CENTURY ALUMINUM CO
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

o 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 1-34474

Century Aluminum Company

(Exact name of Registrant as specified in its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	13-3070826 (IRS Employer Identification No.)
2511 Garden Road Building A, Suite 200 Monterey, California (Address of principal executive offices)	93940 (Zip Code)

Registrant's telephone number, including area code: (831) 642-9300

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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).* o Yes o No
* - The registrant is not currently required to submit interactive data files.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	x	Accelerated Filer	o
Non-Accelerated Filer (Do not check if a smaller reporting company)	o	Smaller Reporting Company	o

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

The registrant had 92,530,068 shares of common stock outstanding at November 3, 2009.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CENTURY ALUMINUM COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Cash	$196,337	$129,400
Restricted cash	8,369	865
Short-term investments	—	13,686
Accounts receivable — net	44,661	60,859
Due from affiliates	16,052	39,062
Inventories	130,623	138,111
Prepaid and other current assets	90,262	99,861
Deferred taxes — current portion	—	32,290
Total current assets	486,304	514,134
Property, plant and equipment — net	1,307,855	1,340,037
Intangible asset — net	—	32,527
Due from affiliates – less current portion	7,599	7,599
Other assets	76,912	141,061
TOTAL	$1,878,670	$2,035,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, trade	$82,412	$102,143
Due to affiliates	26,517	70,957
Accrued and other current liabilities	48,867	58,777
Accrued employee benefits costs — current portion	12,070	12,070
Convertible senior notes	145,292	152,700
Industrial revenue bonds	7,815	7,815
Total current liabilities	322,973	404,462
Senior unsecured notes payable	250,000	250,000
Revolving credit facility	—	25,000
Accrued pension benefits costs — less current portion	44,622	50,008
Accrued postretirement benefits costs — less current portion	163,317	219,539
Other liabilities	35,730	33,464
Deferred taxes	66,432	71,805
Total noncurrent liabilities	560,101	649,816
CONTINGENCIES AND COMMITMENTS (NOTE 17)		
SHAREHOLDERS' EQUITY:		
Preferred stock (one cent par value, 5,000,000 shares authorized; 145,895 and 155,787 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively)	2	2
Common stock (one cent par value, 195,000,000 shares authorized and 76,149,918 shares issued and outstanding at September 30, 2009; 100,000,000 shares authorized and 49,052,692 shares issued and outstanding at December 31, 2008)	761	491

Additional paid-in capital	2,392,505	2,272,128
Accumulated other comprehensive loss	(61,711)	(137,208)
Accumulated deficit	(1,335,961)	(1,154,333)
Total shareholders’ equity	995,596	981,080
TOTAL	$1,878,670	$2,035,358

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
NET SALES:				
Third-party customers	$169,927	$426,771	$480,438	$1,203,696
Related parties	58,772	125,468	162,001	364,882
	228,699	552,239	642,439	1,568,578
Cost of goods sold	231,051	430,256	722,379	1,194,376
Gross profit (loss)	(2,352)	121,983	(79,940)	374,202
Other operating income – net	(55,599)	—	(22,101)	—
Selling, general and administrative expenses	11,395	11,253	32,786	43,970
Operating income (loss)	41,852	110,730	(90,625)	330,232
Interest expense	(8,004)	(7,892)	(24,023)	(23,915)
Interest expense – related parties	—	(1,144)	—	(1,144)
Interest income	159	1,602	1,235	6,417
Interest income – affiliates	145	146	431	146
Net loss on forward contracts	(914)	(79,103)	(7,784)	(731,195)
Other income (expense) – net	(243)	(1,370)	101	(1,597)
Income (loss) before income taxes and equity in earnings (losses) of joint ventures	32,995	22,969	(120,665)	(421,056)
Income tax benefit	6,577	10,313	8,100	206,949
Income (loss) before equity in earnings (losses) of joint ventures	39,572	33,282	(112,565)	(214,107)
Equity in earnings (losses) of joint ventures	570	2,507	(69,063)	12,466
Net income (loss)	$40,142	$35,789	$(181,628)	$(201,641)
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	$0.45	$0.58	$(2.56)	$(4.66)
Diluted	$0.45	$0.55	$(2.56)	$(4.66)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (in thousands):				
Basic	74,214	47,720	71,023	43,317
Diluted	74,721	49,975	71,023	43,317
Net income (loss) allocated to common shareholders	$33,270	$27,461	$(181,628)	$(201,641)

See notes to consolidated financial statements

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CENTURY ALUMINUM COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008 (As Restated, see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(181,628)	$(201,641)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Unrealized net loss on forward contracts	1,680	605,105
Unrealized net gain on contractual receivable	(81,168)	—
Realized benefit on contractual receivable	8,634	—
Write-off of intangible asset	23,759	—
Accrued plant curtailment costs	12,956	—
Depreciation and amortization	56,886	62,912
Lower of cost or market inventory adjustment	(40,494)	—
Deferred income taxes	26,212	(200,330)
Pension and other post retirement benefits	10,721	11,677
Stock-based compensation	2,068	12,034
Equity investment impairment	73,234	—
Undistributed earnings of joint ventures	(4,171)	(12,466)
Non-cash gain on early extinguishment of debt	(768)	—
Changes in operating assets and liabilities:		
Accounts receivable – net	16,198	(22,403)
Purchase of short-term trading securities	—	(97,532)
Sale of short-term trading securities	13,686	348,416
Due from affiliates	23,010	(9,771)
Inventories	29,656	(36,119)
Prepaid and other current assets	69,284	(389)
Accounts payable, trade	(11,260)	15,266
Due to affiliates	(18,152)	(1,145,002)
Accrued and other current liabilities	(7,058)	(28,523)
Other – net	5,426	45
Net cash provided by (used in) operating activities	28,711	(698,721)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(14,667)	(26,691)
Nordural expansion	(17,606)	(53,397)
Investments in and advances to joint ventures	(1,038)	(36,973)
Restricted and other cash deposits	(7,504)	(9,710)
Net cash used in investing activities	(40,815)	(126,771)
CASH FLOWS FROM FINANCING ACTIVITIES:		

Repayments of long-term debt – related party	—	(480,198)
Repayments under revolving credit facility	(25,000)	—
Excess tax benefits from shared-based compensation	—	657
Issuance of preferred stock	—	929,480
Issuance of common stock – net	104,041	443,646
Net cash provided by financing activities	79,041	893,585
NET CHANGE IN CASH	66,937	68,093
Cash, beginning of the period	129,400	60,962
Cash, end of the period	$196,337	$129,055

See notes to consolidated financial statements

CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements for the
Three and nine months ended September 30, 2009 and 2008
(Dollar amounts in thousands, except per share amounts)
(UNAUDITED)

1. General

The accompanying unaudited interim consolidated financial statements of Century Aluminum Company should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008. In management's opinion, the unaudited interim consolidated financial statements reflect all adjustments, which are of a normal and recurring nature, that are necessary for a fair presentation of financial results for the interim periods presented. This unaudited interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our current report on Form 8-K filed on October 20, 2009. Operating results for the first nine months of 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Throughout this Form 10-Q, and unless expressly stated otherwise or as the context otherwise requires, "Century Aluminum," "Century," "we," "us," "our" and "ours" refer to Century Aluminum Company and its consolidated subsidiaries.

2. Management's Plans

We have incurred losses each year since 2005 and had an accumulated deficit of $1,335,961 as of September 30, 2009. For the nine months ended September 30, 2009 and the year ended December 31, 2008, we sustained net losses available to common stockholders of $181,628 and $895,187 (as adjusted for the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 470-20, formerly FSP APB 14-1, see Note 7), respectively. Our financial position and liquidity have been and may continue to be materially adversely affected by low aluminum prices as compared to our cost of production.

At recent aluminum prices of approximately $1,800 per metric ton, our U.S. operations are roughly break-even on a cash basis. On a consolidated basis, including our Nordural facility at Grundartangi, Iceland ("Grundartangi") operations, corporate overhead, interest and capital expenditures, we would expect to be cash flow break even at aluminum prices in the $1,800 to $1,900 per metric ton range during the fourth quarter of 2009. We estimate that an increase or decrease of $100 per metric ton in the price of primary aluminum would result in a corresponding increase or decrease in our cash from operations of approximately $40,000 annually. Thus, if primary aluminum prices decrease, we may either need to identify new sources of liquidity, implement additional cost reductions or further curtail operations to fund ongoing operations and investments.

Our principal sources of liquidity are available cash, cash flow from operations and available borrowings under our revolving credit facility. We will continue to explore alternative or supplementary financing arrangements to the revolving credit facility. Our principal uses of cash are operating costs, curtailment and idling costs, payments of principal and interest on our outstanding debt, the funding of capital expenditures and investments in related businesses, working capital and other general corporate requirements.

3. Correction of an error in previously issued financial statements

As disclosed in our current report on Form 8-K filed on March 2, 2009, we determined that our previously issued financial statements for the nine months ended September 30, 2008 included in our periodic report on Form 10-Q for that period should no longer be relied upon as a result of an error in the interim consolidated statement of cash flows. We determined that preferred stock issued in July 2008 was not presented on the consolidated statements of

cash flows in accordance with ASC 230 “Statement of Cash Flows” (formerly, Statement of Financial Accounting Standards (“SFAS”) No. 95).

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

We initially reported cash flows associated with the termination of primary aluminum forward financial sales contracts by issuing $929,480 of Series A Convertible Preferred Stock on a net basis as an operating activity. We have concluded the transaction should have been presented on a gross presentation basis as both an operating activity and a financing activity to reflect the cash receipts and disbursements associated the transaction.

The restatement had the following impact on our consolidated statement of cash flows for the nine month ended September 30, 2008:

	As Previously Reported	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Due to affiliates	$ (215,522)	$ (1,145,002)
Net cash provided by (used in) operating activities	230,759	(698,721)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred stock	—	929,480
Net cash provided by (used in) financing activities	$ (35,895)	$ 893,585

4. Long-term power contract for Hawesville

To secure a new, long-term power contract for our primary aluminum smelter in Hawesville, Kentucky (“Hawesville”), on July 16, 2009, our wholly owned subsidiary, Century Aluminum of Kentucky (“CAKY”) along with E.ON U.S. (“E.ON”) and Big Rivers Energy Corporation (“Big Rivers”), agreed to an “unwind” of the former contractual arrangement between Big Rivers and E.ON and entered into a new arrangement (“Big Rivers Agreement”) to provide long-term cost-based power to CAKY.The term of the Big Rivers Agreement is through 2023 and provides adequate power for Hawesville’s full production capacity requirements (approximately 482 MW) with pricing based on the provider’s cost of production. The Big Rivers Agreement is take-or-pay for Hawesville’s energy requirements at full production. Under the terms of the agreement, any power not required by Hawesville would be available for sale and we would receive credits for actual power sales up to our cost for that power. The current market price of electrical power in this region is less than Big Rivers’ forecasted cost.

