeable future and, therefore, use an expected dividend yield of zero.

**Fair Value of Common Stock.** Prior to our initial public offering in March 2014, our board of directors considered numerous objective and subjective factors to determine the fair value of our Class A common stock at each grant date. These factors included, but were not limited to, (i) contemporaneous valuations of Class A common stock performed by unrelated third-party specialists; (ii) the prices for our Preferred Stock sold to outside investors; (iii) the rights, preferences and privileges of our Preferred Stock relative to our Class A common stock; (iv) the lack of marketability of our Class A common stock; (v) developments in the business; and (vi) the likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of our Company, given prevailing market conditions.

Since our initial public offering, we have used the market closing price for our Class B common stock as reported on the New York Stock Exchange to determine the fair value of our common stock.

The following table summarizes the assumptions relating to our stock options as follows:

	Year Ended December 31,		
	2014	2013	2012
Volatility	60%	57.8%-60%	60%-63%
Expected life (in years)	5.0-6.3	5.0-7.2	5.0-6.5
Risk-free interest rate	1.53%-2.05%	0.7%-1.8%	0.6%-1.1%
Dividend yield	—	—	—
Weighted-average fair value of underlying common stock	\$14.74	\$3.02	\$1.05

In addition to assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors. Quarterly changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the rate is

recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements.

45

---

Table of Contents

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to our estimates, which could materially impact our future stock-based compensation expense.

Adoption of New and Recently Issued Accounting Pronouncements

Please refer to Note 2 of the Notes to the Consolidated Financial Statements for a discussion of adoption of new and recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling \$198.7 million at December 31, 2014 and \$67.2 million as of December 31, 2013. This amount was invested primarily in U.S. agency obligations, U.S. treasury securities and money market funds. The cash, cash equivalents and short-term marketable securities are held for working capital 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.

Our cash equivalents and our portfolio of marketable securities 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 marketable 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 of 100-basis points in interest rates would have resulted in a \$1.0 million market value reduction in our investment portfolio as of December 31, 2014. All of our investments earn less than 100-basis points and as a result, an immediate decrease of 100-basis points in interest rates would have increased the market value by \$0.3 million as of December 31, 2014. 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.

Table of Contents

Item 8. Financial Statements

CASTLIGHT HEALTH, INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>47</u>
<u>Consolidated Balance Sheets</u>	<u>48</u>
<u>Consolidated Statements of Operations</u>	<u>49</u>
<u>Consolidated Statements of Comprehensive Loss</u>	<u>50</u>
<u>Consolidated Statements of Convertible Preferred Stock and Stockholder's equity and deficit</u>	<u>51</u>
<u>Consolidated Statements of Cash Flows</u>	<u>52</u>
<u>Notes to Consolidated Financial Statements</u>	<u>53</u>

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Castlight Health, Inc.

We have audited the accompanying consolidated balance sheets of Castlight Health, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders' (deficit)/equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Castlight Health, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

March 12, 2015

Table of Contents

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

	As of December 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$17,425	\$25,154
Marketable securities	175,057	42,017
Accounts receivable, net	11,097	5,065
Deferred commissions	3,675	3,648
Prepaid expenses and other current assets	3,476	1,583
Total current assets	210,730	77,467
Property and equipment, net	3,630	2,631
Marketable securities, noncurrent	6,220	—
Restricted cash, noncurrent	—	101
Deferred commissions, noncurrent	2,563	1,821
Other assets	131	1,497
Total assets	\$223,274	\$83,517
Liabilities, convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$3,217	\$2,536
Accrued expenses and other current liabilities	5,791	4,998
Accrued compensation	10,455	8,064
Deferred revenue	20,708	6,925
Total current liabilities	40,171	22,523
Deferred revenue, noncurrent	6,652	4,548
Other liabilities, noncurrent	261	373
Total liabilities	47,084	27,444
Commitments and contingencies		
Convertible preferred stock, \$0.0001 par value; no and 64,475,662 shares authorized as of December 31, 2014 and 2013; no and 64,475,633 shares issued and outstanding as of December 31, 2014 and 2013	—	180,423
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value; 10,000,000 and no shares authorized as of December 31, 2014 and 2013; no shares issued and outstanding as of December 31, 2014 and 2013	—	—
Class A common stock, \$0.0001 par value; 200,000,000 and 95,000,000 shares authorized as of December 31, 2014 and 2013; 58,862,574 and 10,994,074 shares issued and outstanding as of December 31, 2014 and 2013 (including no and 185,000 6 shares subject to repurchase, legally issued and outstanding, as of December 31, 2014 and 2013)		1
Class B common stock, \$0.0001 par value; 800,000,000 and 95,000,000 shares authorized as of December 31, 2014 and 2013; 32,328,809 and no shares issued and outstanding as of December 31, 2014 and 2013	3	—
Additional paid-in capital	393,397	6,885

Edgar Filing: CASTLIGHT HEALTH, INC. - Form 10-K

Accumulated other comprehensive loss	(40	) —
Accumulated deficit	(217,176	) (131,236 )
Total stockholders' equity (deficit)	176,190	(124,350 )
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$223,274	\$83,517

See Notes to Consolidated Financial Statements.

