

Teladoc, Inc.  
Form 10-Q  
November 02, 2015  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Form 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from                      to

Commission File Number: 001-37477

---

TELADOC, INC.

Edgar Filing: Teladoc, Inc. - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	04-3705970 (I.R.S. Employer Identification No.)
2 Manhattanville Road, Suite 203 Purchase, New York (Address of principal executive office)	10577 (Zip code)

(203) 635-2002

(Registrant's telephone number including area code)

---

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

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

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

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

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

As of October 31, 2015, the Registrant had 38,453,687 shares of Common Stock outstanding.



Table of Contents

TELADOC, INC.

QUARTERLY REPORT ON FORM 10-Q

For the period ended September 30, 2015

TABLE OF CONTENTS

	Page Number
<u>PART I</u> <u>Financial Information</u>	1
<u>Item 1.</u> <u>Financial Statements</u>	1
<u>Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014</u>	1
<u>Consolidated Statements of Operations (unaudited) for the quarter and nine months ended September 30, 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive (Loss) Income (unaudited) for the quarter and nine months ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) (unaudited) for the nine months ended September 30, 2015</u>	4
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2015 and 2014</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>Item 4.</u> <u>Controls and Procedures</u>	39
<u>PART II</u> <u>Other Information</u>	40
<u>Item 1.</u> <u>Legal Proceedings</u>	40
<u>Item 1A.</u> <u>Risk Factors</u>	40
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 6.</u> <u>Exhibits</u>	41
<u>Signatures</u>	42
<u>Exhibit Index</u>	43



Table of Contents

## PART I

## FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## TELADOC, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,064	\$ 46,436
Short-term investments	97,934	—
Accounts receivable, net of allowance of \$1,267 and \$1,785, respectively	9,370	6,839
Due from officer	—	253
Prepaid expenses and other current assets	2,547	1,122
Deferred taxes	33	12
Total current assets	163,948	54,662
Property and equipment, net	5,852	1,065
Goodwill	56,342	28,454
Intangible assets, net	16,854	7,530
Other assets	284	296
Total assets	\$ 243,280	\$ 92,007
Liabilities, convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 2,056	\$ 2,210
Accrued expenses and other current liabilities	8,045	3,918
Accrued compensation	5,956	3,358
Long-term bank and other debt-current portion	1,250	833
Total current liabilities	17,307	10,319
Other liabilities	6,517	2,767
Deferred taxes	1,056	494
Long term bank and other debt	25,863	25,196
Commitments and contingencies		
Convertible preferred stock, \$0.001 par value; 50,479,286 shares authorized as of September 30, 2015 and December 31, 2014; no shares issued and outstanding as of September 30, 2015 and 50,452,939 shares issued and	—	117,914

Edgar Filing: Teladoc, Inc. - Form 10-Q

outstanding as of December 31, 2014; liquidation preference of \$117,914 as of December 31, 2014		
Redeemable common stock, \$0.001 par value; no shares issued or outstanding as of September 30, 2015 and 113,294 shares issued and outstanding as of December 31, 2014	—	2,852
Stockholders' equity (deficit):		
Common stock, \$0.001 par value; 75,000,000 shares authorized as of September 30, 2015 and December 31, 2014; 38,441,130 shares and 2,037,999 shares issued and outstanding as of September 30, 2015 and December 31, 2014	38	2
Additional paid-in capital	307,998	4,953
Accumulated deficit	(115,503)	(72,490)
Accumulated other comprehensive income	4	—
Total stockholders' equity (deficit)	192,537	(67,535)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$ 243,280	\$ 92,007

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

TELADOC, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data, unaudited)

