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File By Fax

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 COUNTY OF SAN MATEO

12 In re CASTLIGHT HEALTH, INC.
13 SHAREHOLDER LITIGATION

) Lead Case No. CIV533203

) CLASS ACTION

14 _____
15 This Document Relates To:

) FIRST AMENDED CONSOLIDATED
) COMPLAINT FOR VIOLATIONS OF THE
) SECURITIES ACT OF 1933

16 ALL ACTIONS.

)
17 Assigned for All Purposes to the
18 Honorable Marie S. Weiner
19 Dept. 2
20 Date Action Filed 04/02/15
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1 Plaintiffs Firerock Global Opportunity Fund LP (“Firerock”), Oklahoma Firefighters Pension
2 and Retirement System (the “Oklahoma Pension Fund”), Robert Spencer Wright (“Wright”) and Robert
3 Kromphold (“Kromphold”) (collectively “plaintiffs”) allege the following based upon the investigation
4 of plaintiffs’ counsel, which included a review of U.S. Securities and Exchange Commission (“SEC”)
5 filings by Castlight Health, Inc (“Castlight” or the “Company”), as well as regulatory filings and
6 reports, securities analysts’ reports and advisories about the Company, press releases and other public
7 statements issued by the Company, and media reports about the Company Plaintiffs believe that
8 substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable
9 opportunity for discovery.

10 NATURE OF THE ACTION

11 1. This is a securities class action on behalf of all purchasers of Castlight Class B common
12 stock (“common stock”) in and/or traceable to Castlight’s March 14, 2014 initial public stock offering
13 (“IPO”), seeking to pursue remedies under the Securities Act of 1933 (the “Securities Act”)

14 JURISDICTION AND VENUE

15 2 The claims alleged herein arise under §§11, 12(a)(2) and 15 of the Securities Act, 15
16 U.S.C. §§77k, 77l(a)(2) and 77o Jurisdiction is conferred by §22 of the Securities Act and venue is
17 proper pursuant to §22 of the Securities Act. Section 22 of the Securities Act explicitly states that
18 “[e]xcept as provided in section 16(c), no case arising under this title and brought in any State court of
19 competent jurisdiction shall be removed to any court in the United States.” Section 16(c) refers to
20 “covered class actions,” which are defined as lawsuits brought as class actions or brought on behalf of
21 more than 50 persons asserting claims under state or common law. This is an action asserting federal
22 law claims. Thus, it does not fall within the definition of “covered class action” under §16(b)-(c) and
23 therefore is not removable to federal court. *See Luther v Countrywide Fin. Corp.*, 195 Cal. App. 4th
24 789, 792 (2011) (“The federal Securities Act of 1933 . . . as amended by the Securities Litigation
25 Uniform Standards Act . . . provides for concurrent jurisdiction for cases asserting claims under the
26 1933 Act”); *Luther v Countrywide Home Loans Servicing LP*, 533 F.3d 1031, 1032 (9th Cir.
27 2008) (“Section 22(a) of the Securities Act of 1933 creates concurrent jurisdiction in state and federal
28

courts over claims arising under the Act. It also specifically provides that such claims brought in state court are not subject to removal to federal court.”).

3. This Court has personal jurisdiction over each of the defendants named herein because they conducted business in and/or were citizens of California at the time of the IPO. Castlight is a citizen of California. Each of the Individual Defendants (defined below) is either a citizen of this State or served as a director of a California-based corporation at the time of the IPO and conducted the IPO and IPO roadshow in this State. Each of the Underwriter Defendants (defined below) has offices in and/or conducts significant business in this State as well. The violations of law complained of herein also occurred in California, including the preparation and dissemination of the materially false and misleading Prospectus and Registration Statement for the IPO (collectively, the "Registration Statement") complained of herein, which statements were disseminated into this State.

4. Venue is proper in this Court because defendants' wrongful acts arose in and emanated from this County. Each of the defendants has an office or residence in this County and/or conducts significant business in this County. At least one of the Underwriter Defendants has offices in this County and did business related to the IPO from those offices. Three of the five Individual Defendants reside in this County, and one Individual Defendant resides near the border of this County. More defendants reside, or have offices in, this County than any other nearby County

PARTIES

5. Plaintiffs Firerock (on 3/24/14), Oklahoma Pension Fund (starting on 4/25/14), Wright (on 3/28/14) and Kromphold (on 3/26/14), purchased Castlight common stock pursuant and/or traceable to the IPO, and were damaged thereby. Plaintiff Firerock purchased Castlight's common stock after reviewing the Registration Statement and roadshow presentation and transcript. The Oklahoma Pension Fund purchased from an Underwriting Defendant after reviewing the Registration Statement.

6. Defendant Castlight has its principle executive offices in San Francisco. The Company is a provider of cloud-based software purportedly designed to enable enterprises to control their health care costs. Castlight has two classes of common stock. Class A common stock is entitled to ten votes to every one vote that the Class B shares get on significant corporate transactions and can be converted into a single share of Class B common stock at any time. At the time of the IPO, approximately half of

1 the Class A shares were held by senior Castlight executives and half were held by pre-IPO venture
2 capital financiers. Conversely, the Class B common stock sold in the IPO is only entitled to one vote
3 per share and was listed and has traded on the New York Stock Exchange ("NYSE") under the ticker
4 symbol "CSLT" since the IPO. Castlight is subject to liability as an issuer and control person, and all
5 the statements and solicitation herein made by Castlight's officers were on behalf of Castlight.
6 Castlight designated numerous personnel on the working group for the IPO, including its Chief
7 Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Head of Corporate Development all
8 of whom not only reviewed and approved the offering documents, but also traveled in a multi-city road
9 show, and gave road show presentations according to a power point and talking points/script that was
10 reviewed and approved by them and other Castlight personnel. Castlight's representatives at the road
11 show pitched investors in the IPO in webcasts and meetings including (but not limited to) group
12 meetings, conference calls, breakfasts, and lunches.