48

---

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
Revenue:			
Subscription	\$41,602	\$11,655	\$3,395
Professional services	4,003	1,318	759
Total revenue	45,605	12,973	4,154
Cost of revenue:			
Cost of subscription (1)	10,472	6,246	3,242
Cost of professional services (1)	17,300	11,058	5,286
Total cost of revenue	27,772	17,304	8,528
Gross profit (loss)	17,833	(4,331)	(4,374)
Operating expenses:			
Sales and marketing (1)	62,065	33,742	15,829
Research and development (1)	22,917	15,219	9,718
General and administrative (1)	19,009	9,047	5,212
Total operating expenses	103,991	58,008	30,759
Operating loss	(86,158)	(62,339)	(35,133)
Other income, net	218	157	129
Net loss	\$(85,940)	\$(62,182)	\$(35,004)
Net loss per share, basic and diluted	\$(1.16)	\$(6.28)	\$(4.44)
Weighted-average shares used to compute basic and diluted net loss per share	74,381	9,895	7,885

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

	Year Ended December 31,		
	2014	2013	2012
Cost of revenue:			
Cost of subscription	\$180	\$5	\$2
Cost of professional services	1,220	120	105
Sales and marketing	5,933	919	551
Research and development	2,556	603	242
General and administrative	4,312	780	411

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
Net loss	\$ (85,940	) \$ (62,182	) \$ (35,004
Other comprehensive income (loss):			
Net change in unrealized gain (loss) on available-for-sale marketable securities	(40	) (34	) 27
Reclassification adjustments for net realized gains (loss) on available-for-sale marketable securities	—	—	—
Other comprehensive income (loss)	(40	) (34	) 27
Comprehensive loss	\$ (85,980	) \$ (62,216	) \$ (34,977
See Notes to Consolidated Financial Statements.			



Table of Contents

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK  
AND STOCKHOLDERS' (DEFICIT)/EQUITY

(In thousands, except share data)

	Convertible Preferred Stock		Class A & B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total Stockholders' (Deficit)/Equity
	Shares	Amount	Shares	Amount				
Balances as of December 31, 2011	47,909,912	\$80,572	8,819,008	\$1	\$1,976	\$(34,050)	\$7	\$(32,066)
Issuance of Series D preferred stock for cash, net of issuance costs	16,565,721	\$99,851	—	—	—	—	—	—
Vesting of early exercised stock options and restricted common stock, net	—	—	—	—	112	—	—	112
Issuance of restricted common stock	—	—	22,727	—	—	—	—	—
Exercise of stock options, net	—	—	1,056,262	—	232	—	—	232
Stock-based compensation	—	—	—	—	1,311	—	—	1,311
Comprehensive loss	—	—	—	—	—	(35,004)	27	\$(34,977)
Balances as of December 31, 2012	64,475,633	\$180,423	9,897,997	\$1	\$3,631	\$(69,054)	\$34	\$(65,388)
Vesting of early exercised stock options and restricted common stock	—	—	—	—	128	—	—	128
Exercise of stock options, net	—	—	1,036,077	—	564	—	—	564
Early exercise of warrant	—	—	60,000	—	—	—	—	—
Stock-based compensation	—	—	—	—	2,427	—	—	2,427
Expense related to warrant	—	—	—	—	135	—	—	135
Comprehensive loss	—	—	—	—	—	(62,182)	(34)	(62,216)
Balances as of December 31, 2013	64,475,633	\$180,423	10,994,074	\$1	\$6,885	\$(131,236)	\$—	\$(124,350)

Edgar Filing: CASTLIGHT HEALTH, INC. - Form 10-K

Vesting of restricted common stock	—	—	—	—	21	—	—	21
Exercise of stock options, net	—	—	2,956,676	—	3,294	—	—	3,294
Vesting of early exercised warrant issued	—	—	—	—	300	—	—	300
Stock-based compensation	—	—	—	—	14,215	—	—	14,215
Expense related to warrant	—	—	—	—	2,639	—	—	2,639
Conversion of preferred stock to common stock	(64,475,633)	(180,423 )	64,475,633	7	180,416	—	—	180,423
Issuance of common stock upon initial public offering, net of issuance costs	—	—	12,765,000	1	185,627	—	—	185,628
Comprehensive loss	—	—	—	—	—	(85,940 )	(40 )	(85,980 )
Balances as of December 31, 2014	—	\$—	91,191,383	\$9	\$393,397	\$(217,176 )	\$(40 )	\$ 176,190

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Year Ended December 31,		
	2014	2013	2012
Operating activities:			
Net loss	\$(85,940	) \$(62,182	) \$(35,004
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,354	633	231
Stock-based compensation	14,201	2,427	1,311
Amortization of deferred commissions	4,092	2,541	10
Accretion and amortization of marketable securities	1,489	714	558
Expense related to warrant	2,639	135	—
Changes in operating assets and liabilities:			
Accounts receivable	(6,032	) (2,703	) (2,228
Deferred commissions	(4,861	) (4,959	) (3,048
Prepaid expenses and other current assets	(1,893	) (252	) (696
Other assets	(2	) (109	) 5
Accounts payable	147	868	1,075
Accrued expenses and other current liabilities	1,982	2,892	397
Deferred revenue	15,887	7,268	3,340
Accrued compensation	2,412	2,544	4,619
Other liabilities, noncurrent	(112	) 119	105
Net cash used in operating activities	(54,637	) (50,064	) (29,325
Investing activities:			
Restricted cash	101	—	129
Purchase of property and equipment, net	(1,860	) (2,587	) (458
Purchase of marketable securities	(230,316	) (42,288	) (103,552
Sales of marketable securities	13,000	5,000	19,181
Maturities of marketable securities	76,527	72,135	33,196
Net cash (used in) provided by investing activities	(142,548	) 32,260	(51,504
Financing activities:			
Proceeds from the exercise of stock options and warrants	3,294	864	232
Proceeds from initial public offering	189,943	—	—
Payments of deferred financing costs	(3,781	) (440	) —
Proceeds from issuance of convertible preferred stock	—	—	99,851
Net cash provided by financing activities	189,456	424	100,083
Net (decrease) increase in cash and cash equivalents	(7,729	) (17,380	) 19,254
Cash and cash equivalents at beginning of period	25,154	42,534	23,280
Cash and cash equivalents at end of period	\$17,425	\$25,154	\$42,534
Noncash investing and financing activity:			
Vesting of early exercised stock options, restricted common stock, and warrants	\$(321	) \$(128	) \$(112
Purchase of property and equipment, accrued but not paid	(600	) (122	) (581
Deferred offering costs, accrued but not paid	(94	) (927	) —
See Notes to Consolidated Financial Statements.			