	Quarters Ended		Nine Months Ended September 30,	
	September 30, 2015	2014	2015	2014
Revenue	\$ 19,973	\$ 10,905	\$ 54,745	\$ 30,601
Cost of revenue	4,488	2,151	14,563	6,160
Gross profit	15,485	8,754	40,182	24,441
Operating expenses:				
Advertising and marketing	5,284	1,984	14,356	5,938
Sales	5,111	3,263	13,190	8,441
Technology and development	3,941	1,960	10,050	5,216
General and administrative	12,253	4,754	40,708	12,131
Depreciation and amortization	1,491	650	3,317	1,618
Loss from operations	(12,595)	(3,857)	(41,439)	(8,903)
Interest (expense), net	(489)	(510)	(1,699)	(914)
Net loss before taxes	(13,084)	(4,367)	(43,138)	(9,817)
Income tax provision (benefit)	162	162	(125)	227
Net loss	(13,246)	(4,529)	(43,013)	(10,044)
Preferred stock dividend	—	(834)	—	(2,920)
Accretion of preferred stock	—	(168)	—	(168)
Net loss available to common stockholders	\$ (13,246)	\$ (5,531)	\$ (43,013)	\$ (13,132)
Net loss per share, basic and diluted	\$ (0.37)	\$ (2.68)	\$ (3.15)	\$ (7.21)
Weighted-average shares used to compute basic and diluted net loss per share	36,099,556	2,060,075	13,668,420	1,821,832
Pro forma net loss per share, basic and diluted	\$ (0.35)		\$ (1.14)	
Weighted-average shares used to compute basic and diluted pro forma net loss per share	38,378,118		37,600,271	

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

TELADOC, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands, unaudited)

	Quarters Ended		Nine Months Ended September 30,	
	September 30, 2015	2014	2015	2014
Net loss	\$ (13,246)	\$ (4,529)	\$ (43,013)	\$ (10,044)
Other comprehensive income, net of tax				
Net change in unrealized gains on available-for-sale securities	4	—	4	—
Other comprehensive income, net of tax	4	—	4	—
Comprehensive loss	\$ (13,242)	\$ (4,529)	\$ (43,009)	\$ (10,044)

See accompanying notes to unaudited consolidated financial statements

Table of Contents

TELADOC, INC.

## CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK

## AND STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands, except share data, unaudited)

	Convertible Preferred Stock		Redeemable Common Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Debit)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
as of December 31,	50,452,939	\$ 117,914	113,294	\$ 2,852	2,037,999	\$ 2	\$ 4,953	\$ (72,490)	\$ —	\$ (6,000)
of	—	—	—	—	241,583	0	326	—	—	3,000
ions of	—	—	—	—	59,281	0	(0)	—	—	—
of	—	—	—	—	1,051,033	1	16,774	—	—	1,000
on of	—	—	—	—	9,487,500	9	163,109	—	—	1,000
on of, net of	—	—	—	—	25,450,440	26	117,888	—	—	1,000
14	(50,452,939)	(117,914)	—	—	113,294	0	2,852	—	—	2,000
costs of	—	—	(113,294)	(2,852)	—	—	2,096	—	—	2,000
on of	—	—	—	—	—	—	—	—	4	4
ble	—	—	—	—	—	—	—	(43,013)	—	(4,000)
stock	—	\$ —	—	\$ —	38,441,130	\$ 38	\$ 307,998	\$ (115,503)	\$ 4	\$ 1,000
on of	—	—	—	—	—	—	—	—	—	—
ble	—	—	—	—	—	—	—	—	—	—
stock	—	—	—	—	—	—	—	—	—	—
sed	—	—	—	—	—	—	—	—	—	—
ation	—	—	—	—	—	—	—	—	—	—
ensive	—	—	—	—	—	—	—	—	4	4
net of	—	—	—	—	—	—	—	—	—	—
as of	—	\$ —	—	\$ —	38,441,130	\$ 38	\$ 307,998	\$ (115,503)	\$ 4	\$ 1,000
er 30,	—	—	—	—	—	—	—	—	—	—

See accompanying notes to unaudited consolidated financial statements.

4

---

Table of Contents

TELADOC, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows used in operating activities:		
Net loss	\$ (43,013)	\$ (10,044)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,317	1,618
Allowance for doubtful accounts	1,418	766
Stock-based compensation	2,096	428
Deferred income taxes	(125)	227
Accretion of interest	241	67
Changes in operating assets and liabilities:		
Accounts receivable	(3,415)	(3,851)
Due from officer	253	—
Prepaid expenses and other current assets	(1,573)	(76)
Other assets	13	(83)
Accounts payable	(769)	508
Accrued expenses and other current liabilities	600	2,230
Accrued compensation	2,516	1,148
Other liabilities	4,064	(13)
Net cash used in operating activities	(34,377)	(7,075)
Cash flows used in investing activities:		
Purchase of property and equipment	(5,481)	(736)
Purchase of internal software	(1,174)	(495)
Purchase of marketable securities	(100,556)	—
Proceeds from the liquidation/maturity of marketable securities	2,509	—
Acquisition of business, net of cash acquired	(17,767)	(13,844)
Net cash used in investing activities	(122,469)	(15,075)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	326	646
Proceeds from issuance of convertible preferred stock	—	50,082
Proceeds from borrowing under bank and other debt	6,800	19,700
Repayment of bank and other debt	(5,770)	—
Proceeds from issuance of common stock under IPO	163,118	—
Net cash provided by financing activities	164,474	70,428