E.ON has agreed to mitigate a significant portion of this near-term risk, at a minimum, through December 2010. During this time, to the extent Hawesville does not use all the power under the take-or-pay contract, E.ON will, with some limitations, assume Hawesville's obligations. As part of this arrangement, E.ON will pay up to approximately $80,000 to CAKY in the form of direct payments to Big Rivers under the Big Rivers Agreement to compensate CAKY for the fair value of the previous contract and to compensate CAKY for power in excess of CAKY’s current demand. At Hawesville's current production rate, Hawesville would receive the entirety of these economic benefits over the term of the agreement. To the extent the aggregate payments made by E.ON exceed the approximately $80,000 commitment, Hawesville would repay this excess to E.ON over time, but only if the London Metal Exchange (“LME”) aluminum price were to exceed certain thresholds.

As the previous power contract was designated as a normal contract under ASC 815 (formerly SFAS No. 133, "Accounting for Derivatives), in the third quarter of 2009 when it became no longer probable that we would continue to take physical delivery of the power under the previous contract, we recorded an $80,723 contractual receivable from E.ON representing the net present value of the consideration provided to CAKY from E.ON to net settle the previous contract, wrote off a $23,759 intangible asset associated with the former power contract and recorded a $56,964 net gain on this transaction on our consolidated statements of operations in other operating income – net.

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

The new power contract has been designated as a normal purchase contract under ASC 815. Unlike the previous power contract that was a fixed price contract where the purchase price of power was below market prices without an explicit net settlement provision, the Big Rivers Agreement is a cost-based contract that is not expected to have any significant value and is with a regulated power generator. While the Big Rivers Agreement is a take-or-pay contract where we may net settle any unused power with Big Rivers, we would only receive credits up to our cost for such power sales and would not profit on any sales made above our cost for such power under the current election made under the Big Rivers Agreement.

5. Convertible debt for equity exchange transactions

We have agreed to issue an aggregate of approximately 11.4 million shares of our common stock in exchange for approximately $127,933 aggregate principal amount of our 1.75% Convertible Senior Notes due 2024 (“1.75% Notes”). After concluding these debt-for-equity exchanges, we will have approximately $47,067 aggregate principal amount of 1.75% Notes outstanding. Holders of the 1.75% Notes may require us to purchase for cash all or part of the 1.75% Notes then outstanding at par on August 1, 2011. In addition, investors party to these agreements have agreed to consent to certain amendments or modifications to the indenture governing the 1.75% Notes. As a result, we have secured consents constituting the requisite consents necessary to amend the 1.75% Notes indenture.

In September 2009, two of the exchange transactions were settled. We issued 1,229,824 shares of common stock in exchange for $14,858 principal value of our 1.75% Notes. Additional exchange transactions for $113,075 principal value in exchange for 10,135,870 shares of our common stock are expected to price and settle in October and November 2009. See Note 25 Subsequent Events for additional information.

6. Gramercy and St. Ann Bauxite transfer

On September 1, 2009, we completed the sale of our 50% ownership positions in Gramercy Alumina LLC (“Gramercy”) and St. Ann Bauxite Limited (“St. Ann”) to Noranda Aluminum Holding Corporation (together with its consolidated subsidiaries, “Noranda”). At closing, we divested our entire interest in these businesses and Noranda assumed 100% ownership of Gramercy and St. Ann. In connection with this transaction, we made a $5,000 cash payment during the third quarter of 2009 and expect to make an additional $5,000 payment in the fourth quarter of 2009.

Hawesville currently receives all of its alumina supply from Gramercy. As part of the transaction, the former alumina supply agreement with Gramercy was terminated and we entered into a new alumina supply agreement. The new alumina supply agreement term is through December 2010. Pricing under the new contract will be fixed for the first 125,000 metric tons (“MT”) and LME-based for the remaining 65,500 MT (subject to certain conditions for floor pricing).

Impact on our financial position, results of operations and cash flows

As a result of entering into an agreement to transfer our joint venture investments, we undertook an evaluation to determine the impact, if any, on the carrying amount of the equity investments in the joint venture assets as of June

30, 2009. We concluded that the terms of the asset transfer agreement provided indications of an impairment of the equity investments in the joint ventures. We performed an impairment analysis to determine the appropriate carrying amount of these assets as of June 30, 2009. Based on the impairment analysis, we recorded a $73,234 impairment loss in the second quarter of 2009.

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

The $73,234 loss consisted of the following amounts:

	Impairment loss
Equity investments in Gramercy and St. Ann, equity in the earnings of Gramercy and St. Ann and intercompany profit elimination	$ (74,783)
Pension and OPEB obligations for Gramercy and St. Ann	1,549
Total	$ (73,234)

The impairment loss was recorded on the consolidated statements of operations in equity in earnings (losses) of joint ventures. On the consolidated balance sheets, the impairment to reduce the equity investments was recorded in other assets where our equity investments were recorded. The pension and OPEB obligations of the equity investments were recorded in accumulated other comprehensive loss.Amounts due to Gramercy under our previous alumina contract were recorded under due to affiliates through September 1, 2009; amounts due under the new alumina contract are now recorded in accounts payable.

This transaction does not affect our obligation, per our agreement reached in April 2009, to pay St. Ann $6,000 in compensation for the reduced bauxite sales associated with agreements to reduce the amount of bauxite St. Ann will supply Glencore International AG (together with its subsidiaries, "Glencore") in 2009. Payments are due to be made in monthly installments through December 2009. Through September 30, 2009, we have made payments totaling $3,750. The $6,000 in compensation to St. Ann was due to the curtailment of the West Virginia smelter ("Ravenswood") and one potline at Hawesville which created an oversupply of alumina company wide. Therefore, the $6,000 was recorded in other operating income – net in our consolidated statements of operations in the second quarter of 2009. See Note 17 Contingencies and Commitments for additional information about these payments to St. Ann.

7. ASC 470-20 (FSP APB 14-1) Adoption

ASC 470-20 (formerly FSP APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)") ("ASC 470-20") fundamentally changes the accounting for certain convertible debt instruments. Issuers of convertible debt instruments affected by ASC 470-20 must separately account for the liability and equity components of the convertible debt instruments in a manner that reflects the entity's hypothetical nonconvertible borrowing rate. ASC 470-20 requires the retrospective application of these changes to our financial statements back to the date of issuance of our 1.75% Notes with a cumulative effect adjustment recognized as of the beginning of the first period presented. January 1, 2009 was our effective date for applying ASC 470-20.

ASC 470-20 applies to our 1.75% Notes. The holders of our 1.75% Notes may convert at any time at an initial conversion rate of 32.743 shares of common stock per $1,000 principal amount of notes, equivalent to a conversion price of $30.5409 per share of common stock. Upon conversion, we would deliver cash up to the principal amount of the 1.75% Notes to be converted and, at our election, cash, common stock or a combination thereof for any conversion obligation in excess of the principal amount of the 1.75% Notes to be converted. We did not enter into any derivative

transactions in connection with the issuance of the 1.75% Notes. Currently, the if-converted value of the 1.75% Notes is significantly less than the principal balance of the 1.75% Notes.

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

We applied the guidance in ASC 470-20 to measure the fair value of the liability component of the 1.75% Notes using a discounted cash flow model. We assessed the expected life of the liability component to be seven years through August 1, 2011 (based on the noteholder's put option August 1, 2011) and applied a hypothetical nonconvertible borrowing rate (7.25%) which was based on yields of similarly rated nonconvertible instruments issued in August 2004. We determined the carrying amount of the equity component by deducting the fair value of the liability component from the principal amount of the 1.75% Notes. The tax effect of the temporary basis difference associated with the liability component of the 1.75% Notes is recorded as an adjustment to additional paid in capital as proscribed by ASC 470-20.

In 2004, we capitalized approximately $6,000 of transaction costs related to the issuance of the 1.75% Notes. We amortize these capitalized financing fees to interest expense over the expected life of the 1.75% Notes. ASC 470-20 requires the allocation of these capitalized financing fees to the liability and equity components and accounting for the allocated fees as either debt issuance costs or equity issuance costs.

The adoption of ASC 470-20 resulted in the following amounts recognized in our financial statements:

	September 30, 2009	December 31, 2008
Principal of the liability component of 1.75% Notes (1)	$160,142	$175,000
Unamortized debt discount	(14,850)	(22,300)
Net carrying amount of liability component of 1.75% Notes	$145,292	$152,700
Net carrying amount of equity component of 1.75% Notes (net of $18,261 taxes and $1,799 issuance costs)	$32,114	$32,114

(1) In the third quarter of 2009, we exchanged $14,858 principal value of our 1.75% Notes for common stock. See Note 5 Convertible debt for equity exchange transactions for additional information.

Interest expense related to the 1.75% convertible senior notes due 2024:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Contractual interest coupon	$764	$766	$2,295	$2,297
Amortization of the debt discount on the liability component	2,062	1,920	6,067	5,649
Total	$2,826	$2,686	$8,362	$7,946
	6.46 %	6.14 %	6.37 %	6.05 %

Effective interest rate for the liability component for the period

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

The estimated amortization expense for the debt discount for the 1.75% Notes through the remaining expected life (August 2011) is as follows:

	Three months ending December 31, 2009	2010	2011
Estimated debt discount amortization expense (1)	$903	$2,243	$1,584

(1) The estimated debt discount amortization expense has been adjusted for a subsequent event. We have agreements in place to exchange an additional $113,075 principal value of our 1.75% Notes for common stock in the fourth quarter of 2009. Upon closing, approximately $10,120 of the debt discount will be derecognized as part of these transactions; the remaining debt discount will be amortized over the expected life of the 1.75% Notes. See Note 25 Subsequent Events for additional information about these exchange transactions.