## Table of Contents

### Note 1. Organization and Description of Business

#### Description of Business

Castlight Health, Inc. (Castlight) is a pioneer in a new category of cloud-based software that enables enterprises to understand and manage health care spending as a strategic business investment, and help employees and their families make more informed medical decisions based on factors such as cost, quality and patient experience. Our Enterprise Healthcare Cloud allows our customers to conquer the complexity of the existing healthcare system by providing personalized, actionable information to their employees, implementing technology-enabled benefit designs and integrating disparate systems and applications. Our comprehensive technology offering aggregates complex, large-scale data and applies sophisticated analytics to make health care data transparent and useful. We were incorporated in the State of Delaware in January 2008. Our principal executive offices are located in San Francisco, California.

#### Initial Public Offering

On March 19, 2014, we completed our initial public offering (IPO), in which we sold 12.8 million shares of Class B common stock at a price to the public of \$16.00 per share. The aggregate offering price for shares sold in the offering was approximately \$204.2 million. We raised approximately \$185.6 million in net proceeds from the offering, after deducting underwriter discounts and commissions of approximately \$14.3 million and other offering expenses of approximately \$4.3 million.

### Note 2. Summary of Significant Accounting Policies

#### Basis of Presentation and Principles of Consolidation

These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the results of Castlight and its wholly owned U.S. subsidiary.

On December 30, 2013, our board of directors and stockholders authorized a one-for-one exchange of all outstanding Class B common stock to Class A common stock. All share, per share and related information presented in these financial statements and accompanying footnotes have been retroactively adjusted to reflect the impact of this exchange.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. These estimates include, but are not limited to, the determination of the relative selling prices for our services and certain assumptions used in the valuation of our common stock prior to the IPO and in equity awards. Actual results could differ from those estimates, and such differences could be material to our consolidated financial position and results of operations.

#### Segment Information

Our chief operating decision maker, our CEO, reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating our financial performance. Accordingly, we have determined that we operate in a single reportable segment, cloud applications.

#### Revenue Recognition

We derive our revenue from sales of cloud-based subscription service contracts, including support, and professional services contracts. We sell subscriptions to our cloud-based subscription service through contracts that are generally three years in length.

Our cloud-based subscription service contracts do not provide customers with the right to take possession of the software supporting the cloud-based service and, as a result, are accounted for as service contracts.

Table of Contents

We commence revenue recognition for our cloud-based subscription service and professional services when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been provided to the customer;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Our subscription and professional service arrangements do not contain refund provisions for fees earned related to services performed. We do, however, have commitments under service-level agreements, as discussed under "Warranties and Indemnification" below.

**Subscription Revenue.** Subscription revenue recognition commences on the date that our cloud-based service is made available to the customer, which is considered the launch date, provided all of the other criteria described above are met. Revenue is recognized based on the terms in our customer contracts, which can provide for (a) a variable periodic fee based upon the actual or contractual number of users that is recognized to revenue based on the actual or contractual number of users or (b) a fixed fee that is recognized to revenue on a straight-line basis over the contractual term of the arrangement.

Certain of our cloud-based subscription arrangements include performance incentives that are generally based upon employee engagement. Fees for performance incentives are considered contingent revenue, and are recognized over the remaining term of the related subscription arrangement commencing at the time they are earned.

**Professional Services Revenue.** Professional services revenue is comprised of implementation services related to our cloud-based subscription service, as well as follow-on professional services to assist our customers in further adopting our cloud-based subscription service, and communications services. Nearly all of our professional services contracts are sold on a fixed-fee basis. We do not have standalone value for our implementation services. Accordingly, we recognize implementation services revenue in the same manner as the associated cloud-based subscription service, beginning on the launch date, provided all other criteria described above have been met. For follow-on professional services that are sold separately from the cloud-based subscription service, we recognize revenue as the services are delivered. Communication services revenue is recognized over the contractual term, generally one year, commencing when the revenue recognition criteria have been met.

**Multiple Deliverable Arrangements.** To date, we have generated substantially all our revenue from multiple deliverable arrangements consisting of multi-year cloud-based subscription services and professional services, including implementation services and communication services. For arrangements with multiple deliverables, we evaluate whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered. If one or more of the deliverables do not have standalone value upon delivery, the deliverables that do not have standalone value are generally combined with our cloud-based subscription service, and revenue for the combined unit is recognized over the remaining term of the cloud-based subscription service.

Our deliverables have standalone value if we or any other vendor sells a similar service separately. We have concluded that we have standalone value for our cloud-based subscription service as we sell these services separately through renewals and for our communication services as other vendors sell similar services separately. Conversely, we have concluded that our implementation services do not have standalone value, as we and others do not yet sell these services separately. Accordingly, we consider the separate units of accounting in our multiple deliverable arrangements to be the communication services and a combined deliverable comprised of cloud-based subscription services and implementation services.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangements accounting guidance provides a hierarchy to use when determining the

relative selling price for each unit of accounting. Vendor-specific objective evidence, or VSOE, of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence, or TPE, of selling price is used to establish the selling price if it exists. If TPE does not exist, we estimate the best estimated selling price, or BEBP. VSOE does not currently exist for any of our deliverables. Additionally, we do not believe TPE is a practical alternative due to differences in our cloud-based subscription service compared to other parties and the availability of



## Table of Contents

relevant third-party pricing information for our cloud-based subscription service and our other services. Accordingly, for arrangements with multiple deliverables that can be separated into different units of accounting, we allocate the arrangement fee to the separate units of accounting based on our BESP. The amount of arrangement fee allocated is limited by contingent revenue, if any.

We determine BESP for our deliverables by considering our overall pricing objectives and market conditions. This includes evaluating our pricing practices, our list prices, the size of our transactions, historical sales and our go-to-market strategy. The determination of BESP is made through consultation with and approval by management. For financial statement presentation purposes, we allocate the fees from our combined units of accounting to subscription and professional services based upon their relative selling price.

### 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, benefits and stock-based compensation) related to hosting costs of our cloud-based service, cost of subcontractors, expenses for service delivery (which includes call center support), allocated overhead, the costs of data center capacity, amortization of internal-use software and depreciation of owned computer equipment and software. Amortization of internal-use software was immaterial for the year ended December 31, 2014.