13 7 Defendant Giovanni M. Colella ("Colella") is a co-founder of Castlight and is and at the
14 time of the IPO was its CEO and a member of its Board of Directors. As one of three Castlight
15 executives in the IPO working group, Colella reviewed and approved, and participated in making,
16 statements in the Registration Statement. He also reviewed, edited and approved the IPO's road show
17 powerpoint presentation, and road show talking points and script, in addition to participating in making
18 the false and misleading statements at the road show as Castlight's CEO, as alleged in paragraph 34.
19 Colella was motivated by the financial implications of an IPO for Castlight and its then-private
20 shareholders, including (but not limited to) officers and employees of the Company. At the time of the
21 IPO, Colella owned 6,216,023, or 8.2%, of the Company's Class A common stock, providing him with
22 8.2% voting control just prior to the IPO, and well over \$100 million in marketable securities as of the
23 IPO. Colella also held fully vested options for 46,500 shares and 48,000 shares of Class A common
24 stock exercisable at \$1.09 and \$1.12 per share, respectively. These options became immediately "in the
25 money" at the commencement of the IPO with an intrinsic value of more than \$14 million. Colella is a
26 resident of San Francisco County.

27 8. Defendant John C. Doyle ("Doyle") is, and was at the time of the IPO, the CFO of
28 Castlight. As one of three Castlight executives in the IPO working group, Doyle reviewed and

1 approved, and participated in making, statements in the Registration Statement. He also reviewed,
2 edited and approved the IPO's road show powerpoint presentation, and road show talking points and
3 script, in addition to participating in making the false and misleading statements at the road show as
4 Castlight's CFO, as alleged in paragraph 34. Doyle was motivated by the financial implications of an
5 IPO for Castlight and its then-private shareholders, including (but not limited to) officers and
6 employees of the Company. Doyle held options for 870,000 shares of Class A common stock
7 exercisable at \$1.12 per share. As of the commencement of the IPO, these options immediately became
8 "in the money" with an intrinsic value of over \$12.9 million. Doyle is a resident of San Mateo County.

9 9. Defendant Bryan Roberts ("Roberts") is a co-founder of Castlight and is and at the time
10 of the IPO was the Chairman of its Board of Directors. At the time of the IPO defendant Roberts
11 beneficially owned 15,568,571 shares, or 20.6%, of the Company's Class A common stock, providing
12 him with 20.6% voting control just prior to the IPO, and well over \$249 million in marketable securities
13 as of the IPO. Roberts is a resident of San Mateo County.

14 10. Defendant David Ebersman ("Ebersman") is, and was at the time of the IPO, a member
15 of the Castlight Board of Directors. Ebersman held 28,571 shares of Class A common stock convertible
16 at \$0 per share and therefore bearing an intrinsic value of over \$450,000 at the time of the IPO. He also
17 held stock options for 260,973 shares of Class A common stock exercisable at \$0.84 per share. As of
18 the IPO, these options immediately became in the money with an intrinsic value of over \$3.9 million.
19 Ebersman is a resident of San Mateo County.

20 11. Defendant Robert P. Kocher ("Kocher") was a director of Castlight at the time of the
21 IPO but no longer serves in that capacity as of the filing of this action. Kocher held over 40,000 shares
22 of Class A common stock convertible at \$0 per share and therefore bearing an intrinsic value of over
23 \$640,000 at the time of the IPO. He also held stock options for 260,973 shares of Class A common
24 stock exercisable at \$0.84 per share. As of the IPO, these options immediately became in the money
25 with an intrinsic value of over \$3.9 million. Kocher is a resident of Santa Clara County.

26 12. The defendants named in ¶¶7-11 are referred to herein as the "Individual Defendants."
27 The Individual Defendants each signed the Registration Statement. The defendants referenced above in
28 ¶¶7-8 are executives of Castlight, participated in the roadshow to sell the IPO and are sometimes

1 referred to herein as the "Executive Defendants." Castlight and the Individual Defendants who signed
2 the Registration Statement are strictly liable for the false and misleading statements incorporated into
3 the Registration Statement.

4 13. Defendants Goldman, Sachs & Co. ("Goldman") and Morgan Stanley & Co. LLC
5 ("Morgan Stanley") are each financial services firms that acted as the lead and representative
6 underwriters of Castlight's IPO from their California-based offices, by helping to draft, approving the
7 content of, and disseminating, the offering documents, by marketing the IPO, and by selling Castlight's
8 stock directly to investors per the underwriting syndicate allocation of 4,107,000 and 3,885,000 shares,
9 respectively, not including the additional shares sold pursuant to the underwriting syndicate's
10 "greenshoe" option. Goldman has offices in San Francisco, and Morgan Stanley's offices are located in
11 San Mateo County. These defendants are referred to herein collectively as the "Underwriter
12 Defendants." Pursuant to the Securities Act, the Underwriter Defendants (and Castlight where
13 applicable) are liable for the false and misleading statements in the Registration Statement as follows:

14 (a) The Underwriter Defendants are investment banking houses that specialize, inter
15 alia, in underwriting public offerings of securities. They served as the underwriters of the IPO and
16 received a significant part of the \$14.3 million in fees received collectively by the underwriters of the
17 IPO. The Underwriter Defendants determined that in return for their share of the IPO proceeds, they
18 were willing to merchandize Castlight common stock in the IPO. In the bakeoff that determined the
19 composition of the underwriting syndicate, the Underwriter Defendants touted their ability to market
20 Castlight's securities, including branding and messaging through influential media. Each of the
21 Underwriter Defendants designated to the working group personnel, including investment bankers,
22 analysts, associates, and counsel, to market Castlight's stock, and those personnel participated in,
23 approving the content of Castlight's Registration Statement and road show presentation, arranging the
24 road show where each Underwriting Defendant was promoted as a seller of Castlight's stock, pitching
25 investors at the road show or through the road show webcast, and in promoting Castlight's IPO to their
26 bank's own clients.

27 (b) The Underwriter Defendants arranged a multi-city roadshow and webcast prior to
28 the IPO, during which they, and representatives from Castlight, including the Executive Defendants,

1 met with potential investors and presented highly favorable information about the Company, its
2 operation, and its financial prospects. The Underwriter Defendants reviewed, edited and approved the
3 road show presentation and script/talking points. In the road show the Underwriter Defendants directly
4 invited and pitched investors who purchased shares from the Underwriter Defendants in the IPO. The
5 pitches took place in personal meetings at investors' offices and offices of Underwriter Defendants, in
6 scheduled invite-only conference calls, at breakfast and lunch meetings by invitation, and in webcast
7 presentations.

8 (c) Before agreeing to a "firm underwriting," in which the Underwriter Defendants
9 not only marketed but also sold Castlight's shares, to IPO investors, the Underwriter Defendants also
10 demanded and obtained an agreement from Castlight that Castlight would indemnify and hold the
11 Underwriter Defendants harmless from any liability under the federal securities laws. They also made
12 certain that Castlight had purchased millions of dollars in directors' and officers' liability insurance.

13 (d) The Underwriter Defendants agreed to make and also made a market, or engaged
14 in "stabilizing" transactions for Castlight's shares that would have the effect of raising, maintaining, or
15 retarding a decline in the market price of Castlight's shares. On information and belief, one of the
16 Underwriter Defendants sold shares to the Oklahoma Pension Fund in connection with this activity.

17 (e) Representatives of the Underwriter Defendants also assisted Castlight and the
18 Individual Defendants in planning the IPO, and purportedly conducted an adequate and reasonable
19 investigation into the business and operations of Castlight, an undertaking known as a "due diligence"
20 investigation. The due diligence investigation was required of the Underwriter Defendants in order to
21 engage in the IPO. During the course of their "due diligence," the Underwriter Defendants had
22 continual access to confidential corporate information concerning Castlight's operations and financial
23 prospects.

24 (f) In addition to availing themselves of virtually unbridled access to internal
25 corporate documents, agents of the Underwriter Defendants met with Castlight's lawyers, management
26 and top executives and engaged in "drafting sessions" between at least December 2013 and March
27 2014. Each of the Underwriter Defendants designated members of the working group, who actively
28 participated in these sessions and reviewed, edited, and approved content of the Registration Statement

1 and the road show presentation. During sessions, understandings were reached between Castlight and
2 the Underwriting Defendants as to: (i) the strategy to best accomplish the IPO; (ii) the terms of the IPO,
3 including the price at which Castlight stock would be sold; (iii) the language to be used in the
4 Registration Statement; (iv) what disclosures about Castlight would be made in the Registration
5 Statement; and (v) what responses would be made to the SEC in connection with its review of the
6 Registration Statement. As a result of those constant contacts and communications between the
7 Underwriter Defendants' representatives and Castlight management and top executives, the Underwriter
8 Defendants knew, or should have known, of Castlight's existing problems as detailed herein.

9 (g) The Underwriter Defendants caused the Registration Statement to be filed with
10 the SEC and declared effective in connection with offers and sales thereof, including to plaintiffs and
11 the Class.

12 14. The true names and capacities of defendants sued herein under California Code of Civil
13 Procedure §474 as Does 1 through 25, inclusive, are presently not known to plaintiffs, who therefore
14 sue these defendants by such fictitious names. Plaintiffs will seek to amend this complaint and include
15 these Doe defendants' true names and capacities when they are ascertained. Each of the fictitiously
16 named defendants is responsible in some manner for the conduct alleged herein and for the injuries
17 suffered by the Class

18 SUBSTANTIVE ALLEGATIONS

19 15. Defendant Castlight is a provider of cloud-based software. The Company claims that its
20 software enables enterprises to gain control over their rapidly escalating health care costs through its
21 "Enterprise Healthcare Cloud offering." According to Castlight, its "mission is to dramatically improve
22 the efficiency of the U.S. health care industry by unleashing the power of market forces " Defendants
23 characterized Castlight as having an "early mover advantage" with "a significant opportunity to offer a
24 comprehensive, technology-based solution" to profit from reducing "waste and inefficiencies associated
25 with the approximately \$620 billion that employers are projected to spend on health care in the United
26 States in 2014" alone.

27 16. By requiring that large employers provide health care to all fulltime employees, or risk
28 paying a fine, the Patient Protection and Affordable Care Act provided large companies with incentives

1 to cut costs through benefits spending cuts, aggressive wellness programs, and increased reimbursement
2 limits. Castlight claims to be able to help enterprises unlock that value. Specifically, Castlight's
3 Enterprise Healthcare Cloud employs risk reassessments, lower health care premiums, and cash kept
4 through punitive premium reimbursement programs to lower its enterprise customers' health care
5 spending.