The adoption of ASC 470-20 requires the retrospective application to all periods presented as of the beginning of the first period presented. As of January 1, 2009, ASC 470-20 was adopted and comparative financial statements of prior years have been adjusted to apply ASC 470-20 retrospectively. The line items for the 2008 financial statements affected by the change in accounting principle are indicated below.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2008		
	As Reported	Effect of change	As Adjusted
ASSETS			
Total current assets	$514,134	$—	$514,134
Property, plant and equipment — net	1,340,037	—	1,340,037
Intangible asset — net	32,527	—	32,527
Due from affiliates – less current portion	7,599	—	7,599
Other assets	141,802	(741)	141,061
TOTAL	$2,036,099	$(741)	$2,035,358
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable, trade	$102,143	$—	$102,143
Due to affiliates	70,957	—	70,957
Accrued and other current liabilities	58,777	—	58,777
Accrued employee benefits costs — current portion	12,070	—	12,070
Convertible senior notes	175,000	(22,300)	152,700
Industrial revenue bonds	7,815	—	7,815

Total current liabilities	426,762	(22,300)	404,462
Total noncurrent liabilities	649,816	—	649,816
SHAREHOLDERS' EQUITY:			
Preferred stock	2	—	2
Common stock	491	—	491
Additional paid-in capital	2,240,014	32,114	2,272,128
Accumulated other comprehensive loss	(137,208)	—	(137,208)
Accumulated deficit	(1,143,778)	(10,555)	(1,154,333)
Total shareholders' equity	959,521	21,559	981,080
TOTAL	$2,036,099	$(741)	$2,035,358

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CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
(UNAUDITED)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30, 2008		
	As Reported	Effect of change	As Adjusted
Net Sales	$552,239	$—	$552,239
Cost of goods sold	430,256	—	430,256
Gross profit	121,983	—	121,983
Selling, general and administrative expenses	11,253	—	11,253
Operating income	110,730	—	110,730
Interest expense – third party	(6,036)	(1,856)	(7,892)
Interest expense – related party	(1,144)	—	(1,144)
Interest income – related parties	146	—	146
Interest income – third party	1,602	—	1,602
Net loss on forward contracts	(79,103)	—	(79,103)
Other expense- net	(1,370)	—	(1,370)
Income before income taxes and equity in earnings of joint ventures	24,825	(1,856)	22,969
Income tax benefit	9,641	672	10,313
Income before equity in earnings of joint ventures	34,466	(1,184)	33,282
Equity in earnings of joint ventures	2,507	—	2,507
Net income	$36,973	$(1,184)	$35,789
EARNINGS PER COMMON SHARE:			
Basic	$0.59	$(0.01)	$0.58
Diluted	$0.57	$(0.02)	$0.55
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (in thousands):			
Basic	47,720		47,720
Diluted	49,975		49,975
Net income (loss) allocated to common shareholders	$28,369	$(908)	$27,461

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine months ended September 30, 2008		
	As Reported	Effect of change	As Adjusted
Net Sales	$1,568,578	$—	$1,568,578
Cost of goods sold	1,194,376	—	1,194,376
Gross profit	374,202	—	374,202
Selling, general and administrative expenses	43,970	—	43,970

Operating income	330,232	—	330,232
Interest expense – third party	(18,460)	(5,455)	(23,915)
Interest expense – related party	(1,144)	—	(1,144)
Interest income – related parties	146	—	146
Interest income – third party	6,417	—	6,417
Net loss on forward contracts	(731,195)	—	(731,195)
Other expense - net	(1,597)	—	(1,597)
Loss before income taxes and equity in earnings of joint ventures	(415,601)	(5,455)	(421,056)
Income tax benefit	204,971	1,978	206,949
Loss before equity in earnings of joint ventures	(210,630)	(3,477)	(214,107)
Equity in earnings of joint ventures	12,466	—	12,466
Net loss	$(198,164)	$(3,477)	$(201,641)
LOSS PER COMMON SHARE:			
Basic and Diluted	$(4.57)	$(0.09)	$(4.66)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (in thousands):			
Basic and Diluted	43,317		43,317
Net loss allocated to common shareholders	$(198,164)	$(3,477)	$(201,641)

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CENTURY ALUMINUM COMPANY
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2008		
	As Restated (See Note 3)	Effect of change	As Adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(198,164)	$(3,477)	$(201,641)
Adjustments to reconcile net loss to net cash used in operating activities:			
Unrealized net loss on forward contracts	605,105	—	605,105
Depreciation and amortization	62,912	—	62,912
Deferred income taxes	(198,352)	(1,978)	(200,330)
Pension and other post retirement benefits	11,677	—	11,677
Stock-based compensation	12,034	—	12,034
Undistributed earnings of joint ventures	(12,466)	—	(12,466)
Changes in operating assets and liabilities:		—	
Accounts receivable – net	(22,403)	—	(22,403)
Purchase of short-term trading securities	(97,532)	—	(97,532)
Sale of short-term trading securities	348,416	—	348,416
Due from affiliates	(9,771)	—	(9,771)
Inventories	(36,119)	—	(36,119)
Prepaid and other current assets	(389)	—	(389)
Accounts payable, trade	15,266	—	15,266
Due to affiliates	(1,145,002)	—	(1,145,002)
Accrued and other current liabilities	(28,523)	—	(28,523)
Other – net	(5,410)	5,455	45
Net cash used in operating activities	(698,721)	—	(698,721)
Net cash used in investing activities	(126,771)	—	(126,771)
Net cash provided by financing activities	893,585	—	893,585
NET CHANGE IN CASH	68,093	—	68,093
Cash, beginning of the period	60,962	—	60,962
Cash, end of the period	$129,055	$—	$129,055

As the result of the accounting change, our accumulated deficit as of January 1, 2008, increased $13,684 from $245,462 to $259,146.

8. Curtailment of Operations – Ravenswood and Hawesville

On December 17, 2008, our subsidiary, Century Aluminum of West Virginia, Inc. ("CAWV"), issued a conditional Worker Adjustment and Retraining Notification Act ("WARN") notice at its Ravenswood, West Virginia smelter related to a curtailment of plant operations in 60 days. This facility employed approximately 684 persons. Simultaneously

with the issuance of the WARN, CAWV began the immediate curtailment of one of its four potlines which was completed by December 20, 2008. In December 2008, we incurred curtailment costs of $1,667 for this partial curtailment at CAWV.

On February 4, 2009, we announced the curtailment of the remaining plant operations at Ravenswood. Layoffs for the majority of Ravenswood's employees were completed by February 20, 2009. The decision to curtail operations was due to the relatively high operating cost at Ravenswood and the depressed global price for primary aluminum.

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On March 3, 2009, CAKY announced the curtailment of one potline at its Hawesville, Kentucky aluminum smelter. Hawesville has production capacity of approximately 244,000 metric tons per year ("mtpy") of primary aluminum from five potlines. The potline curtailment was completed in March 2009. The action reduced primary aluminum production by approximately 4,370 metric tons per month and impacted approximately 120 employees.

We incurred curtailment charges of $1,810 and $35,308 during the three and nine months ended September 30, 2009, respectively, which are reported in other operating income - net in the consolidated statements of operations. The majority of the curtailment charges related to Ravenswood. The components of the curtailment costs for the three and nine months ended September 30, 2009 are as follows:

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Severance/employee-related cost (1)	$ (3,220)	$ 21,243
Alumina contract – spot sales net losses	36	753
Alumina contract amendment cost	—	6,000
Power/other contract termination costs	—	6,332
Ongoing site costs	4,994	13,332
Gross expense	1,810	47,660
Pension plan curtailment adjustment	—	2,478
OPEB plan curtailment adjustment	—	(14,830)
Net expense	$ 1,810	$ 35,308

(1) The extension of unemployment benefits in West Virginia resulted in lower severance and employee-related benefit costs.

Cash expenditure forecasts and cash payments to date

	Total gross cash expenditure forecast	Approximate cash payments through September 30, 2009
Curtailment of operations at Ravenswood and Kentucky (24 months)	$ 30,000	$ 16,822
Ongoing idling costs at Ravenswood (24 months)	$ 25,000	$ 8,592
Contract termination costs (1)	$ 15,000	$ 12,315

(1) This estimate is based on realized losses to date and $6,000 in payments to St. Ann Bauxite Ltd. in compensation for the reduced bauxite sales related to alumina and bauxite contract amendments (of which $3,750 has been paid as of September 30, 2009).

9. Equity Offering

February 2009 Offering

In February 2009, we completed a public offering of 24,500,000 shares of common stock at a price of $4.50 per share, raising $110,250 before offering costs. The offering costs were approximately $6,209, representing underwriting discounts and commissions and offering expenses.

CENTURY ALUMINUM COMPANY
Notes to the Consolidated Financial Statements - continued
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Glencore purchased 13,242,250 shares of common stock in the February 2009 offering. As of September 30, 2009, we believe that Glencore beneficially owned, through its common stock, approximately 38.1% of our issued and outstanding common stock and, through its ownership of common and preferred stock, an overall 48.1% economic ownership of Century.

We intend to use the net proceeds from the sale of our common stock for general corporate purposes, including repayment of debt.

10. Fair Value Measurements and Derivative Instruments

ASC 820, "Fair Value Measurements and Disclosures," (formerly, SFAS No. 157) defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This pronouncement applies to a broad range of other existing accounting pronouncements that require or permit fair value measurements. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Under ASC 820, fair value is an exit price and that exit price should reflect all the assumptions that market participants would use in pricing the asset or liability.

Fair Value Measurements

The following table sets forth by level within the ASC 820 fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis. As required by general accounting principles for fair value measurements and disclosures, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and the placement within the fair value hierarchy levels.

Recurring Fair Value Measurements	As of September 30, 2009			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Primary aluminum put option contracts	$—	$8,475	$—	$8,475
Power contract - Ravenswood	—	—	84	84
TOTAL	$—	$8,475	$84	$8,559
LIABILITIES:				
Derivative liabilities	$(707)	$—	$(1,222)	$(1,929)

Recurring Fair Value Measurements	As of December 31, 2008			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Short-term investments	$—	$13,686	$—	$13,686
Power contract - Ravenswood	—	—	2,202	2,202

TOTAL	$—	$13,686	$2,202	$15,888
LIABILITIES:				
Derivative liabilities	$(10,130)	$—	$(1,759)	$(11,889)

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CENTURY ALUMINUM COMPANY
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Change in Level 3 Fair Value Measurements during the three months ended September 30,

	Derivative liabilities/assets	
	2009	2008
Beginning balance July 1,	$(2,093)	$(1,614,221)
Total gain (loss) (realized/unrealized) included in earnings	720	(241,026)
Settlements	235	1,852,929
Ending balance, September 30	$(1,138)	$(2,318)
Amount of total (gain) loss included in earnings attributable to the change in unrealized gain losses relating to assets and liabilities held at September 30,	$(2,615)	$240,781

Change in Level 3 Fair Value Measurements during the nine months ended September 30,

	Derivative liabilities/assets	
	2009	2008
Beginning balance January 1,	$443	$(1,070,290)
Total loss (realized/unrealized) included in earnings	(4,385)	(892,984)
Settlements	2,804	1,960,956
Ending balance, September 30,	$(1,138)	$(2,318)
Amount of total (gain) loss included in earnings attributable to the change in unrealized gains/losses relating to assets and liabilities held at September 30,	$(4,385)	$777,298

The net loss on our derivative liabilities is recorded in our statement of operations under net loss on forward contracts. In 2009, our Level 3 derivative liabilities are included in our accrued and other liabilities and other liabilities line items of our consolidated balance sheet. In 2008, our Level 3 derivative liabilities are included in our due to affiliates, accrued and other liabilities, due to affiliates – less current portion and other liabilities line items of our consolidated balance sheets.

Short-term Investments. Our short-term investments held at December 31, 2008 consist of tax-exempt municipal bonds. The market value of these investments is based upon their quoted market price in markets that are not actively traded. At September 30, 2009, we did not hold any short-term investments.