Cost of professional services revenue consists primarily of employee-related expenses associated with these services, the cost of subcontractors and travel costs. 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.

### Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less from the date of purchase. Our cash and cash equivalents generally consist of investments in money market funds, U.S. treasury securities and U.S. agency obligations. Cash and cash equivalents are stated at fair value.

### Marketable Securities

Our marketable securities consist of U.S. agency obligations, U.S. treasury securities and money market funds, with maturities at the time of purchase of greater than three months. Marketable securities with remaining maturities in excess of one year are classified as noncurrent. We classify our marketable securities as available-for-sale at the time of purchase based on our intent and are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive income (loss). We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income, net in the consolidated statements of operations.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on our assessment of the collectability of accounts. We regularly review the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice and the collection history of each customer to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectable are charged against the allowance for doubtful accounts when identified. For all periods presented, the allowance for doubtful accounts was not significant.

### Deferred Commissions

Deferred commissions are the incremental costs that are directly associated with the non-cancellable portion of cloud-based subscription service contracts with customers and consist of sales commissions paid to our direct sales force. The commissions are deferred and amortized over the non-cancellable terms of the related contracts. The deferred commission



Table of Contents

amounts are recoverable through the future revenue streams under the non-cancellable customer contracts. Amortization of deferred commissions is included in sales and marketing expense in the consolidated statements of operations.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective asset as follows:

Software	3–5 years
Computer equipment	3 years
Furniture and equipment	5–7 years
Leasehold improvements	Shorter of the lease term or the estimated useful lives of the improvements

Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of operations for the period realized.

Internal-use Software

For our development costs related to our cloud-based service, we capitalize costs incurred during the application development stage. Costs related to preliminary project and post-implementation stages are expensed as incurred. Capitalized software development costs are included as part of property, plant and equipment and are amortized on a straight-line basis over the technology's estimated useful life, which is generally three years. The amortization expense is recorded as a component of cost of subscription revenue.

For the year ended December 31, 2014, we capitalized software development costs totaling \$0.3 million. All software development costs incurred in prior periods were expensed.

Deferred Revenue

Deferred revenue consists of professional services and cloud-based subscription services that have been billed in advance of revenue being recognized. Additionally, deferred revenue consists of professional services that have been billed and delivered but the revenue is being deferred and recognized together with a cloud-based subscription contract as a single unit of accounting. We invoice our customers for our cloud-based subscription services based on the terms of the contract, which can be annual, quarterly or monthly installments. We invoice our customers for our professional services and the first year of communication services generally at contract execution. Deferred revenue that is anticipated to be recognized during the succeeding 12-month period is recorded as current deferred revenue, and the remaining portion is recorded as noncurrent.

Stock-based Compensation

All stock-based compensation to employees is measured based on the grant-date fair value of the awards and recognized in our consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of stock options granted using the Black-Scholes option valuation model. For restricted stock units, fair value is based on the closing price of our Class B common stock on the grant date. Compensation expense is recognized over the vesting period of the applicable award using the straight-line method.

Compensation expense for non-employee stock options and warrants is calculated using the Black-Scholes option-pricing model and is recorded as the options vest. Options subject to vesting are required to be periodically revalued over their service period, which is generally the same as the vesting period.

Income Taxes



## Table of Contents

We account for income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the future tax consequences attributable to differences between the financial reporting carrying amounts of existing assets and liabilities and their respective tax bases and tax credit and net operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to be in effect when the differences are expected to reverse.

We assess the likelihood that deferred tax assets will be recovered from future taxable income, and a valuation allowance is established when necessary to reduce deferred tax assets to the amounts more likely than not expected to be realized.

We recognize and measure uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a regular basis. Our evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of audit and effective settlement of audit issues.

### Warranties and Indemnification

Our cloud-based service is generally warranted to be performed in a professional manner and in a manner that will comply with the terms of the customer agreements.

Our arrangements generally include certain provisions for indemnifying customers against liabilities if there is a breach of a customer's data or if our service infringes a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in the financial statements. We have entered into service-level agreements with certain customers warranting defined levels of performance and response and permitting those customers to receive credits for prepaid amounts related to subscription services in the event that we fail to meet those levels. To date, we have not experienced any significant failures to meet defined levels of performance and response as a result of those agreements.

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that would generally enable us to recover a portion of any future amounts paid. We may also be subject to indemnification obligation by law with respect to the actions of our employees under certain circumstances and in certain jurisdictions.

### Advertising Expenses

Advertising is expensed as incurred. Advertising expense was \$0.7 million, \$0.4 million and \$0.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### Concentrations of Risk and Significant Customers

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits.

We serve our customers and users from outsourced data center facilities located in Colorado and Arizona. We have internal procedures to restore all our services in the event of disasters at the Arizona facility. Procedures utilizing currently deployed hardware, software and services at our disaster recovery location allow our cloud-based service to

be restored within 48 hours without significant interruptions during the implementation of the procedures to restore services.

Revenue from customers representing 10% or more of total revenue for the respective years, is summarized as follows:

57

---

Table of Contents

	Year Ended December 31,			
	2014	2013	2012	
Revenue:				
Customer A	14	% 16	% —	%
Customer B	*	*	30	%
Customer C	*	*	13	%
Customer D	*	*	10	%
* Less than 10%				

During the years ended December 31, 2014, 2013 and 2012, all of our revenue was generated by customers located in the United States.