6 17. The Company markets and sells its Enterprise Healthcare Cloud offering to self-insured
7 companies in a broad range of industries and governmental entities. Castlight's software aggregates
8 and analyzes complex, large-scale data in order to create usable information, related to health care costs
9 and quality. The software also purportedly allows companies to distribute personalized, usable
10 information to their employees, integrate disparate systems and applications, and implement
11 "technology-enabled" benefit designs.

12 18. The Company's leading application is called Castlight Medical, which the Company
13 claims "simplifies health care decision making for employees and their families by providing highly
14 relevant, personalized information for medical services that enable informed choices before, during and
15 after receiving health care," and "enables employees and their families to intuitively search for robust
16 and comprehensive information about medical providers, including personalized out-of-pocket cost
17 estimates, clinical quality, user experience and provider demographic information."

18 19. On December 18, 2013, Castlight filed with the SEC a confidential Registration
19 Statement on Form S-1, which would later be utilized for the IPO following several amendments in
20 response to comments by the SEC. On March 13, 2014, the SEC declared the Registration Statement
21 effective and Castlight and the Underwriter Defendants priced the IPO at \$16 per share and filed the
22 final Prospectus for the IPO, which forms part of the Registration Statement. Castlight's valuation was
23 based on massive revenue growth. The Company sold more than 12 million shares in the IPO,
24 including shares sold pursuant to the underwriters' overallotment. Even after raising its price range
25 from the \$9-\$11 level to its eventual \$16 per share IPO price, Castlight stock skyrocketed 145% on its
26 first day of trading, closing near \$40 per share – and valuing the Company at more than \$4 billion.

27 20. The Registration Statement however, was negligently prepared and, as a result, contained
28 untrue statements of material facts or omitted to state other facts necessary to make the statements made

1 not misleading and was not prepared in accordance with the rules and regulations governing its
2 preparation.

3 21. In truth, Castlight's "early mover advantage" was a farce. The Company's scalability
4 model was a failure. And implementations of Castlight's Enterprise Healthcare Cloud offering were so
5 wrought with delay and error that the Company was forced to offset its prices and incur increased
6 expenses, as it brought third-party vendors to perform the most important part of its sales cycle –
7 implementation. The Company's actual sales and implementation cycles, far longer than the "range"
8 disclosed, also portended failure. Within just a quarter of being public, the Company began to reveal its
9 increased expenses and inability to maintain its pricing consistent with its so-called "early mover
10 advantage" and the massive revenue growth expected. Investors and analysts started to realize
11 defendants "growth" story was inaccurate, and Castlight's stock price plummeted. On the stock's 39th
12 trading day, it closed at \$10.50 per share – having dropped nearly 35% from the IPO price. And it
13 never recovered, trading in the range of \$7-\$8 per share as of the filing of this action – *half* the IPO's
14 price.

15 22. The Registration Statement stated that "[a]s of December 31, 2013, we had 106 signed
16 customers, including 48 customers that had implemented our offering, which we refer to as launched
17 customers." Concerning "backlog," the Registration Statement stated: "Our total backlog, which we
18 define as including cancellable and non-cancellable portions of our customer agreements for which we
19 have not yet billed, was \$108.7 million as of December 31, 2013, compared to \$44.0 million as of
20 December 31, 2012." These statements were materially false and misleading because they failed to
21 disclose that the Company's backlog was growing because of implementation delays that reflected
22 significant obstacles to scalability.

23 23. The Registration Statement also stated: "Our implementation timelines can vary between
24 three and 12 months, based on the source and condition of the data we receive from third parties, the
25 configurations that we agree to provide and the size of the customer and therefore, are subject to
26 significant uncertainties, which can have a material impact on our total backlog and non-cancellable
27 backlog that we fulfill in the current year." This statement was materially false and misleading and
28 omitted material facts, including that implementation timelines were greater than 12 months and

1 significant delays in implementation were *not* merely “based on the source and condition of the data” or
2 configurations In fact, Castlight did not have adequately trained personnel sufficient to complete
3 implementation without delays relative to promised schedules. The delays and botched
4 implementations were so severe as of the IPO that Castlight was required to hire third-party consultants
5 to implement its own platform because its own personnel were incapable of completing
6 implementations, which resulted in significantly increased sales expense and other material negative
7 factors.

8 24. The Registration Statement also misrepresented the range in length of the Company’s
9 sales cycle, stating “[t]he sales cycle for our Enterprise Healthcare Cloud offering from initial contact
10 with a potential lead to contract execution and implementation, varies widely by customer, ranging from
11 three to 24 months,” with 24 months being an “extended sales cycle ” This statement was materially
12 false and misleading and omitted the material information above, concerning the Company’s
13 implementations In fact the length of many sales cycles with Enterprise accounts was two to three
14 years For example, in Castlight’s Eastern region (one of three regions – Eastern, Central and Western)
15 the Company was unable to complete sales cycles on Enterprise accounts even after two to three years
16 as of the IPO, and virtually no Enterprise account sales cycles had even been completed across the
17 Eastern region as of the IPO.