Derivatives. Our derivative contracts have included natural gas forward financial purchase contracts, foreign currency forward contracts, primary aluminum forward physical delivery and financial sales contracts, the Ravenswood power contract and primary aluminum put option contracts. We measure the fair value of these contracts based on the quoted future market prices (if available) at the reporting date in their respective principal markets for all available periods. In some cases, we use discounted cash flows from these contracts using a risk-adjusted discount rate. Primary aluminum forward physical delivery contracts that are accounted for as derivatives are marked-to-market using the LME spot and forward market for primary aluminum and the U.S. Midwest Premium. Because there is no quoted futures market price for the U.S. Midwest premium component of the market

price for primary aluminum, it is necessary for management to estimate the U.S. Midwest premium based on the historical U.S. Midwest premium. Prior to the termination of the primary aluminum forward financial sales contracts in July 2008, the term of one of these contracts extended beyond the quoted LME futures market. We estimated the fair value of that contract by making certain assumptions about future market prices of primary aluminum beyond the quoted LME market prices. These future market assumptions were significant to the fair value measurements. The Ravenswood power contract derivative is valued based in part on the LME forward market. In September 2009, we entered into primary aluminum put option contracts that settle monthly from October 2009 through December 2010 based on LME prices. We determine the fair value of the put options using quoted market values from a third-party.

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Fluctuations in the market prices for our primary aluminum forward financial sales contracts had a significant impact on gains and losses from forward contracts included in our financial statements from period to period. Unrealized gains and losses for these primary aluminum forward financial sales contracts were included in net loss on forward contracts.

Upon the transfer of our joint venture investment in Gramercy in the third quarter of 2009, we discontinued cash flow hedge treatment for our natural gas forward financial purchase contracts in September 2009 because the originally forecasted natural gas transactions will not occur by the end of originally specified time periods. We account for these contracts as derivative instruments and marked the contracts to market. In accordance with ASC 815, the changes in the fair value of these contracts are recorded in the consolidated statements of operations in loss on forward contracts.

Fair Value of Derivative Assets and Liabilities

	Balance sheet location	September 30, 2009	December 31, 2008
ASSETS:			
Primary aluminum put option contracts	Prepaid and other assets	$8,475	$—
Power contract - Ravenswood	Prepaid and other assets	84	2,202
TOTAL ASSETS		$8,559	$2,202
LIABILITIES:			
Natural gas forward financial contracts	Accrued and other current liabilities	$(707)	$(10,130)
Aluminum sales premium contracts – current portion	Accrued and other current liabilities	(743)	(1,256)
Aluminum sales premium contracts – less current portion	Other liabilities	(479)	(503)
TOTAL LIABILITIES		$(1,929)	$(11,889)

Derivatives in Cash Flow Hedging Relationships:

	Three months ended September 30, 2009				
	Amount of loss recognized in OCI on derivative, net of tax (effective portion)	Loss reclassified from OCI to income on derivatives (effective portion)		Loss recognized in income on derivative (ineffective portion)	
	Amount	Location	Amount	Location	Amount
Natural gas forward financial contracts (1)	$ —	Cost of goods sold	$ (1,047)	Net loss on forward contracts	$ —

Foreign currency forward contracts (2)	$ (898)	Cost of goods sold	$ (1,488)	Net loss on forward contracts	$ —

	Nine months ended September 30, 2009				
	Amount of loss recognized in OCI on derivative, net of tax (effective portion)	Loss reclassified from OCI to income on derivatives (effective portion)		Loss recognized in income on derivative (ineffective portion)	
	Amount	Location	Amount	Location	Amount
Natural gas forward financial contracts (1)	$ —	Cost of goods sold	$ (14,449)	Net loss on forward contracts	$ —
Foreign currency forward contracts (2)	$ (898)	Cost of goods sold	$ (6,194)	Net loss on forward contracts	$ 1,701

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CENTURY ALUMINUM COMPANY
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(1) With the transfer of our joint venture investment in Gramercy in the third quarter of 2009, we discontinued accounting for these contracts as cash flow hedges.

(2) We had no foreign currency forward contracts or options outstanding at September 30, 2009 or December 31, 2008. We settled our foreign currency forward contract contracts in October 2008.

Natural gas forward financial contracts

To mitigate the volatility of the natural gas markets, we enter into fixed-price forward financial purchase contracts which settle in cash in the period corresponding to the intended usage of natural gas. These forward contracts were previously designated as cash flow hedges. Upon the transfer of our joint venture investment in Gramercy the originally forecasted transactions will not occur by the end of originally specified time periods, as such, we discontinued cash flow hedge treatment in September 2009 and account for these contracts as derivative instruments. These contracts have maturities through November 2009.

We had the following outstanding forward financial purchase contracts:

	(Million British Thermal Units ("MMBTU"))	
	September 30, 2009	December 31, 2008
Natural gas forward financial contracts	250,000	3,340,000

Foreign currency forward contracts

We are exposed to foreign currency risk due to fluctuations in the value of the U.S. dollar as compared to the euro, the Icelandic krona ("ISK") and the Chinese yuan. The labor costs, maintenance costs and other local services at Grundartangi are denominated in ISK and a portion of its anode costs are denominated in euros. As a result, an increase or decrease in the value of those currencies relative to the U.S. dollar would affect Grundartangi's operating margins. In addition, we expect to incur capital expenditures for the construction of a primary aluminum facility in Helguvik, Iceland (the "Helguvik project"), although we are currently evaluating the Helguvik project's cost, scope and schedule. A significant portion of the capital expenditures for the Helguvik project are forecasted to be denominated in currencies other than the U.S. dollar with a significant portion in ISK.

We manage our foreign currency exposure by entering into foreign currency forward contracts when management deems such transactions appropriate. We had foreign currency forward contracts to manage the currency risk associated with Grundartangi operating costs and the Helguvik project capital expenditures. These contracts were designated as cash flow hedges, qualified for hedge accounting under ASC 815 and had maturities through September 2009. As of September 30, 2009, we had no foreign currency forward contracts outstanding.

The realized gain or loss on our foreign currency forward contracts cash flow hedges for Grundartangi operating costs

was recognized in income as part of our cost of goods sold. The realized gain or loss for our cash flow hedges for the Helguvik project capital expenditures were accumulated in other comprehensive income and will be reclassified to earnings when the project is completed as part of the depreciation expense of the capital assets.

CENTURY ALUMINUM COMPANY
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In October 2008, following the appreciable devaluation of the ISK versus the U.S. dollar, we reached an agreement with our counterparties and settled the remaining forward contracts that extended through September 2009.

We recognized losses of approximately $1,701 in the nine months ended September 30, 2009, respectively, (none in the three months ended September 30, 2009 or in the three and nine months ended September 30, 2008) on the ineffective portions of the forward contracts for the forecasted Helguvik project capital expenditures. These losses are recorded in net loss on forward contracts in our consolidated statements of operations. The ineffective portion of these forward contracts represents forward contract positions in excess of the revised forecast schedule of Helguvik project capital expenditures.

The natural gas forward financial purchase contracts are subject to counterparty credit risk. However, we only enter into forward financial contracts with counterparties we determine to be creditworthy at the time of entering into the contract. Due to the fact that we are currently in a liability position for all of our forward contracts, our counterparty risk is very minimal at this time. If any counterparty failed to perform according to the terms of the contract, the impact would be limited to the difference between the contract price and the market price applied to the contract volume on the date of settlement.

As of September 30, 2009, an accumulated other comprehensive loss of $4,294 is expected to be reclassified to earnings over the next 12-month period.

Power contracts

We are party to a power supply agreement at Ravenswood that contains LME-based pricing provisions that are an embedded derivative. The embedded derivative does not qualify for cash flow hedge treatment and is marked to market quarterly. Based on our expected power usage over the remaining term of the contract, gains and losses associated with the embedded derivative are recorded in net loss on forward contracts in the consolidated statements of operations. We have recorded a derivative asset of $84 and $2,202 for the embedded derivative at September 30, 2009 and December 31, 2008, respectively.

Primary aluminum put options

In September 2009, we entered into primary aluminum put option contracts that settle monthly from October 2009 through December 2010 based on LME prices. Our counterparties include Glencore, a related party, and a non-related third party. We paid a cash premium to enter into these contracts and recorded a short-term asset in prepaid and other current assets on the consolidated balance sheets. We determined the fair value of the put options using quoted market values from a third-party and account for the put options as derivative financial instruments with gains and losses in the fair value of the contracts recorded on the consolidated statements of operations in net losses on forward contracts.

Aluminum sales premium contracts

The Glencore Metal Agreement I is a physical delivery contract for 50,000 mtpy of primary aluminum through December 31, 2009 with variable, LME-based pricing. We account for the Glencore Metal Agreement I as a

derivative instrument under ASC 815 (formerly SFAS No.133). We have not designated the Glencore Metal Agreement I as “normal” because it replaced and was a substitute for a significant portion of a sales contract which did not qualify for this designation. Because the Glencore Metal Agreement I is variably priced, we do not expect significant variability in its fair value, other than changes that might result from the absence of the U.S. Midwest premium. Gains and losses on the derivative are based on, (1) the difference between a contracted U.S. Midwest premium and the actual U.S. Midwest premium at settlement, and (2) the difference between a contracted U.S. Midwest premium and a forecast of the U.S. Midwest premium for future periods. Settlements are recorded in related party sales. Unrealized gains (losses) based on forecasted U.S. Midwest premiums are recorded in net loss on forward contracts on the consolidated statements of operations.

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The Glencore Metal Agreement II is a physical delivery contract for 20,400 mtpy of primary aluminum through December 31, 2013 with variable, LME-based pricing. Under the Glencore Metal Agreement II, pricing is based on market prices, adjusted by a negotiated U.S. Midwest premium with a cap and a floor as applied to the current U.S. Midwest premium. We account for the Glencore Metal Agreement II as a derivative instrument under ASC 815. Gains and losses on the derivative are based on the difference between the contracted U.S. Midwest premium and actual and forecasted U.S. Midwest premiums. Settlements are recorded in related party sales. Unrealized gains (losses) based on forecasted U.S. Midwest premiums are recorded in net loss on forward contracts on the consolidated statements of operations.

Derivatives not designated as hedging instruments:

		Gain (loss) recognized in income from derivatives	
	Location	Three months ended September 30, 2009 Amount	Nine months ended September 30, 2009 Amount
Power contracts	Net loss on forward contracts	$ (11)	$ (4,788)
Primary aluminum put options	Net loss on forward contracts	555	555
Natural gas forward contracts (1)	Net loss on forward contracts	(1,381)	(1,381)
Aluminum sales premium contracts	Related party sales	1,103	2,779
Aluminum sales premium contracts	Net loss on forward contracts	(77)	(469)

(1) We discontinued cash flow hedge treatment for our natural gas forward contracts after the transfer of our joint venture investments in Gramercy in the third quarter of 2009. Amount represents contract settlements after the transfer.