Accounts receivable from customers representing 10% or more of total accounts receivable as of the respective dates is summarized as follows:

	As of December 31,		
	2014	2013	
Accounts Receivable:			
Customer A	*	10	%
Customer E	12	% —	%
Customer F	19	% 17	%
* Less than 10%			

#### Recently Issued and Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will be effective for us beginning January 1, 2017. Early adoption is not permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Table of Contents

## Note 3. Marketable Securities

At December 31, 2014 and December 31, 2013, respectively, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
U.S. agency obligations	\$177,297	\$4	\$(44	) \$177,257
U.S. treasury securities	5,580	1	—	5,581
Money market mutual funds	1,919	—	—	1,919
	184,796	5	(44	) 184,757
Included in cash and cash equivalents	3,480	—	—	3,480
Included in marketable securities	\$175,093	\$5	\$(41	) \$175,057
Included in marketable securities, noncurrent	\$6,223	\$—	\$(3	) \$6,220
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2013				
U.S. agency obligations	\$35,996	\$6	\$(7	) \$35,995
U.S. treasury securities	6,020	2	—	6,022
Money market mutual funds	18,082	—	—	18,082
	60,098	8	(7	) 60,099
Included in cash and cash equivalents	18,082	—	—	18,082
Included in marketable securities	\$42,016	\$8	\$(7	) \$42,017

## Note 4. Fair Value Measurements

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

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

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

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



Table of Contents

The fair value of marketable securities included in the Level 2 category is based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. These values were obtained from a third-party pricing service and were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established third party pricing vendors and broker-dealers. There have been no changes in valuation techniques in the periods presented. We have no financial assets or liabilities measured using Level 3 inputs. There were no significant transfers between Levels 1 and 2 assets as of December 31, 2014 and December 31, 2013. The following tables present information about our assets that are measured at fair value on a recurring basis using the above input categories (in thousands):

	Level 1	Level 2	Total
December 31, 2014			
Cash equivalents:			
Money market mutual funds	\$1,919	\$—	\$1,919
U.S. agency obligations	—	1,561	1,561
Marketable securities:			
U.S. agency obligations	—	175,696	175,696
U.S. treasury securities	—	5,581	5,581
	\$1,919	\$182,838	\$184,757
	Level 1	Level 2	Total
December 31, 2013			
Cash equivalents:			
Money market mutual funds	\$18,082	\$—	\$18,082
Marketable securities:			
U.S. agency obligations	—	35,995	35,995
U.S. treasury securities	—	6,022	6,022
	\$18,082	\$42,017	\$60,099

Gross unrealized gains and losses for cash equivalents and marketable securities as of December 31, 2014 and December 31, 2013 were not material. We do not believe the unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of December 31, 2014.

There were no realized gains or losses for the year ended December 31, 2014 and 2013. As of December 31, 2014 those securities with maturities at the time of purchase of greater than one year are reflected in the noncurrent portion of our consolidated balance sheets. All of our marketable securities at December 31, 2013 mature within one year. Marketable securities on the balance sheets consist of securities with original or remaining maturities at the time of purchase of greater than three months, and the remainder of the securities is reflected in cash and cash equivalents.

#### Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands)

	As of December 31,	
	2014	2013
Prepaid expenses and advances	\$2,285	\$1,242
Security deposit	211	165
Interest receivable on marketable securities	537	156
Other current assets	443	20
Total	\$3,476	\$1,583



Table of Contents

## Note 6. Property and Equipment

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

	As of December 31,	
	2014	2013
Leasehold improvements	\$1,058	\$924
Computer equipment	3,247	2,024
Software	874	263
Capitalization of internal-use software	291	—
Furniture and equipment	301	257
Total	5,771	3,468
Accumulated depreciation	(2,141	) (837
Property and equipment, net	\$3,630	\$2,631

Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012 was \$1.4 million, \$0.6 million and \$0.2 million, respectively. Depreciation is recorded on a straight-line basis.

## Note 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	As of December 31,	
	2014	2013
Accrued expenses	\$5,363	\$3,845
Other	428	1,153
Total	\$5,791	\$4,998

## Note 8. Accrued Compensation

Accrued compensation consisted of the following (in thousands):

	As of December 31,	
	2014	2013
Accrued bonuses and commissions	\$7,763	\$6,800
Other benefits payable	2,692	1,243
Liability for stock options exercised prior to vesting and restricted Class A common stock subject to repurchase	—	21
Total	\$10,455	\$8,064

Table of Contents

## Note 9. Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	As of December 31,	
	2014	2013
Subscription	\$14,826	\$3,810
Professional services—implementation	2,974	1,835
Professional services—communications	2,908	1,280
Total current	20,708	6,925
Subscription	1,950	1,489
Professional services—implementation	4,327	2,443
Professional services—communications	375	616
Total noncurrent	6,652	4,548
Total	\$27,360	\$11,473

## Note 10. Commitments and Contingencies

## Leases and Contractual Obligations

We lease office space under non-cancellable operating leases in San Francisco, California. Contractual obligations relate to our service agreements for our data centers in Colorado and Arizona and other third party service providers. As of December 31, 2014, the future minimum lease payments under non-cancellable operating leases are as follows (in thousands):

	Operating Leases	Contractual Obligations
2015	\$1,325	\$369
2016	1,075	243
2017	600	—
2018	—	—
2019 and later	—	—
	\$3,000	\$612

Our facility lease agreements generally provide for rental payments on a graduated basis and for options to renew, which could increase future minimum lease payments if exercised. We recognize rent expense on a straight-line basis over the lease period and have accrued for rent expense incurred but not paid. Rent expense for the years ended December 31, 2014, 2013 and 2012 was \$1.2 million, \$1.0 million and \$0.9 million, respectively.

## Legal Matters

We may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, we may receive letters alleging infringement of patents or other intellectual property rights. We are not a party to any material legal proceedings, nor are we aware of any pending or threatened litigation that would have a material adverse effect on our business, operating results, cash flows or financial condition should such litigation be resolved unfavorably.