Edgar Filing: Teladoc, Inc. - Form 10-Q

Net decrease in cash and cash equivalents	7,628	48,278
Cash and cash equivalents at beginning of year	46,436	3,212
Cash and cash equivalents at end of year	\$ 54,064	\$ 51,490
Interest paid:	\$ 1,368	\$ 534

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Description of Business

Teladoc, Inc. was incorporated in the State of Texas in June 2002 and changed its state of incorporation to the State of Delaware in October 2008. Unless the context otherwise requires, Teladoc, Inc., together with its subsidiaries, is referred to herein as “Teladoc” or the “Company”. The Company’s principal executive offices are located in Purchase, New York and Dallas, Texas. Teladoc is the nation’s largest telehealth company.

On July 7, 2015, Teladoc closed on its initial public offering (the “IPO”) in which the Company issued and sold 9,487,500 shares of common stock, including the exercise of an underwriter option to purchase additional shares, at an issuance price of \$19.00 per share. The Company received net proceeds of \$163.1 million after deducting underwriting discounts and commissions of \$12.6 million as well as other offering expenses of \$4.5 million. On July 7, 2015, all of the Company’s then-outstanding convertible preferred stock converted into an aggregate of 25.5 million shares of common stock and all of the Company’s redeemable common stock converted into 113,294 shares of common stock.

The Company completed the acquisitions of Consult A Doctor, Inc. (“CADR”) in 2013, AmeriDoc, LLC (“AmeriDoc”) in 2014, Compile, Inc. d/b/a BetterHelp (“BetterHelp”) in 2015 and Stat Health Services Inc. (“StatDoc”) in 2015, four companies engaged in telehealth activities similar to those of Teladoc. Additionally in 2015, the Company acquired certain assets from Gateway to Provider Access, Inc. (“Gateway”) which is engaged in the marketing, selling and administering the Company’s services through other third parties. Upon the effective date of each respective merger, each entity merged with and into Teladoc.

Note 2. Basis of Presentation and Principles of Consolidation

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. In the opinion of the Company’s management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. The interim results for the quarter and nine months ended September 30, 2015 are not necessarily indicative of results for the full 2015 fiscal year or any other future interim periods. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on June 30, 2015 (the “Prospectus”).

The unaudited consolidated financial statements include the results of Teladoc, a professional association and six professional corporations: Teladoc Physicians, P.A., Teladoc Physicians, P.C. formed and operated in Alaska; Teladoc

Physicians, P.C. formed and operated in California; Teladoc Physicians, P.C. formed and operated in Colorado; Teladoc Physicians, P.C. formed and operated in Michigan; Teladoc Physicians, P.C. formed and operated in New Jersey; and Teladoc Physicians, P.C. formed and operated in New York (collectively, the “Association”).

Teladoc Physicians, P.A. is party to a Services Agreement by and among it and the six professional corporations noted above pursuant to which each professional corporation provides services to Teladoc Physicians, P.A. Each professional corporation is established pursuant to the requirements of its respective domestic jurisdiction governing the corporate practice of medicine.

The Company holds a variable interest in the Association which contracts with physicians and other health professionals in order to provide services to Teladoc. The Association is considered a variable interest entity (“VIE”) since it does not have sufficient equity to finance its activities without additional subordinated financial support. An enterprise having a controlling financial interest in a VIE, must consolidate the VIE if it has both power and benefits—that is, it has (1) the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance (power) and (2) the obligation to absorb losses of the VIE that potentially could be significant to the VIE or

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). The Company has the power and rights to control all activities of the Association and funds and absorbs all losses of the VIE.