We had the following outstanding forward contracts that were entered into that were not designated as hedging instruments:

	September 30, 2009	December 31, 2008

Power contracts (in megawatt hours (“MWH”)) (1)	6,552	1,066,000
Primary aluminum sales contract premiums (metric tons) (2)	97,059	152,000
Primary aluminum put contracts (metric tons)	75,000	—
Natural gas forward financial contracts (MMBTU)(3)	250,000	—

(1) We mark the Ravenswood power contract to market based on our expected usage during the remaining term of the contract. In September 2009, the West Virginia PSC extended the term of this contract for an additional year.

(2) Represents the remaining physical deliveries under our Glencore Metal Agreements I and II.

(3) We discontinued cash flow hedge treatment for our natural gas forward contracts after the transfer of our joint venture investments in Gramercy in the third quarter of 2009.

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11. Earnings Per Share

The following table provides a reconciliation of the computation of the basic and diluted earnings per share:

	For the three months ended September 30,					
	2009			2008		
	Income	Shares (000)	Per-Share	Income	Shares (000)	Per-Share
Net income	$40,142	74,214		$35,789	47,720	
Amount allocated to common shareholders	82.88 %			76.73 %		
Basic EPS:						
Income allocable to common shareholders	$33,270	74,214	$0.45	$27,461	47,720	$0.58
Effect of Dilutive Securities: Plus:						
Options	—	5		—	59	
Service-based stock awards	—	502		—	76	
Assumed conversion of convertible debt	—	—		—	2,120	
Diluted EPS:						
Income applicable to common shareholders with assumed conversion	$33,270	74,721	$0.45	$27,461	49,975	$0.55

	For the nine months ended September 30,					
	2009			2008		
	Loss	Shares (000)	Per-Share	Loss	Shares (000)	Per-Share
Net loss	$(181,628)	71,023	$(2.56)	$(201,641)	43,317	$(4.66)
Amount allocated to common shareholders (1)	100 %			100 %		
Basic and Diluted EPS:						
Loss allocable to common shareholders	$(181,628)	71,023	$(2.56)	$(201,641)	43,317	$(4.66)

(1) We have not allocated the net loss allocable to common shareholders between common and preferred shareholders, as the holders of our preferred shares do not have a contractual obligation to share in the loss.

Impact of issuance of Series A Convertible Preferred Stock on EPS

In July 2008, we issued 160,000 shares of Series A Convertible Preferred Stock (convertible into 16,000,000 common shares) as a portion of the consideration for the termination of primary aluminum forward financial sales contracts with Glencore. The preferred stock has similar characteristics of a "participating security" as described by ASC 260-10-45-59A "Participating Securities and the Two-Class Method" (Formerly, SFAS No. 128, "Earnings Per Share" and EITF 03-6, "Participating Securities and the Two-Class Method under SFAS No. 128"). In accordance with the guidance in the ASC 260-10-45-59A, we calculated basic EPS using the Two-Class Method, allocating undistributed income to our preferred shareholder consistent with their participation rights, and diluted EPS using the If-Converted Method.

The general accounting principles for reporting EPS do not require the presentation of basic and diluted EPS for securities other than common stock and the EPS amounts, as presented, only pertain to our common stock.

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The Two-Class Method is an earnings allocation formula that determines earnings per share for common shares and participating securities according to dividends declared (or accumulated) and the participation rights in undistributed earnings. Our preferred stock is a non-cumulative perpetual participating convertible preferred stock with no set dividend preferences. The dividend rights of our preferred shareholder are equal to our common shareholders, as if it held the number of common shares into which its shares of preferred stock are convertible as of the record date. The liquidation rights of the preferred stock mirror their dividend rights, in that the preferred stock ranks in parity to the common stock in respect of liquidation preference and would be entitled to share ratably with common stock holders in the distribution of assets in a liquidation (as though the preferred stock holders held the number of shares of common stock into which their shares of preferred stock were convertible). The preferred stock has a liquidation preference of $0.01 per share.

The holders of our convertible preferred stock do not have a contractual obligation to share in the losses of Century. Thus, in periods where we report net losses, we will not allocate the net losses to the convertible preferred stock for the computation of basic or diluted EPS.

Impact of the Tax Benefit Preservation Plan on EPS

In September 2009, we entered into a Tax Benefit Preservation Plan whereby each common shareholder and preferred shareholder of record on October 9, 2009 received preferred share purchase rights (“Rights”). These Rights would only be exercisable upon the occurrence of certain triggering events. Each Right will allow its holder to purchase one one-hundredth of a share of Series B Junior Participating Preferred Stock, once the Rights become exercisable. This portion of a Series B Preferred Share will give the stockholder approximately the same dividend, voting, and liquidation rights as would one share of common stock. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights. Upon the occurrence of a triggering event, our Board of Directors may extinguish the Rights by exchanging common stock for the Rights.

In accordance with general accounting principles for the calculation of EPS, the Rights are considered contingently issuable shares but will not be included in the calculation of EPS until the necessary conditions for exercise or exchange have been satisfied. Upon an issuance, the Series B Junior Participating Preferred stock would be participating securities and we would calculate EPS in accordance with the Two-Class Method described above. See Note 12 Shareholders’ Equity for additional information about the Tax Benefit Preservation Plan.

Calculation of EPS

December 31, 2016	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 50,015	$ —	$ —	$ 50,015

Short-term marketable securities

$

—

$

15,793

$

—

$

15,793

Contingent liability (included in accrued expenses and other current liabilities and other liabilities)

$

—

$

—

$

3,678

$

3,678

There were no transfers between fair value measurement levels during the quarter and nine months ended September 30, 2017 and 2016.

The change in fair value of the Company's contingent liability is recorded in general and administrative expenses in the consolidated statements of operations. The following table reconciles the beginning and ending balance of the Company's Level 3 contingent liability:

Balance at December 31, 2016	$ 3,678
Change in fair value	313
Fair value at September 30, 2017	$ 3,991

Note 8. Long Term Bank and Other Debt

Long term bank and other debt consist of the following (in thousands):

	As of September 30, 2017	As of December 31, 2016
Senior Secured Term Loan, less debt discount of $8,062	$ 166,938	$ —
SVB Mezzanine Term Loan	—	25,000
SVB Line of Credit Facility less debt discount of $66	—	17,424
Subordinated Promissory Note	—	2,000
Total	166,938	44,424
Less: current portion of Subordinated Promissory Note	—	(2,000)
Long term bank and other debt	$ 166,938	$ 42,424

Long term bank and other debt are stated at amortized cost, which approximates fair value.

On July 14, 2017 and concurrent with the consummation of the Best Doctors acquisition, the Company entered into a $175.0 million Senior Secured Term Loan Facility (the "New Term Loan Facility") and a $10.0 million Senior Secured Revolving Credit Facility (the "New Revolving Credit Facility" and together with the New Term Loan Facility, the "New Senior Secured Credit Facilities") pursuant to a credit agreement by and among the Company, the lenders party thereto from time to time and Jefferies Finance LLC, as administrative agent and collateral agent. The New Term Loan Facility has been used to fund the expansion of the Company's business and the New Revolving Credit Facility is available for working capital and other general corporate purposes.

The New Term Loan Facility carries interest at a rate of 7.25% above fixed 90 days Libor of 1.24% (or 8.49%) and matures in July 2022. Interest payments are payable monthly in arrears. The New Revolving Credit Facility carries interest at a rate of 7.25% above fixed 90- days Libor of 1.24% and matures in July 2020. The Company is also required to pay a commitment fee on the average daily unused portion of the New Revolving Credit Facility at 0.50%. The Company incurred expenses of $8.3 million in conjunction with obtaining the New Senior Secured Credit

Facilities.

In July 2016, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank (“SVB”), that provided for a $25 million Mezzanine Term Loan and a $25 million Line of Credit Facility. The Mezzanine Term Loan carried interest at a rate of 6.25% above the Wall Street Journal (“WSJ”) Prime Rate with a WSJ Prime Rate floor of 3.75% and matured in July 2019. Interest payments were payable monthly in arrears. The Company incurred a $250,000 loan origination fee and was liable for a final payment fee of $750,000 payable at maturity or upon prepayment of the Mezzanine Term Loan. In connection with entry into the Mezzanine Term Loan, the

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Company granted two affiliates of SVB warrants to purchase an aggregate of 798,694 shares of common stock of the Company at an exercise price of $13.50 per share. The warrants were immediately exercisable and had a 10-year term. The fair value of the common stock warrants on the date of issue was approximately $7.7 million. The Company also granted SVB a security interest in significantly all of the Company's assets. The Mezzanine Term Loan had been used to fund the expansion of the Company's business.

The amended Line of Credit Facility provided for borrowings up to $25 million based on 300% of the Company's monthly recurring revenue, as defined. In addition, there was an additional $25 million Uncommitted Incremental Facility permitted under the Line of Credit Facility. The Line of Credit Facility carried interest at a rate of 0.50% above the WSJ Prime Rate and matured in July 2019. The Company incurred an initial $75,000 loan origination fee and is responsible for additional $75,000 in annual fees on the anniversary of the Line of Credit Facility. The Company was also liable for a $50,000 loan arrangement fee if and when the Company utilized the Uncommitted Incremental Facility.

On July 13, 2017, the Company repaid and extinguished all the outstanding amounts under both of the SVB Line of Credit Facility and Mezzanine Term Loan of $17.5 million and $25 million, respectively, including early termination and final deferred origination fees of $1.7 million and recorded a one-time charge reflected on the consolidated statements of operations as amortization of warrants and loss on extinguishment of debt.

Effective with the purchase of AmeriDoc, LLC ("AmeriDoc") in 2014, the Company executed a Subordinated Promissory Note in the amount of $3.5 million payable to the seller of AmeriDoc on April 30, 2015. The Subordinated Promissory Note carried interest at a rate of 10.00% annual interest and is subordinated to the SVB Facilities. In March 2015, the Company, the seller of AmeriDoc and SVB executed an Amended and Restated Subordinated Promissory Note that extended the maturity of the Amended and Restated Subordinated Promissory Note to April 30, 2017. In November 2015, the Company executed the Second Amended and Restated Subordinated Promissory Note with a revised annual interest rate of 7% commencing on January 1, 2016 and extended the maturity of the Second Amended and Restated Subordinated Promissory Note to April 30, 2018 with a seller put option effective on April 30, 2017. The Company repaid $1.0 million during 2016 and the remaining outstanding amount of $2.0 million was paid during the first quarter of 2017.

The Company was in compliance with all debt covenants at September 30, 2017 and December 31, 2016.

Note 9. Convertible Senior Notes

On June 27, 2017, the Company issued, at par value, $275 million aggregate principal amount of 3% convertible senior notes due 2022 (the "2022 Notes"). The 2022 Notes bear cash interest at a rate of 3% per year, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2017. The 2022 Notes will mature on December 15, 2022. The net proceeds to the Company from the offering were $263.7 million after deducting offering costs of approximately $11.3 million.