Table of Contents

## Note 11. Stockholders' Equity (Deficit)

## Initial Public Offering

On March 19, 2014, we completed our IPO, in which we sold 12.8 million shares of Class B common stock at a price to the public of \$16.00 per share. Upon the consummation of the IPO, all outstanding shares of convertible preferred stock were converted into shares of Class A common stock as follows:

	As of December 31, 2014		As of December 31, 2013		Liquidation Preference
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding	
Convertible Preferred Stock:					
Series A	—	—	8,000,000	8,000,000	\$ 1,000,000
Series A-1	—	—	10,000,000	10,000,000	3,000,000
Series B	—	—	15,315,314	15,315,314	17,000,000
Series C	—	—	14,594,598	14,594,598	60,000,000
Series D	—	—	16,565,750	16,565,721	100,000,000
Total	—	—	64,475,662	64,475,633	181,000,000
Stockholders' equity:					
Preferred stock	10,000,000	—	—	—	—
Class A common stock	200,000,000	58,862,574	95,000,000	10,994,074	—
Class B common stock	800,000,000	32,328,809	95,000,000	—	—
Total	1,010,000,000	91,191,383	254,475,662	75,469,707	\$ 181,000,000
Employee Equity Plans					

We adopted a 2014 Equity Incentive Plan (EIP) that became effective on March 12, 2014 and serves as the successor to our 2008 Stock Incentive Plan. We reserved 15.0 million shares of our Class B common stock for future issuance under various terms provided for in the EIP. Shares issued under the 2008 Stock Plan were Class A common stock and shares issued under the EIP are Class B common stock. Our 2014 Equity Incentive Plan authorizes the award of stock options, restricted stock awards (RSAs), stock appreciation rights (SARs), restricted stock units (RSUs), performance awards and stock bonuses. We began granting RSUs in the fourth quarter of 2014.

We adopted a 2014 Employee Stock Purchase Plan (ESPP) that became effective on March 13, 2014 that enables eligible employees to purchase shares of our Class B common stock at a discount. We reserved 6.0 million shares of our Class B common stock for issuance under various terms provided for in the ESPP. We have not yet established a start date of the initial purchasing period under the ESPP.

The following table summarizes activities for stock options and unvested RSUs:

Table of Contents

	Options Outstanding				Restricted Stock Units Outstanding		
	Shares Available for Grant	Number of Shares Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value	Number of shares	Weighted Average Grant-Date Fair Value
Balance at December 31, 2011	238,581	9,032,499	\$0.55	8.6	\$2,981		
Increase in Plan authorized shares	4,404,308						
Restricted stock issued	(22,727 )						
Granted	(4,422,412 )	4,422,412	\$1.03				
Exercised	—	(1,056,262 )	\$0.28				
Canceled and forfeited	991,039	(991,039 )	\$0.57				
Balance at December 31, 2012	1,188,789	11,407,610	\$0.76	8.3	\$4,125		
Increase in Plan authorized shares	7,000,000						
Granted	(8,283,513 )	8,283,513	\$1.71				
Exercised	—	(1,036,077 )	\$0.60				
Canceled and forfeited	2,199,642	(2,199,642 )	\$0.96				
Balance at December 31, 2013	2,104,918	16,455,404	\$1.22	8.4	\$91,192		
Increase in Plan authorized shares	15,000,000						
Granted	(6,749,822 )	5,325,929	\$12.25			1,423,893	\$ 11.06
Exercised	—	(2,956,676 )	\$1.11				
Vested RSUs	—	—				—	
Canceled and forfeited	2,457,118	(2,432,118 )	\$4.06			(25,000 )	\$ 11.06
Balance at December 31, 2014	12,812,214	16,392,539	\$4.40		\$128,541	1,398,893	\$ 11.06
Vested or expected to vest December 31, 2014		15,164,416	\$4.26	7.1	\$120,755	1,217,037	11.06
Exercisable as of December 31, 2014		6,945,436	\$2.11	5.1	\$68,645		

The total grant-date fair value of awards granted during the year ended December 31, 2014, 2013 and 2012 was \$55.6 million, \$17.0 million and \$2.7 million, respectively.

The total grant-date fair value of awards vested during the years ended December 31, 2014, 2013 and 2012 was \$9.7 million, \$1.7 million and \$1.0 million, respectively. The total intrinsic value of the options exercised during the years ended December 31, 2014, 2013 and 2012, was \$31.1 million, \$1.8 million and \$0.9 million, respectively. The intrinsic value is the difference of the current fair value of the stock and the exercise price of the stock option. As of December 31, 2014, we had \$37.9 million in unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.1 years. As of December 31, 2014, we had \$15.1 million in unrecognized compensation cost related to non-vested restricted stock units, which is expected to be recognized over a weighted-average period of approximately 4.2 years.

Stock-based compensation capitalized to internal-use software was immaterial for December 31, 2014.

**Stock-Based Compensation to Employees**

All stock-based compensation to employees is measured based on the grant-date fair value of the awards and is generally recognized in our statement of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of stock options granted using the Black-Scholes option-valuation model. For restricted stock units, fair value is based on the closing price of our Class B common stock on the grant date. Compensation cost is generally recognized over the vesting period of the applicable award using the straight-line method.

The assumptions used in the Black-Scholes option-valuation model were determined as follows:

Table of Contents

**Volatility.** Since we do not have a trading history for our Class B common stock, the expected volatility was derived from the historical stock volatilities of peer group companies within our industry. In evaluating peer companies, we considered factors such as nature of business, customer base, service offerings and markets served.

**Risk-Free Interest Rate.** The risk-free rate that we used is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

**Expected Life.** The expected term represents the period that our stock-based awards are expected to be outstanding. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options.

**Dividend Yield.** We have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future, and therefore, we use an expected dividend yield of zero.

**Fair Value of Common Stock.** Prior to our initial public offering in March 2014, our board of directors considered numerous objective and subjective factors to determine the fair value of our Class A common stock at each grant date. These factors included, but were not limited to, (i) contemporaneous valuations of Class A common stock performed by unrelated third-party specialists; (ii) the prices for our Preferred Stock sold to outside investors; (iii) the rights, preferences and privileges of our Preferred Stock relative to our Class A common stock; (iv) the lack of marketability of our Class A common stock; (v) developments in the business; and (vi) the likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of our Company, given prevailing market conditions. Since our initial public offering, we have used the market closing price for our Class B common stock as reported on the New York Stock Exchange to determine the fair value of our common stock.

