

CASTLIGHT HEALTH, INC.  
Form 10-Q  
August 05, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

26-1989091  
(I.R.S. Employer  
Identification Number)

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

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

Indicate by check-mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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

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

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

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

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CASTLIGHT HEALTH, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.





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CASTLIGHT HEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Organization and Description of Business

Description of Business

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

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP), for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (SEC), Regulation S-X. In the opinion of management, the information herein reflects all adjustments, consisting only of normal recurring adjustments except as otherwise noted, considered necessary for a fair statement of results of operations, financial position and cash flows. The condensed consolidated financial statements include the results of Castlight and its wholly owned U.S. subsidiary. The results for the interim periods presented are not necessarily indicative of the results expected for any future period. The condensed consolidated balance sheet as of December 31, 2014 included herein was derived from the audited financial statements as of that date. The following information should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes.

Use of Estimates

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

Recently Issued and Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The guidance will be effective for us beginning January 1, 2016. Early adoption is permitted. We have elected not to early adopt. The adoption of this guidance is not expected to have a material impact on our condensed consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in

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

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CASTLIGHT HEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(unaudited)

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

Note 3. Marketable Securities

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2015				
U.S. agency obligations	\$145,414	\$16	\$(5	) \$145,425
Money market mutual funds	8,015			