18 25. According to the Registration Statement, subscription revenue accounted for 82% and
19 90% of Castlight’s total revenue during the years ended December 31, 2012 and 2013, respectively. As
20 a result, the Company’s subscription renewals were the primary driver of the Company’s total revenue
21 and net dollar retention rate, which was also critical to the Company’s total revenue. The Registration
22 Statement stated that the Company’s net dollar retention rate was “109%” and that “[i]f we are unable
23 to achieve our revenue growth objectives, including a high rate of renewals of our customer agreements,
24 we may not be able to achieve profitability.” This statement was materially false and misleading
25 because the Company was then experiencing significant churn, customers were not renewing at a high
26 rate, let alone at an increasing rate, and upsells (such as Castlight Pharmacy) were not sufficient to
27 offset the revenues lost from churn, as the Company’s net dollar retention rate materially declined from
28 the 109% reported as of December 31, 2013.

26. Castlight had to shoulder upfront the cost to launch its products for each customer and referred to this as “implementation services.” The Registration Statement stated: “Our cost associated with providing implementation services has been significantly higher as a percentage of revenue than our cost of providing subscriptions due to the labor associated with providing implementation services.” The Registration Statement also stated that “we expect to continue to generate negative gross margin on our professional services for the foreseeable future” and that “[a]s our implementation processes and technologies mature and our use of automation increases, we expect our gross margin on our professional services to improve.” These statements were materially false and misleading and omitted material facts, including that implementation delays and expenses associated with the Company’s inability to scale its products across customers was a significant factor negatively impacting the Company’s gross margins and there was no technology or automation sufficient to adequately mitigate the Company’s scalability issues. In addition, Castlight did not have adequately trained personnel sufficient to complete implementation without delays relative to promised schedules, and the delays and botched implementations were so severe that Castlight was required to hire third-party consultants to implement its own platform because its own personnel were incapable of completing implementations, especially for large enterprise (the most profitable) customers. In fact, the “cost associated” with implementations generating negative gross margin was *not* merely “due to labor.” Because of the consistent and repeated delays, Castlight developed a practice of materially offsetting its fees (thereby reducing its prices) to appease disappointed customers, and on top of that Castlight was paying fees to third-party vendors to accomplish the implementations it represented to investors its own personnel were performing. Indeed, when the Company revealed “sales” expense had increased and its pricing had become “static,” the trading price of its stock plummeted.

27. Furthermore, the Registration Statement failed to disclose Castlight was relying on third-party vendors to implement its so-called “proprietary” offerings and misrepresented the extent of the Company’s reliance on third parties. The Registration Statement stated “[w]e depend on data centers operated by third parties for our offering,” “we do not control the operation of these facilities,” “and any disruption in the operation of these facilities could adversely affect our business.” Elsewhere, the Registration Statement discussed possible effects on the Company of relying on “data” it “receive[d]

1 from third parties” and otherwise suggested those were the limits of Castlight’s reliance on third-parties
2 in connection with its so-called “proprietary” offerings. Buttressing these representations, the
3 Registration Statement repeatedly referred to the “offerings” it was implementing with the words “our”
4 and “proprietary.” For example, the Registration Statement repeatedly used “our” with respect to the
5 Company’s “comprehensive technology offering,” “applications,” “team of software developers,” “team
6 of leading engineers,” “data science techniques,” and “platform.” It also repeatedly used the word
7 “proprietary” concerning the Company’s “software development,” “applications,” “technology,” and
8 “source code,” and “we” with respect to who “implemented” the Company’s offerings. These
9 statements were false and misleading and omitted material information because Castlight’s botched and
10 delayed implementations resulting in part from insufficient and inadequately trained implementation
11 managers had forced the Company to rely on third-party vendors to perform software engineering and
12 implementation.

13 28 The Registration Statement repeatedly asserted the Company’s business model was
14 “scalable” and stated “scalability” and “capability” to “configur[e]” its offerings was a “principal
15 competitive factor.” For example, the Registration Statement stated. “We have developed a robust and
16 scalable data architecture infrastructure, which allows for automated loading and normalization of
17 numerous data sources, including more than a billion claim transactions in our data warehouse.” These
18 statements were materially false and misleading for omitting material facts, including that deployment
19 of the Company’s technology was not adequately scalable to achieve the growth in revenues and
20 reduction in costs to reach profitability. The Company was in fact providing customized products and
21 even the scalable features of the Company’s technology such as data transmission were a costly part of
22 the implementation process. To make matters worse, the Company’s inability to configure or
23 implement its offerings had led to offsetting fees to appease disappointed customers due to delayed and
24 botched implementations, which had halted the Company’s ability to increase prices and thereby
25 achieve necessary revenue growth.

26 29. The Registration Statement referred to pages and pages of generalized “risks and
27 uncertainties” and “[a]dditional risks and uncertainties that” Castlight was purportedly “unaware of” but
28 which may “adversely affect” its business. But many of these statements were materially false and

misleading and omitted material then-current factual information. The Registration Statement asserted “unforeseen expenses,” as a risk but that statement was false and misleading and omitted material information that the Company was then experiencing significant expenses and costs associated with offsetting fees to appease disappointed customers and paying third-party vendors fees related to implementation. The Registration Statement referred to “training and retaining skilled personnel,” but its statements in that regard were false and misleading and omitted the material facts that the Company did not have adequately trained implementation managers in the first place and was then relying on third-party vendors to perform the most important step in Company’s sales cycle – implementation.

30 The Registration Statement stated “*if* we fail to manage our rapid growth effectively, our expenses could increase more than expected,” and that “periods of high demand, may strain our implementation capacity.” But this statement was materially false and misleading and omitted material information, for the Company’s implementation capacity was *already* strained and was *already* experiencing increased expenses due to fee offsets to appease disappointed customers and due to the fact that Castlight was paying third-party vendors to perform implementation.