The 2022 Notes are senior unsecured obligations of the Company and rank senior in right of payment to the Company's indebtedness that is expressly subordinated in right of payment to the 2022 Notes; equal in right of payment to the Company's liabilities that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities incurred by the Company's subsidiaries.

Holders may convert all or any portion of their 2022 Notes in integral multiples of $1,000 principal amount, at their option, at any time prior to the close of business on the business day immediately preceding June 15, 2022 only under the following circumstances:

•during any calendar quarter commencing after the calendar quarter ending on September 30, 2017 (and only during such calendar quarter), if the last reported sale price of the shares of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

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•during the five business day period after any ten consecutive trading day period (the ‘‘measurement period’’) in which the trading price (as defined in the 2022 Notes Indenture) per $1,000 principal amount of 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day;

•upon the occurrence of specified corporate events described under the 2022 Notes Indenture; or

•if the Company calls the 2022 Notes for redemption, at any time until the close of business on the second business day immediately preceding the redemption date as described under the 2022 Notes Indenture.

•On or after June 15, 2022, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2022 Notes, in integral multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The conversion rate for the 2022 Notes was initially, and remains, 22.7247 shares of the Company’s common stock per $1,000 principal amount of the 2022 Notes, which is equivalent to an initial conversion price of approximately $44.00 per share of the Company’s common stock. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company’s common stock or a combination thereof, at the Company’s election. If the Company elects (or are deemed to have elected) to satisfy the conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of the Company’s common stock, the amount of cash and shares of the Company’s common stock, if any, due upon conversion will be based on a daily conversion value calculated on a proportionate basis for each trading day in a 25 trading day observation period (as defined in the 2022 Notes Indenture).

The Company may redeem for cash all or any portion of the 2022 Notes, at its option, on or after December 22, 2020 if the last reported sale price of its common stock exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading days ending on, and including the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be the principal amount of the 2022 Notes to be redeemed, plus accrued and unpaid interest, if any. In addition, calling any 2022 Note for redemption on or after December 22, 2020 will constitute a make-whole fundamental change with respect to that 2022 Note, in which case the conversion rate applicable to the conversion of that Note, if it is converted in connection with the redemption, will be increased in certain circumstances as described in the 2022 Notes Indenture.

In accounting for the issuance of the 2022 Notes, the Company separated the 2022 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2022 Notes as a whole. The excess of the principal amount of the liability component over its carrying amount, referred to as the debt discount, is amortized to interest expense from the issuance date to June 15, 2022 (the first date on which the Company may be required to repurchase the 2022 Notes at the option of the holder). The equity

component is not re-measured as long as it continues to meet the conditions for equity classification. The equity component related to the 2022 Notes was $62.4 million, net of issuance costs which was recorded in additional paid-in capital on the accompanying condensed consolidated balance sheet.

In accounting for the transaction costs related to the issuance of the 2022 Notes, the Company allocated the total costs incurred to the liability and equity components of the 2022 Notes based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the five and a half year term of the 2022 Notes, and transaction costs attributable to the equity component are netted with the equity components in stockholders' equity.

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The 2022 Notes consist of the following (in thousands):

Liability component	As of September 30, 2017
Principal	$ 275,000
Less: Debt issuance costs, net (1)	(70,607)
Net carrying amount	$ 204,393

(1) Included in the accompanying consolidated balance sheets within convertible senior notes and amortized to interest expense over the expected life of the 2022 Notes using the effective interest rate method.

The fair value of the 2022 Notes was approximately $298 million as of September 30, 2017. The Company estimates the fair value of its 2022 Notes utilizing market quotations for debt that have quoted prices in active markets. Since the 2022 Notes do not trade on a daily basis in an active market, the fair value estimates are based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities, which are classified as Level 2 measurements within the fair value hierarchy. See Note 7, “Fair Value Measurements,” for definitions of hierarchy levels. As of September 30, 2017, the remaining contractual life of the 2022 Notes is approximately 4.8 years.

The following table sets forth total interest expense recognized related to the 2022 Notes (in thousands):

	Nine Months Ended September 30, 2017	
Contractual interest expense	$ 2,147	
Amortization of debt discount	3,075	
Total	$ 5,222	
Effective interest rate of the liability component	10.0	%

Note 10. Commitments and Contingencies

Legal Matters

The Company may become subject to legal proceedings, claims and litigation arising in the ordinary course of its business. At September 30, 2017, the Company was party to the following legal proceedings:

On April 29, 2015, the Company filed a lawsuit against the Texas Medical Board (the ‘‘TMB’’) in the United States District Court for the Western District of Texas, Austin Division (the “District Court”) alleging that the TMB’s adoption on April 10, 2015 of an amendment to 22 T.A.C. 190.8(1)(L) that would require a prior in-person examination for a doctor validly to prescribe any controlled substance to a patient in Texas constitutes a violation, inter alia, of the Sherman Antitrust Act. The District Court held a hearing on May 22, 2015 on Teladoc’s motion for preliminary injunction of the effectiveness of such amendment, which otherwise was scheduled to take effect on June 3, 2015. On May 29, 2015, the District Court issued the preliminary injunction requested by Teladoc and enjoined the effectiveness of such rule amendment pending trial. On July 30, 2015, the TMB filed a motion to dismiss the suit, and the District Court denied this motion on December 14, 2015. On January 8, 2016, the TMB provided notice of its intent to appeal the District Court’s denial of its motion to dismiss to the U.S. Court of Appeals for the Fifth Circuit, which was filed on June 17, 2016 and voluntarily withdrawn by the TMB on October 17, 2016. On November 2, 2016, the District Court granted the parties’ joint motion to stay the trial case through April 19, 2017. On April 10, 2017, the District Court granted the parties’ joint motion to stay the trial case through September 1, 2017. On September 7, 2017, the District Court granted the parties’ joint motion to stay the trial case through November 30, 2017. Accordingly, no trial date has been set.

Business in the State of Texas accounted for approximately $12.4 million, or 8% and $15.1 million or 12% of the Company’s consolidated revenue for the nine months ended September 30, 2017 and for the year ended December 31, 2016, respectively. If the TMB’s proposed rule amendments go into effect as written and Teladoc is unable to adapt its business model in compliance with the revised rules, its ability to operate its business in the State of Texas could be

materially adversely affected, which would have a material adverse effect on its business, financial condition and results of operations.

Other than as stated the Company is not a party to any material legal proceeding, and it is not aware of any pending or threatened litigation that would have a material adverse effect on its business, results of operations, cash flows or financial condition should such litigation be resolved unfavorably.

The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable. In this regard, the Company establishes accruals for various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At September 30, 2017, the Company has established accruals for certain of its lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at September 30, 2017 any reasonably possible losses in excess of the amounts accrued would be material to the unaudited consolidated financial statements.

Note 11. Common Stock and Stockholders’ Equity

Capitalization

On January 24, 2017, Teladoc closed on its Follow-On Offering in which the Company issued and sold 7,887,500 shares of common stock, including the exercise of an underwriter option to purchase additional shares, at an issuance price of $16.75 per share. The Company received net proceeds of $123.9 million after deducting underwriting discounts and commissions of $7.6 million as well as other offering expenses of $0.6 million.

Warrants

In July 2016, in conjunction with the debt refinancing of the Mezzanine Term Loan, the Company issued 798,694 common stock warrants to purchase an aggregate of 798,694 shares of its common stock at an exercise price of $13.50 per share to two entities affiliated with SVB. The common stock warrants were immediately exercisable upon issuance and had a 10-year term. The fair value of the common stock warrants on the date of issue was approximately $7.7 million.

On December 9, 2016, the Company issued an aggregate of 107,931 shares of common stock resulting from an SVB affiliate's cashless exercise of 399,347 of these warrants at an exercise price of $13.50 per share.

On January 31, 2017, the Company issued an aggregate of 138,903 shares of common stock resulting from an SVB affiliate's cashless exercise of the remaining 399,347 of these warrants at an exercise price of $13.50 per share.

The Company had no warrants outstanding as of September 30, 2017 and 399,347 warrants outstanding as of December 31, 2016.

Stock Plan and Stock Options

The Company's 2015 Incentive Award Plan (the "Plan") provides for the issuance of incentive and non-statutory options and other equity-based awards to its employees and non employees. Options issued under the Plan are exercisable for periods not to exceed ten years, and vest and contain such other terms and conditions as specified in the applicable award document. Prior to becoming a public enterprise and pursuant to the Company's Second Amended and Restated Stock Incentive Plan which is now retired, the Company historically issued incentive and non-statutory stock options with exercise prices equal to the fair value of the Company's common stock on the date of grant, as determined by the Company's board of directors informed by third-party valuations. Subsequent to becoming a public enterprise, options to buy common stock have been issued under the Plan, with exercise prices equal to the closing price of shares of the Company's common stock on the New York Stock Exchange on the trading day immediately preceding the date of award.

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Activity under the Plan is as follows (in thousands, except share and per share amounts and years):

	Shares Available for Grant	Number of Shares Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Balance at December 31, 2016	343,216	6,839,868	$ 11.70	8.64	$ 36,795
Increase in Plan authorized shares	4,176,722	—	$ —	—	$ —
Restricted stock units granted	(342,524)	—	$ —	—	$ —
Stock option grants	(3,671,073)	3,671,073	$ 25.02	—	$ —
Stock options exercised	—	(734,293)	$ 9.53	—	$ 14,301
Stock options forfeited	687,375	(681,759)	$ 16.84	—	$ 5,647
Balance at September 30, 2017	1,193,716	9,094,889	$ 16.87	8.50	$ 149,973
Vested or expected to vest at September 30, 2017		9,094,889	$ 16.87	8.50	$ 149,973
Exercisable at September 30, 2017		2,348,722	$ 8.86	7.16	$ 57,048

The total grant date fair value of stock options granted during the quarter and nine months ended September 30, 2017 were $18.5 million and $54.8 million, respectively.

Stock Based Compensation

All stock based awards to employees are measured based on the grant date fair value of the awards and are generally recognized in the Company’s consolidated statement of operations over the period during which the employee is required to perform services in exchange for the award (generally requiring a four year vesting period for each award). The Company estimates the fair value of stock options granted using the Black Scholes option pricing model. Compensation cost is generally recognized over the vesting period of the applicable award using the straight line method.

Given the absence of a public trading market prior to July 2015, the Company’s board of directors considered numerous objective and subjective factors to determine the fair value of its common stock at each grant date. These factors included, but were not limited to, (i) contemporaneous valuations of common stock performed by unrelated third party specialists; (ii) the prices for the preferred stock sold to outside investors; (iii) the rights, preferences and privileges of the preferred stock relative to the common stock; (iv) the lack of marketability of the common stock; (v) developments in the business; and (vi) the likelihood of achieving a liquidity event, such as an IPO or a merger or acquisition of the Company, given prevailing market conditions.