In addition to assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

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:

	Year Ended December 31,		
	2014	2013	2012
Volatility	60%	57.8%-60%	60%-63%
Expected life (in years)	5.0-6.3	5.0-7.2	5.0-6.5
Risk-free interest rate	1.53%-2.05%	0.7%-1.8%	0.6%-1.1%
Dividend yield	—%	—%	—%
Weighted-average fair value of underlying common stock	\$14.74	\$3.02	\$1.05

**Warrants**

On December 11, 2013, we issued a warrant to purchase an aggregate of 175,000 shares of Class A common stock at an exercise price of \$5.00 per share to a third-party service provider. The warrant provides for an early exercise right and has a 10 year term. As of December 31, 2014 the warrants were fully vested. Expense for the warrants is calculated using the Black-Scholes option-pricing model and is recorded over the service performance period, which is the same as the vesting period. For the year ended December 31, 2014, we recorded \$2.6 million in expense associated with this warrant. The expense for the year ended December 31, 2013 was immaterial.

**Note 12. Income Taxes**

The components of loss from continuing operations before income taxes were generated solely in the United States as follows (in thousands):



Table of Contents

	Year Ended December 31,		
	2014	2013	2012
United States	\$ (85,940	) \$ (62,182	) \$ (35,004

As a result of our history of net operating losses and full valuation allowance against our deferred tax assets, there was no current or deferred income tax provision for the years ended December 31, 2014, 2013 and 2012.

Reconciliations of the statutory federal income tax rate and our effective tax rate consist of the following (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Tax at federal statutory rate	\$ (29,220	) \$ (21,142	) \$ (11,901
State statutory rate (net of federal benefit)	(1,728	) (1,921	) (2,193
Non-deductible stock compensation	(19	) 619	485
Change in valuation allowance	30,571	22,184	13,384
Other	396	260	225
	\$—	\$—	\$—

Significant components of our deferred tax assets and liabilities were as follows (in thousands):

	As of December 31,	
	2014	2013
Deferred tax assets:		
Net operating loss carryforwards	\$72,984	\$45,744
Accrued expenses	—	239
Deferred rent	127	160
Accrued bonus	68	583
Accrued compensation	539	638
Stock-based compensation	3,266	533
Other reserves and accruals	2	2
Property and equipment	16	88
Deferred revenue	2,173	616
	79,175	48,603
Valuation allowance	(79,175	) (48,603
Net deferred tax assets	\$—	\$—

We have provided a full valuation allowance for our deferred tax assets at December 31, 2014 and 2013, 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 valuation allowance increased by \$30.6 million and \$22.3 million during the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, we recorded no tax benefits related to stock-based compensation.

As of December 31, 2014, we have approximately \$194.3 million of federal and \$119.8 million of state net operating loss carryforwards available to offset future taxable income. If not utilized, the federal and state net operating loss carryforwards begin to expire in 2028 and 2017, respectively.

The deferred tax asset related to our net operating losses does not include amounts relating to the tax benefit of stock option exercises, which, when realized, will be recorded as a credit to additional paid-in capital. As of December 31, 2014, we also had approximately \$3.3 million and \$3.7 million of research and development tax credit carryforwards available to reduce

Table of Contents

future taxable income if any, for federal and California purposes, respectively. The federal credit carryforwards expire beginning in 2028 and the California research credits do not expire and may be carried forward indefinitely.

Our ability to utilize the net operating loss and tax credit carryforwards in the future may be subject to substantial restrictions in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code and similar state tax laws. In the event we should experience an ownership change, as defined, utilization of our net operating loss carryforwards and tax credits could be limited.

The American Taxpayer Relief Act of 2012, or the Act, was signed into law on January 2, 2013. The Act retroactively restored several expired business tax provisions, including the federal research tax credit. Because a change in tax law is accounted for in the period of enactment, the retroactive effect of the Act on our U.S. federal research tax credits for 2012 was recognized in the first quarter of 2013.

We evaluate tax positions for recognition using a more-likely-than-not recognition threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information. A reconciliation of the beginning and ending amount of the gross unrecognized tax benefit is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Gross unrecognized tax benefits at the beginning of the fiscal year	\$4,513	\$2,445	\$1,823
Increases for tax positions of prior years	871	—	27
Decreases for tax positions of prior years	(831	) —	(8
Increases for tax positions related to the current year	2,661	2,068	603
Gross unrecognized tax benefits at the end of the fiscal year	\$7,214	\$4,513	\$2,445

At December 31, 2014, all unrecognized tax benefits are subject to a full valuation allowance and, if recognized, will not affect our tax rate.

We do not anticipate that the total amounts of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

Our policy is to include interest and penalties related to unrecognized tax benefits within our provision for income taxes. Due to our net operating loss position, we have not recorded an accrual for interest or penalties related to uncertain tax positions for the years ended December 31, 2014, 2013 or 2012.

The effective tax rate for the year ended December 31, 2014 and 2013 was zero percent, primarily as a result of the estimated tax loss for the year and the change in valuation allowance.

There were no material changes to the unrecognized tax benefits in the year ended December 31, 2014, and we do not anticipate that the unrecognized tax benefits will significantly increase or decrease in the next 12 months. At December 31, 2014, all unrecognized tax benefits are subject to a full valuation allowance and, if recognized, will not affect the effective tax rate.

#### Note 13. 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, less the weighted-average unvested common stock subject to repurchase. 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.

When shares of both Class A and Class B common stock are outstanding, 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

67

---

Table of Contents

liquidation and dividend rights are identical, the net loss is allocated on a proportionate basis. As of December 31, 2013, only shares of Class A common stock were outstanding and therefore no net loss was allocated.

The following table presents the calculation of basic and diluted net loss per share for our common stock (in thousands, except per share data):

	Year Ended December 31,			
	2014	2013	2012	
	Class A	Class B	Class A	Class A
Net loss	\$(67,655 )	\$(18,285 )	\$(62,182 )	\$(35,004 )
Weighted-average shares used to compute basic and diluted net loss per share	58,555	15,826	9,895	7,885
Basic and diluted net loss per share	\$(1.16 )	\$(1.16 )	\$(6.28 )	\$(4.44 )

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):

	Year Ended December 31,		
	2014	2013	2012
Convertible preferred stock	—	64,476	64,476
Stock options and restricted common stock	17,791	16,687	12,295
Warrants	115	175	—
	17,906	81,338	76,771

## Note 14. 401(k) Plan

We have a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code covering eligible employees. As of December 31, 2014, we had not made any matching contributions to this plan. Effective January 1, 2015, we will begin matching a portion of the employee contributions. We do not anticipate these costs to be material.