31. The Registration Statement stated the Company’s “sales and implementation cycle can be long and unpredictable” (“ranging from three to 24 months”) and that “[i]t is *possible in the future* we *may* experience even longer sales cycles ” These statements were materially false and misleading and omitted material information because the “possible” future at Castlight had already arrived – sales and implementation cycles were well over 24 months, and then two to three years-plus in the Company’s Eastern region, where virtually no enterprise customer had completed a sales and implementation cycle.

32. The statements in ¶34, as well as the statements referenced in ¶¶22-31, were materially false and misleading because they omitted the following material facts that existed at the time of the IPO:

(a) The Company’s backlog was growing because of implementation delays reflecting significant obstacles to scalability;

(b) The Company was experiencing significant churn, customers were not renewing at a high rate, let alone at an increasing rate, and upsells were not sufficient to offset the revenues lost

1 from churn, as the Company's net dollar retention rate materially declined from the 109% reported as of
2 December 31, 2013;

3 (c) Sales and implementation cycles were well over 24 months, and then two to three
4 years-plus in the Company's Eastern region, where virtually no enterprise customer had completed a
5 sales and implementation cycle;

6 (d) Implementation delays and expenses associated with the Company's inability to
7 scale its products across customers was a significant factor negatively impacting the Company's gross
8 margins and there was no technology or automation sufficient to adequately mitigate the Company's
9 material scalability issues;

10 (e) Because of the consistent and repeated botched and delayed implementations, as
11 of the IPO Castlight had hired third-party vendors to accomplish the all-important implementations it
12 represented to investors its own personnel were performing, and in so doing significantly increased its
13 "sales" expenses;

14 (f) The Company's inability to configure or implement its offerings had led to
15 offsetting fees to appease disappointed customers due to delayed and botched implementations, which
16 had halted the Company's ability to increase prices and thereby achieve necessary revenue growth; and

17 (g) The deployment of the Company's technology was not adequately scalable to
18 achieve the growth in revenues and reduction in costs to reach significant profitability The Company
19 was in fact providing customized products and even the scalable features of the Company's technology
20 such as data transmission were a costly part of the implementation process

21 33 Pursuant to Item 303 of Regulation S-K, 17 C.F.R. §229.303, and the SEC's related
22 interpretive releases thereto, issuers are required to disclose events or uncertainties, including any
23 known trends, that have had or are reasonably likely to cause the registrant's financial information not
24 to be indicative of future operating results. At the time of the IPO, there were multiple undisclosed
25 uncertainties and trends as alleged at ¶¶21-32 that were affecting Castlight and that were reasonably
26 likely to have a material impact on Castlight's revenues and profitability and, therefore, were required
27 to be disclosed in the Registration Statement They were not.

1 34. At the time of the IPO and during the Company’s roadshow, Castlight highlighted that it
2 had a “backlog” of \$109 million, that it was a “pioneer” and “market leader” with successful “large-
3 scale deployments,” that Castlight had a “transformative cloud platform” and “significant revenue
4 growth and margin expansion potential” with Castlight’s “highly scalable business model.”
5 Defendants’ roadshow presentation further asserted Castlight had a “Highly Scalable Business Model”
6 that would exploit a “Large Market Opportunity”; that the Company’s business model was “simple” and
7 “time-tested”; the Company’s “SaaS software model” allowed Castlight “to deliver a platform to”
8 customers “through the cloud” and “in the most cost-efficient way” that “integrates with all [clients]
9 other cloud SaaS platforms”; that “Castlight wins the business” and its “momentum in the market
10 provides strong evidence that [Castlight’s] offering is truly differentiated”; that Castlight “scaled our
11 implementations team to deliver against the significant growth in bookings”; that Castlight’s “sales
12 cycle is typical . . . and can last from three to twenty-four months – and implementations take three to
13 twelve months”; that “2013 offered good evidence that [Castlight was] on the right track” to “generate a
14 long period of high-margin revenues” – “pointing towards high margin expansion”; and that the
15 Company “put together a team that combines detailed care expertise, SaaS expertise, technical
16 expertise.” These statements were materially false and misleading and omitted material facts, as alleged
17 at ¶32. The Company’s technology was not adequately scalable in deployment to achieve the growth in
18 revenues and reduction in costs necessary to reach significant profitability. Castlight was in fact
19 providing customized products and even the scalable features of the Company’s technology such as data
20 transmission were a costly part of the implementation process. And implementation delays and
21 expenses associated with Castlight’s inability to scale its products across customers was a significant
22 factor impacting the Company’s gross margins and there was no technology or automation sufficient to
23 adequately mitigate the Company’s scalability issues. Castlight’s backlog was growing because of
24 implementation delays reflecting significant obstacles to scalability, and the Company’s “market
25 leader” status was false, for the Company had already lost its ability to increase prices for its principal
26 product the “Enterprise Healthcare Cloud Offering.”
27
28

35. The IPO was a success for the Company and the Underwriter Defendants who sold 12.765 million shares of Castlight common stock to the public at \$16 per share, raising \$204.2 million in gross proceeds for the Company (\$189.9 million net of underwriting discounts and commissions).

36. Castlight's stock had traded for just 38 days when the Company revealed increased "sales and marketing" expenses and that it expected lower negative operating income. In response, analysts lowered their price targets for Castlight, and the Company's stock price plummeted, closing at \$10.50 per share – nearly 35% less than the IPO's price. And in its first quarter as a public company, Castlight revealed its Chief Operating Officer was leaving, pricing had been "static," and expenses were continuing to increase over expectations. The Company's stock price plummeted again, and analysts questioned management's credibility, asserting Castlight had provided investors only a fraction of the information needed to properly value the Company. Castlight's stock price continued to go down as the Company continued to reveal the effects of its increased expenses, static pricing and delayed implementations. At the time of the filing of this action, and as of the filing of this Consolidated Complaint, Castlight's stock traded in the range of \$7-\$8 per share, *a decline of over 50%* from the IPO price.