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

Volatility. Since the Company does not have a trading history prior to July 2015 for its common stock, the expected volatility was derived from the historical stock volatilities of several unrelated public companies within its industry that it considers to be comparable to its business combined with the Company's stock volatility over a period equivalent to the expected term of the stock option grants.

Risk Free Interest Rate. The risk free interest rate is based on U.S. Treasury zero coupon issues with terms similar to the expected term on the options.

Expected Term. The expected term represents the period that the stock based awards are expected to be outstanding. When establishing the expected term assumption, the Company utilizes historical data.

Dividend Yield. The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and therefore, it used an expected dividend yield of zero.

Forfeiture rate. Prior to 2017, the Company used historical data to estimate pre vesting option forfeitures and record stock based compensation expense only for those awards that are expected to vest. On January 1, 2017, the Company adopted ASU 2016-09 and elected to account for stock option forfeitures as they occur which resulted in a cumulative effect adjustment of $0.1 million recorded to accumulated deficit and additional paid-in capital.

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The fair value of each option grant was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions and fair value per share:

	Nine Months Ended September 30,	
	2017	2016
Volatility	45.1% – 47.7%	44.7% – 46.3%
Expected life (in years)	6.1	6.0
Risk-free interest rate	1.81% - 2.30%	1.09% - 1.91%
Dividend yield	–	–
Weighted-average fair value of underlying common stock	$ 11.83	$ 6.27

For the quarter ended September 30, 2017 and 2016, the Company recorded compensation expense related to stock options granted of $5.0 million and $2.2 million, respectively, and $12.2 million and $5.1 million for the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, the Company had $55.8 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.

Restricted Stock Units

In May 2017, the Company commenced issuing Restricted Stock Units (“RSU’s”) to certain employees and Board members under the 2017 Employment Inducement Incentive Award Plan.

The fair value of the RSU’s is determined on the date of grant. On a monthly basis, the Company will record compensation expense in the consolidated statement of operations on a straight-line basis over the vesting period. The vesting period for employees and members of the Board of Directors is four years and one year, respectively.

Activity under the RSU’s is as follows (in thousands, except share and per share amounts and years):

	Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at December 31, 2016	—	$ —

Granted	342,524	$	33.19
Cancelled/Forfeited	(5,616)	$	30.50
Balance at September 30, 2017	336,908	$	33.23
Vested and deferred at September 30, 2017	—	$	—
Non-vested at September 30, 2017	336,908	$	33.23

The total grant date fair value of RSU's granted during the quarter and nine months ended September 30, 2017 were $6.9 million and $11.3 million, respectively.

For both of the quarter and nine months ended September 30, 2017, the Company recorded stock based compensation expense related to the RSU's of $0.8 million and $0.9 million, respectively. There was no charge for the quarter and nine months ended September 30, 2016.

Employee Stock Purchase Plan

In July 2015, the Company adopted the 2015 Employee Stock Purchase Plan, or ESPP, in connection with its initial public offering. A total of 551,641 shares of common stock were reserved for issuance under this plan as of September 30, 2017. The Company's ESPP permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. Under the ESPP, the Company may specify offerings with durations of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of its common stock will be purchased for employees participating in the offering. An offering may be terminated under certain circumstances. The price at which the stock is purchased is equal

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to the lower of 85% of the fair market value of the common stock at the beginning of an offering period or on the date of purchase.

On May 8, 2017, the Company issued 90,968 shares under the ESPP and the Company had not issued any shares under the ESPP as of December 31, 2016. 460,673 shares remained available for issuance as of September 30, 2017.

For the quarter ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense related to the ESPP of $0.2 million and $0.1 million, respectively. For the nine months ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense related to the ESPP of $0.5 million and $0.1 million, respectively, based on offerings made under the plan to-date.

Total compensation costs charged as an expense for stock based awards, including stock options, RSU's and ESPP, recognized in the components of operating expenses are as follows (in thousands):

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Administrative and marketing	$ 315	$ 132	$ 798	$ 348
Sales	1,293	355	2,894	794
Technology and development	852	322	2,048	797
General and administrative	3,506	1,356	7,888	3,148
Total stock-based compensation expense	$ 5,966	$ 2,165	$ 13,628	$ 5,087

Note 12. Income Taxes

As a result of the Company's history of net operating losses, the Company has provided for a full valuation allowance against its deferred tax assets for assets that are not more-likely-than-not to be realized. For the quarter and nine months ended September 30, 2017, the income tax provision was recognized for timing differences with respect to the treatment of the amortization of tax deductible goodwill as well as foreign related income partially offset by a tax benefit associated with the expiration of a statute of limitations. Income tax provisions recognized for the quarter ended and nine months ended September 30, 2016, were primarily attributable to the timing differences with respect to the treatment of the amortization of tax deductible goodwill. A majority of the Company's operations, and resulting deferred tax assets, were generated in the United States.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. All statements other than statements of historical fact are, or may be, forward-looking statements. These forward-looking statements are not historical facts, but rather are based on current expectations, estimate, assumptions and projections about our industry, business and future financial results. We use words such as "anticipates", "believes", "suggests", "targets", "projects", "plans", "expects", "future" "estimates", "predicts", "potential", "may", "will", "should", "could", "would", "likely", "foresee", "forecast", "continue" and words or phrases, as well as statements in the future tense to identify these forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of important factors, including those set forth below.

- ongoing legal challenges to or new state actions against our business model;

- our dependence on our relationships with affiliated professional entities;

- evolving government regulations and our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business;

- our ability to operate in the heavily regulated healthcare industry;

- our history of net losses and accumulated deficit;

- the impact of recent healthcare reform legislation and other changes in the healthcare industry;

- risk of the loss of any of our significant Clients;

- risks associated with a decrease in the number of individuals offered benefits by our Clients or the number of products and services to which they subscribe;

- our ability to establish and maintain strategic relationships with third parties;

- risks specifically related to our ability to operate in competitive international markets and comply with complex non-U.S. legal requirements;

· our ability to recruit and retain a network of qualified Providers;

· risk that the insurance we maintain may not fully cover all potential exposures;

· rapid technological change in the telehealth market;

· any statements of belief and any statements of assumptions underlying any of the foregoing;

· other factors disclosed in this Form 10-Q; and

· other factors beyond our control.

The foregoing list of factors is not exhaustive, and does not necessarily include all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. The information in this Quarterly Report should be read carefully in conjunction with other uncertainties and potential events described in our Form 10-K in the Annual Report for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the "SEC") and our other filings with the SEC. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report. Except as required by law or regulation, we do not undertake any obligation to update any forward-looking statements to reflect subsequent events or circumstances.

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Overview

We are the largest and most trusted telehealth provider in the world. Recognized by MIT Technology Review as one of the "50 Smartest Companies", we are forging a new healthcare experience with better convenience, outcomes and value. We provide virtual access to high quality care and expertise, with a portfolio of services and solutions covering 450 medical subspecialties from non-urgent, episodic needs like flu and upper respiratory infections, to chronic, complicated medical conditions like cancer and congestive heart failure. By marrying the latest in data and analytics with an award-winning user experience and a highly flexible technology platform, we have delivered millions of medical visits to patients around the globe. Over 22 million unique Members now benefit from access to Teladoc 24 hours a day, seven days a week, 365 days a year. We completed approximately 1,000,000 telehealth visits in the first nine months of 2017 and approximately 952,000 telehealth visits for the full year of 2016. Paid membership increased by approximately 5.6 million members from September 30, 2016 through September 30, 2017 including the impact from Best Doctors.

On July 14, 2017, we completed the acquisition of Best Doctors Holdings, Inc. ("Best Doctors"), an expert medical consultation company. Best Doctors provides technology innovations and services to help employers, health plans and provider organizations to improve health outcomes for the most complex, critical and costly medical issues.

The Teladoc solution is transforming the access, cost and quality dynamics of healthcare delivery for all of our market participants. Our Members rely on Teladoc to remotely access affordable, on-demand healthcare whenever and wherever they choose. Employers, health plans, provider organization, insurance and financial services companies and consumers (our "Clients") purchase our solution to reduce their healthcare spending, or to provide a market differentiating service as a complement to their core set of consumer service offerings, while at the same time offering convenient, affordable, high-quality healthcare to their employees or beneficiaries. Our network of physicians and other healthcare professionals (our "Providers") as well as our medical experts have the ability to generate meaningful income and deliver their services more efficiently with no administrative burden. We believe the value proposition of our solution is evidenced by our overall Member satisfaction rate, which has exceeded 90% over the last eight years. We further believe any consumer, employer, health plan or provider, insurance and financial service companies interested in a better approach to healthcare is a potential Teladoc Member, Client or Provider.

We generate revenue from our Clients on a contractually recurring, per-Member-per-month, subscription access fee basis, which provides us with significant revenue visibility. In addition, under the majority of our Client contracts, we generate additional revenue on a per-telehealth general medical visit basis, through a visit fee. Certain of our Client contracts generate revenue for expert second opinions on a per case basis. Subscription access fees are paid by our Clients on behalf of their employees, dependents, policy holders, card holders, beneficiaries or themselves, while general medical and other specialty visit fees are paid by either Clients or Members.

We generated $68.7 million, including $21.8 million from Best Doctors and $32.4 million in revenue for the quarters ended September 30, 2017 and 2016, respectively, representing 112% year-over-year growth. Excluding the impact from Best Doctors our organic growth rate was 45%. We generated $156.1 million, including $21.8 million from Best Doctors and $85.8 million in revenue for the nine months ended September 30, 2017 and 2016, respectively, representing 82% year-over-year growth. Excluding the impact from Best Doctors our organic growth rate was 57%. We had net losses of $31.3 million and $29.8 million for the quarters ended September 30, 2017 and 2016, respectively and $62.4 million and $60.0 million for the nine months ended September 30, 2017 and 2016, respectively. For the quarter ended September 30, 2017, 87% and 13% of our revenue was derived from subscription access fees and visit fees, respectively and for the nine months ended September 30, 2017, 84% and 16% of our revenue was derived from subscription access fees and visit fees, respectively. For the quarter ended September 30, 2016, 86% and 14% of our revenue was derived from subscription access fees and visit fees, respectively and for the nine months ended September 30, 2016, 82% and 18% of our revenue was derived from subscription access fees and

visit fees, respectively.

In January 2017, we successfully closed on our Follow-On Offering in which the Company issued and sold 7,887,500 shares of common stock, including the exercise of an underwriter option to purchase additional shares, at an issuance price of $16.75 per share. We received net proceeds of $123.9 million after deducting underwriting discounts and commissions of $7.6 million as well as other offering expenses of $0.6 million.

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Acquisition History

We have scaled and intend to continue to scale our platform through the pursuit of selective acquisitions. We completed multiple acquisitions since our inception, which we believe have expanded our distribution capabilities and broadened our service offerings.