## Note 15. Selected Quarterly Financial Data (unaudited)

The following tables set forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in fiscal 2014 and 2013 (in thousands, except per share data):

	Quarter Ended							
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
Total revenue	1,907	2,325	3,609	5,132	8,376	10,533	12,209	14,487
Gross (loss) profit	(1,350 )	(1,508 )	(1,226 )	(247 )	1,793	3,116	5,054	7,870
Net loss	\$(11,433 )	\$(14,173 )	\$(16,603 )	\$(19,973 )	\$(24,281 )	\$(21,776 )	\$(20,199 )	\$(19,684 )
Net loss per share, basic and diluted	\$(1.24 )	\$(1.47 )	\$(1.63 )	\$(1.90 )	\$(0.90 )	\$(0.24 )	\$(0.23 )	\$(0.22 )

Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 December 31, 2014, 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

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Exception from Management's Report on Internal Control over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

Item 9B. Other Information

None.

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Item 11. Executive Compensation

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:

The information concerning our financial statements, and Report of Independent Registered Public Accounting Firm required by this Item is incorporated by reference herein to the section of this Annual Report on Form 10-K in Item 8, entitled “Financial Statements and Supplementary Data.”

(2) Financial Statement Schedules:

Financial statement schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is shown in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits:

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in San Francisco, State of California, on this 12th day of March, 2015.

CASTLIGHT HEALTH, INC.

By: /s/ Giovanni M. Colella

Giovanni M. Colella

Chief Executive Officer, Co-Founder and  
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Giovanni M. Colella and John C. Doyle or either of them his or her true and lawful attorney-in-fact and agents, each with the full power of substitution and re-substitution, for such person in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might do or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated

Signature	Title	Date
/s/ Giovanni M. Colella Giovanni M. Colella	Chief Executive Officer, Co-Founder and Director (Principal Executive Officer)	March 12, 2015
/s/ John C. Doyle John C. Doyle	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 12, 2015
/s/ Bryan Roberts Bryan Roberts	Chairman of the Board of Directors and Co-Founder	March 12, 2015
/s/ David Ebersman David Ebersman	Director	March 12, 2015



Table of Contents

/s/ Ann Lamont Ann Lamont	Director	March 12, 2015
/s/ Ed Park Ed Park	Director	March 12, 2015
/s/ David B. Singer David B. Singer	Director	March 12, 2015
/s/ Steve Singh Steve Singh	Director	March 12, 2015

Table of Contents

## EXHIBIT INDEX

Exhibit Number	Description of Document	Form	Incorporate by Reference		Exhibit	Filed Herewith
			File No.	Filing Date		
3.1	Restated Certificate of Incorporation.	10-Q	001-36330	May 12, 2014	3.1	
3.2	Amended and Restated Bylaws.	10-Q	001-36330	May 12, 2014	3.2	
4.1	Form of Class A Common Stock Certificate.	S-8	333-194566	March 14, 2014	4.8	
4.2	Form of Class B Common Stock Certificate.	S-1	333-193840	March 3, 2014	4.1	
4.3	Amended and Restated Investors' Rights Agreement, dated as of April 26, 2012, by and among the Registrant and certain of its stockholders.	S-1	333-193840	February 10, 2014	4.2	
10.1*	Form of Indemnification Agreement.	S-1	333-193840	March 3, 2014	10.1	
10.2*	2008 Stock Incentive Plan and forms of stock option agreement thereunder and restricted stock agreement.	S-1	333-193840	March 3, 2014	10.2	
10.3*	2014 Equity Incentive Plan and forms of stock option award agreement, restricted stock agreement, stock appreciation right award agreement, restricted stock unit award agreement, performance shares award agreement and stock bonus agreement.	S-1	333-193840	March 3, 2014	10.3	
10.4*	2014 Employee Stock Purchase Plan and form of subscription agreement.	S-1	333-193840	March 3, 2014	10.4	
10.5*	Separation Agreement and Release, dated as of December 31, 2014, by and between the Registrant and Dena Bravata					X
10.6*	Job Offer Letter, dated as of July 18, 2014, by and between the Registrant and Jennifer W. Chaloeintiarana.					X

Edgar Filing: CASTLIGHT HEALTH, INC. - Form 10-K

10.7*	Job Offer Letter, dated as of September 6, 2012, by and between the Registrant and John C. Doyle.	S-1	333-193840	February 10, 2014	10.6	
10.8*	Job Offer Letter, dated as of September 6, 2013, by and between the Registrant and Michele K. Law.	S-1	333-193840	February 10, 2014	10.7	
10.9*	Job Offer Letter, dated as of June 3, 2013, by and between the Registrant and Motasim Najeeb.					X
10.10*	Double Trigger Acceleration Policy.	S-1	333-193840	February 10, 2014	10.9	
10.11	2012 Sublease Agreement by and between National Union Fire Insurance Company of Pittsburgh, Pa. and the Registrant, with Consent to Sublease Agreement, dated as of August 9, 2012.	S-1	333-193840	February 10, 2014	10.10	

Table of Contents

10.12†	Master Services Agreement, dated as of November 28, 2012; First Service Addendum, dated as of November 28, 2012; and Business Associate Agreement, dated as of September 11, 2012, in each case by and between the Registrant and the Administrative Committee of the Wal-Mart Stores, Inc., Associates' Health and Welfare Plan.	S-1	333-193840	March 3, 2014	10.11	
21.1	Subsidiaries of the Registrant.	S-1	333-193840	February 10, 2014	21.1	
23.1	Consent of Independent Registered Public Accounting Firm.					X
24.1	Power of Attorney (see page II-[6] of this registration statement).					X
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

- \* Indicates a management contract, compensatory plan or arrangement
- † Portions of this exhibit, which have been granted confidential treatment by the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 406 promulgated under the Securities Act, have been omitted.