CLASS ACTION ALLEGATIONS

37. Plaintiffs bring this action as a class action on behalf of a class consisting of all those who purchased Castlight common stock pursuant and/or traceable to the Registration Statement issued in connection with the IPO (the “Class”). Excluded from the Class are defendants and their families, the officers, directors and affiliates of defendants, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

38. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiffs at this time and can only be ascertained through appropriate discovery, plaintiffs believe that there are hundreds of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Castlight or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions

1 39 Plaintiffs' claims are typical of the claims of the members of the Class as all members of
2 the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is
3 complained of herein.

4 40. Plaintiffs will fairly and adequately protect the interests of the members of the Class and
5 have retained counsel competent and experienced in class and securities litigation.

6 41. Common questions of law and fact exist as to all members of the Class and predominate
7 over any questions solely affecting individual members of the Class. Among the questions of law and
8 fact common to the Class are:

- 9 (a) whether defendants violated the Securities Act,
10 (b) whether the Registration Statement was negligently prepared and contained
11 inaccurate statements of material fact and omitted material information required to be stated therein;
12 and
13 (c) to what extent the members of the Class have sustained damages and the proper
14 measure of damages.

15 42. A class action is superior to all other available methods for the fair and efficient
16 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the
17 damages suffered by individual Class members may be relatively small, the expense and burden of
18 individual litigation make it impossible for members of the Class to individually redress the wrongs
19 done to them. There will be no difficulty in the management of this action as a class action.

20 **FIRST CAUSE OF ACTION**

21 **For Violation of §11 of the Securities Act**
22 **Against All Defendants**

23 43 Plaintiffs incorporate ¶¶1-33 and 35-42 by reference

24 44 This Cause of Action is brought pursuant to §11 of the Securities Act, 15 U S C §77k,
25 on behalf of the Class, against all defendants. This is a non-fraud cause of action. Plaintiffs do not
26 assert that defendants committed intentional or reckless misconduct or that defendants acted with
27 scienter or fraudulent intent.
28

45. The Registration Statement for the IPO was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein

46. Defendants are strictly liable to plaintiffs and the Class for the misstatements and omissions.

47. None of the defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

48. By reason of the conduct herein alleged, each defendant violated, and/or controlled a person who violated, §11 of the Securities Act.

49 Plaintiffs acquired Castlight common stock traceable to the IPO.

50. Plaintiffs and the Class have sustained damages. The value of Castlight common stock has declined substantially subsequent to and due to defendants' violations.

51. At the time of their purchases of Castlight common stock, plaintiffs and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to the disclosures herein. Less than one year has elapsed from the time that plaintiffs discovered or reasonably could have discovered the facts upon which this action is based to the time that plaintiffs commenced this action. Less than three years has elapsed between the time that the securities upon which this Cause of Action is brought were offered to the public and the time plaintiffs commenced this action.

SECOND CAUSE OF ACTION

**For Violation of §12(a)(2) of the Securities Act
Against Castlight, the Executive Defendants and the Underwriter Defendants By Firerock
and the Oklahoma Pension Fund**

52 Plaintiffs incorporate ¶¶1-42 by reference.

53. This Cause of Action is brought pursuant to §12(a)(2) of the Securities Act, 15 U.S.C. §771(a)(2), on behalf of the Class, against Castlight, the Executive Defendants and the Underwriter Defendants. This is a non-fraud cause of action. Plaintiffs do not assert that defendants committed intentional or reckless misconduct or that defendants acted with scienter or fraudulent intent. Each of

1 the defendants under this cause of action sold Castlight stock or was directly involved in the sale of
2 Castlight stock to plaintiffs Firerock and the Oklahoma Pension Fund, and in soliciting those plaintiffs
3 was motivated not to solely benefit plaintiffs, but by a desire to serve their own financial interests
4 and/or the financial interests of the owners of Castlight stock.

5 54. By means of the defective Prospectus, defendants Castlight, the Executive Defendants
6 and the Underwriter Defendants promoted and sold Castlight common stock to plaintiffs and other
7 members of the Class. The Underwriter Defendants, Castlight and the Executive Defendants, by means
8 of the Prospectus and the road show presentation, solicited plaintiffs Firerock and the Oklahoma
9 Pension Fund and IPO investors that are members of the Class. In the IPO, Castlight issued the stock
10 and each of the Underwriter Defendants sold Castlight stock to plaintiffs Firerock and the Oklahoma
11 Pension Fund by their promotion of Castlight's stock to plaintiffs. The Underwriter Defendants also
12 reviewed the purchaser list and authorized each sale of stock in the IPO.

13 55 The Prospectus and road show communications contained untrue statements of material
14 fact, and concealed and failed to disclose material facts, as detailed above. The defendants named in
15 this Cause of Action owed plaintiffs and the other members of the Class who purchased Castlight
16 common stock pursuant to the Prospectus the duty to make a reasonable and diligent investigation of the
17 statements contained in the Prospectus to ensure that such statements were true and that there was no
18 omission to state a material fact required to be stated in order to make the statements contained therein
19 not misleading. These defendants, in the exercise of reasonable care, should have known of the
20 misstatements and omissions contained in the Prospectus as set forth above.