On July 14, 2017, we completed our acquisition of Best Doctors, for aggregate consideration of $445.5 million, comprised of $379.4 million of cash and $66.2 million of our common stock (or 1,855,078 shares), net of cash acquired. Best Doctors is the world's leading expert medical consultation company focused on improving health outcomes for the most complex, critical and costly medical issues.

On July 1, 2016, we completed our acquisition of HY Holdings, Inc. d/b/a HealthiestYou Corporation, or HealthiestYou, for aggregate consideration of $151.5 million, comprised of $43.2 million of cash and $108.3 million of our common stock (or 6,955,796 shares), net of cash acquired. HealthiestYou is a telehealth consumer engagement technology platform for the small to mid-sized employer market. Solutions provided by HealthiestYou include 24/7 access to telephone and video conferencing with doctors as well as the convenience of procedure price comparisons, prescription medicine price comparisons, health plan information and benefits eligibility and location information for wellness service providers.

Key Factors Affecting Our Performance

Number of Members. Our revenue growth rate and long-term profitability are affected by our ability to increase our number of Members because we derive a substantial portion of our revenue from subscription access fees via Client contracts that provide Members access to our professional Provider network in exchange for a contractual based monthly fee. Revenue is driven primarily by the number of Clients, the number of Members in a Client's population, the number of services contracted for by a Client and the contractually negotiated prices of our services and the negotiated pricing that is specific to that particular Client. We believe that increasing our membership is an integral objective that will provide us with the ability to continually innovate our services and support initiatives that will enhance Member experiences. Paid membership increased by approximately 5.6 million members from September 30, 2016 through September 30, 2017, including approximately 2.8 million members from the acquisition of Best Doctors.

Number of Visits. We also recognize revenue in connection with the completion of a general medical visit, expert second opinion and other specialty visit for the majority of our contracts. Accordingly, our visit revenue, or visit fees, generally increase as the number of visits increase. Visit fee revenue is driven primarily by the number of Clients, the number of Members in a Client's population, Member utilization of our Provider network services and the contractually negotiated prices of our services. We believe that increasing our current Member utilization rate and further penetration into existing and sales to new health plan clients is a key objective in order for our Clients to realize tangible healthcare savings with our service. Visits increased by approximately 103,000 for the quarter ended September 30, 2017 compared to the same period in 2016.

Seasonality. We typically experience the strongest increases in consecutive quarterly revenue during the fourth and first quarters of each year, which coincides with traditional annual benefit enrollment seasons. In particular, as a result of many Clients' introduction of new services at the very end of the current year, or the start of each year, the majority of our new Client contracts have an effective date of January 1. Additionally, as a result of national seasonal cold and flu trends, we experience our highest level of general medical visit fees during the first and fourth quarters of each year when compared to other quarters of the year. Conversely, the second quarter of the year has historically been the

period of lowest utilization of our Provider network services relative to the other quarters of the year. See "Risk Factors—Risks Related to Our Business—Our quarterly results may fluctuate significantly, which could adversely impact the value of our common stock." included in our Form 10-K for the year ended December 31, 2016 filed with the SEC.

Components of Results of Operations

Revenue

We generate our revenue from our Clients who purchase access to our professional Provider network or our medical experts for their employees, dependents and other beneficiaries. Our Client contracts include a per-Member-per-month subscription access fee as well as contracts that generate additional revenue on a per-telehealth visit basis for general medical and other specialty visits and expert second opinion on a per case basis. Accordingly, we generate

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subscription access revenue from our subscription access fees and visit revenue from our general medical, expert second opinion and other specialty visit fees.

Subscription access revenue accounted for approximately 87% and 86% of our total revenue during the quarters ended September 30, 2017 and 2016, respectively and 84% and 82% of our total revenue during the nine months ended September 30, 2017 and 2016, respectively. Subscription access revenue is driven primarily by the number of Clients, the number of Members in a Client's population, the number of services contracted for by a Client and the contractually negotiated prices of our services. Visit fee revenue for general medical, expert second opinion and other specialty visits is driven primarily by the number of Clients, the number of Members in a Client's population, Member utilization of our professional Provider network services and the contractually negotiated prices of our services.

We recognize subscription access fees and visit and second opinion access fees in arrears on a monthly basis when the following criteria are met: (i) there is an executed subscription agreement, (ii) the Member has access to the service, (iii) collection of the fees is reasonably assured and (iv) the amount of fees to be paid by the Client and Member is fixed and determinable. Our agreements generally have a term of one year. The majority of Clients renew their contracts with us following their first year of services.

Warranties and Indemnification

Our arrangements generally include certain provisions for indemnifying Clients against liabilities if there is a breach of a Client'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.

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 liability insurance coverage that would generally enable us to recover a portion of any future amounts paid. We may also be subject to indemnification obligations by law with respect to the actions of our employees under certain circumstances and in certain jurisdictions.

Concentrations of Risk and Significant Clients

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term marketable securities and accounts receivable. Although we deposit our cash with multiple financial institutions in U.S. and in foreign countries, our deposits, at times, may exceed federally insured limits. Our short-term marketable securities are comprised of a portfolio of diverse high credit rating instruments with maturity durations of 1 year or less.

Revenue from Clients located in the United States for the quarters ended September 30, 2017 and 2016 were $60.0 million and $32.4 million, respectively. Revenue from Clients located in the United States for the nine months ended September 30, 2017 and 2016 were $147.5 million and $85.8 million, respectively.

Revenue from Clients located outside the United States for the quarter and nine months ended September 30, 2017 was $8.7 million and zero in 2016.

No Client represented over 10% of revenues for the quarters and nine months ended September 30, 2017 and 2016.

No Client represented over 10% of accounts receivable at September 30, 2017. One client represented 11% of accounts receivable at December 31, 2016.

Cost of Revenue

Cost of revenue primarily consists of fees paid to our Providers and medical experts, costs incurred in connection with our Provider network operations, which include employee-related expenses (including salaries and benefits), costs related to our Provider network operations center activities, medical records, magnetic resonance imaging, medical lab tests, translation, postage and insurance, which includes coverage for medical malpractice claims.

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Cost of revenue is driven primarily by the number of general medical visits, expert second opinions and other specialty visits completed in each period. Many of the elements of the cost of revenue are relatively variable and semi-variable, and can be reduced in the near-term to offset any decline in our revenue. Our business and operational models are designed to be highly scalable and leverage variable costs to support revenue-generating activities. While we currently expect to continue to enhance our Provider network operations center as well as our sales and technology capabilities to support business growth, we believe our increased investment in automation and integration capabilities and economies of scale in our Provider network operations center operating model, will position us to grow our revenue at a greater rate than our cost of revenue.

Gross Profit

Our gross profit is our total revenue minus our total cost of revenue, and we also express our gross profit as a percentage of our total revenue. Our gross profit has been and will continue to be affected by a number of factors, including the fees we charge our Clients, the number of visits and cases we complete the costs paid to Providers and medical experts as well as the costs of our Provider network operations center. We expect our annual gross profit to remain relatively steady over the near term, although our quarterly gross profit is expected to fluctuate from period to period depending on the interplay of these aforementioned factors.

Advertising and Marketing Expenses

Advertising and marketing expenses consist primarily of costs of digital advertisements, personnel and related expenses for our marketing staff and communications materials that are produced to generate greater awareness and utilization among our Clients and Members. Marketing costs also include third-party independent research, trade shows and brand messages, public relations costs and stock-based compensation for our advertising and marketing employees. Our advertising and marketing expenses exclude certain allocations of occupancy expense as well as depreciation and amortization.

We expect our advertising and marketing expenses to increase for the foreseeable future as we continue to increase the size of our digital advertising and marketing operations including member engagement activities and expand into new products and markets. Our advertising and marketing expenses will fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our advertising campaigns and marketing expenses. We will continue to invest in advertising and marketing by promoting our brands through a variety of marketing and public relations activities.

Sales Expenses

Sales expenses consist primarily of employee-related expenses, including salaries, benefits, commissions, employment taxes, travel and stock-based compensation costs for our employees engaged in sales, account management and sales support in addition to commissions paid to external brokers. Our sales expenses exclude certain allocations of occupancy expense as well as depreciation and amortization. We expect our sales expenses to increase in the short-to-medium-term as we strategically invest to expand our business and to capture an increasing amount of our

market opportunity.

Technology and Development Expenses

Technology and development expenses include personnel and related expenses for software engineering, information technology infrastructure, security and compliance and product development. Technology and development expenses also include outsourced software engineering services, the costs of operating our on-demand technology infrastructure, licensed applications and stock-based compensation for our technology and development employees. Our technology and development expenses exclude certain allocations of occupancy expense as well as depreciation and amortization.

We expect our technology and development expenses to increase for the foreseeable future as we continue to invest in the development of our technology platform. Our technology and development expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our technology and development expenses. Historically, the majority of our technology and development costs have been expensed.

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Legal and Regulatory Expenses

Legal and regulatory expenses include professional fees incurred. Our legal and regulatory expenses exclude certain allocations of personnel and related expenses, occupancy expense as well as depreciation and amortization.

Acquisition and Integration Related Costs

Acquisition and integration related costs include investment banking, financing, legal, accounting, consultancy, integration and certain non-recurring transaction costs related to mergers and acquisitions.

General and Administrative Expenses

General and administrative expenses include personnel and related expenses of, and professional fees incurred by our executive, finance, product development, business development, operations and human resources departments. They also include stock-based compensation and most of the facilities costs including utilities and facilities maintenance. Our general and administrative expenses exclude any allocation of depreciation and amortization.

We expect our general and administrative expenses to increase for the foreseeable future as we continue to grow our business. However, we expect our general and administrative expenses to decrease as a percentage of our total revenue over the next several years. Our general and administrative expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization consists primarily of depreciation of fixed assets, amortization of capitalized software development costs and amortization of acquisition-related intangible assets.

Amortization of Warrants and Loss on Extinguishment of Debt

Amortization of warrants and loss on extinguishment of debt consists of the recognition of the fair value of warrants issued in connection with the July 2016 Mezzanine Term Loan, the write-off of origination and termination financing fees and related deferred cost in connection with SVB indebtedness extinguished in connection with our July 2017 and 2016 refinancings.

Interest Expense, Net

Interest expense, net consists of interest costs associated with our bank and other debt, net of interest earned on short-term marketable securities.

Foreign Currency

The functional currency for each of our foreign subsidiaries is the local currency. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the weighted average exchange rate during the period. Cumulative translation gains or losses are included in stockholders' equity as a component of accumulated other comprehensive income (loss). We have not utilized hedging strategies with respect to such foreign exchange exposure.

Income Tax Provision

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 NOLs. 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 have also recorded deferred tax liabilities arising principally from the difference between the treatment of

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goodwill between tax and financial accounting book purposes. We have provided a full valuation allowance at September 30, 2017 and December 31, 2016, due to the uncertainty surrounding the future realization of such assets.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the quarters and nine months ended September 30, 2017 and 2016 and the dollar and percentage change between the respective periods:

Quarters Ended
September 30,