21 56 Plaintiffs did not know, nor in the exercise of reasonable diligence could have known, of
22 the untruths and omissions contained in the Prospectus at the time plaintiffs acquired Castlight common
23 stock.

24 57. By reason of the conduct alleged herein, these defendants violated §12(a)(2) of the
25 Securities Act. As a direct and proximate result of such violation, plaintiffs and the other members of
26 the Class who purchased Castlight common stock pursuant to the Prospectus sustained substantial
27 damages in connection with their purchases of the stock. Accordingly, plaintiffs and the other members
28 of the Class who hold the common stock issued pursuant to the Prospectus have the right to rescind and

1 recover the consideration paid for their shares, and hereby tender their common stock to defendants
2 sued herein. Class members who have sold their common stock seek damages to the extent permitted
3 by law.

4 **THIRD CAUSE OF ACTION**

5 **For Violation of §15 of the Securities Act** 6 **Against Castlight and the Individual Defendants**

7 58. Plaintiffs incorporate ¶¶1-57 by reference.

8 59. This Cause of Action is brought pursuant to §15 of the Securities Act against the
9 Company and the Individual Defendants.

10 60 The Individual Defendants each were control persons of Castlight by virtue of their
11 positions as directors and/or senior officers of Castlight. The Individual Defendants each had a series of
12 direct and/or indirect business and/or personal relationships with other directors and/or officers and/or
13 major shareholders of Castlight. The Company controlled the Individual Defendants and all of
14 Castlight's employees.

15 61. The Individual Defendants identified in the First and Second Causes of Action were
16 culpable participants in the violations of §§11 and 12(a)(2) of the Securities Act alleged in the Causes
17 of Action above, based on the allegations herein, including, but not limited to, their having signed or
18 authorized the signing of the Registration Statement and having otherwise participated in the process
19 which allowed the IPO to be successfully completed.

20 **PRAYER FOR RELIEF**

21 WHEREFORE, plaintiffs pray for relief and judgment, as follows:

22 A. Determining that this action is a proper class action, certifying plaintiffs as Class
23 representative under California Code of Civil Procedure §382 and Rule 3.764 of the California Rules of
24 Court and appointing plaintiffs' counsel Class Counsel;

25 B. Awarding compensatory damages in favor of plaintiffs and the other Class members
26 against all defendants, jointly and severally, for all damages sustained as a result of defendants'
27 wrongdoing, in an amount to be proven at trial, including interest thereon;
28

1 C. Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this
2 action, including counsel fees and expert fees;

3 D. Awarding rescission or a rescissory measure of damages; and

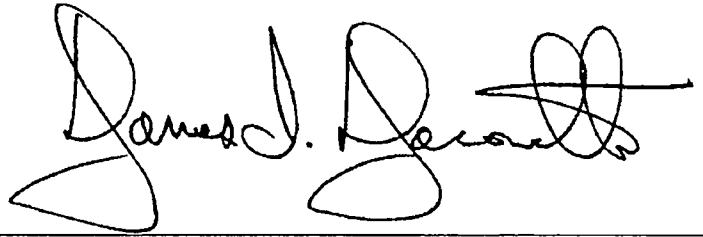
4 E. Such equitable/injunctive or other relief as deemed appropriate by the Court

5 **JURY DEMAND**

6 Plaintiffs hereby demand a trial by jury.

7 DATED: November 10, 2015

ROBBINS GELLER RUDMAN
& DOWD LLP
JAMES I JACONETTE

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Additional Counsel for Robert Kromphold

DECLARATION OF SERVICE BY MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and a resident of the County of San Diego, over the age of 18 years, and not a party to or interested party in the within action; that declarant's business address is 655 West Broadway, Suite 1900, San Diego, California 92101

2. That on November 10, 2015, declarant served the FIRST AMENDED CONSOLIDATED COMPLAINT FOR VIOLATIONS OF THE SECURITIES ACT OF 1933 by depositing a true copy thereof in a United States mailbox at San Diego, California in a sealed envelope with postage thereon fully prepaid and addressed to the parties listed below:

COUNSEL FOR PLAINTIFFS

Attorney	Email Address	Party Name
Shawn A. Williams Robbins Geller Rudman & Dowd LLP Post Montgomery Center One Montgomery Street Suite 1800 San Francisco, CA 94104 Telephone: 415/288-4545 415/288-4534 (fax)	shawnw@rgrdlaw.com	Firerock Global Opportunity Fund LP
James I. Jaconette Robbins Geller Rudman & Dowd LLP 655 West Broadway Suite 1900 San Diego, CA 92101 Telephone: 619/231-1058 619/231-7423 (fax)	jamesj@rgrdlaw.com	Firerock Global Opportunity Fund LP
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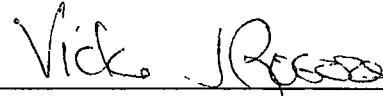
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415/281-1350(fax)		Bryan Roberts
		Venrock Partners V, L.P.
Dean J Kitchens	DKitchens@gibsondunn.com	Goldman, Sachs & Co.
Gibson Dunn & Crutcher LLP		Morgan Stanley & Co , LLC
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Los Angeles, CA 90071		
Telephone: 213/229-7416		
213/229-6416(fax)		

3. That there is a regular communication by mail between the place of mailing and the places so addressed.

1 I declare under penalty of perjury that the foregoing is true and correct. Executed on November
2 10, 2015, at San Diego, California.

3 

4 VICKI J. ROGERS