Total revenue and net loss for the VIE were \$2.9 million and \$(1.0) million, respectively, for the quarter ended September 30, 2015 and \$1.3 million and \$(1.0) million, respectively, for the quarter ended September 30, 2014. Total revenue and net loss for the VIE were \$9.3 million and \$(4.9) million, respectively, for the nine months ended September 30, 2015 and \$4.2 million and \$(2.3) million, respectively, for the nine months ended September 30, 2014. The VIE's total assets were \$1.6 million and \$2.1 million at September 30, 2015 and December 31, 2014, respectively. Total liabilities for the VIE were \$15.6 million and \$11.2 million at September 30, 2015 and December 31, 2014, respectively. The VIE's total stockholders' deficit was \$14.0 million and \$9.1 million at September 30, 2015 and December 31, 2014, respectively.

All intercompany transactions and balances have been eliminated.

There have been no changes to the significant accounting policies described in the Prospectus that have had a material impact on the consolidated financial statements and related notes.

Business Combinations

The Company accounts for its business combinations using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities assumed by the Company to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of (i) the total costs of acquisition over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions that the Company believes are necessary to consider to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and the disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic and political factors, and changes in the Company's business environment; therefore, actual results could differ from these estimates. Accordingly, the accounting estimates used in the preparation of the Company's consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment evolves.

Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are



disclosed in the notes to the consolidated financial statements. Significant estimates and assumptions by management affect the allowance for doubtful accounts, the carrying value of long lived assets (including goodwill and intangible assets), the carrying value, capitalization and amortization of software development costs, client performance guarantees, the calculation of a contingent liability in connection with an earn out, the provision for income taxes and related deferred tax accounts, certain accrued liabilities, revenue recognition, contingencies, litigation and related legal accruals and the value attributed to employee stock options and other stock based awards.

#### Net Loss Per Share

#### Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock of the Company outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock of the Company, including the Preferred Stock and outstanding stock options and

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

warrants, to the extent dilutive. As a result of the Company's net loss position, basic and diluted net loss per share was the same for each period presented as all preferred stock, warrants and options would be anti-dilutive.

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net loss	\$ (13,246)	\$ (4,529)	\$ (43,013)	\$ (10,044)
Preferred stock dividends	—	(834)	—	(2,920)
Accretion of preferred stock	—	(168)	—	(168)
Net loss available to common stockholders	\$ (13,246)	\$ (5,531)	\$ (43,013)	\$ (13,132)
Weighted-average shares used to compute basic and diluted net loss per share	36,100	2,060	13,668	1,822
Net loss per share, basic and diluted	\$ (0.37)	\$ (2.68)	\$ (3.15)	\$ (7.21)

## Unaudited Pro Forma Net Loss per Share

The holders of a majority of the outstanding shares of the Preferred Stock (voting as a single class on an as-converted basis, including holders of at least a majority of the outstanding shares of Series F Preferred Stock) approved the automatic conversion of the Preferred Stock into common stock of the Company upon the closing of an initial public offering of the common stock of the Company at a per share price of at least \$12.00 (prior to underwriting discounts and commissions) that results in aggregate proceeds to the Company of at least \$75.0 million (net of underwriting discounts and commissions). Accordingly on July 7, 2015, all of the Company's then outstanding preferred stock converted into common stock.

Pro forma basic and diluted net loss per share were computed to give effect to the IPO in which the Company issued and sold 9,487,500 shares of common stock and the conversion of the Preferred Stock into common stock of the Company using the if converted method as though the conversion and reclassification had occurred as of the beginning of the first period presented or the original date of issuance, if later.

The following table presents the calculation of basic and diluted pro forma net loss per share (in thousands, except net loss per share data):

Quarter Ended	Nine Months Ended
September 30,	September 30, 2015
2015	

Edgar Filing: Teladoc, Inc. - Form 10-Q

Net loss available to common stockholders	\$ (13,246)	\$ (43,013)
Pro forma net loss per share, basic and diluted	\$ (0.35)	\$ (1.14)
Pro forma net loss per share - weighted average shares	38,378	37,600
Basic net loss per share - weighted average shares	36,100	13,668
Shares sold in IPO	618	6,499
Preferred conversion	1,660	17,433
Pro forma net loss per share - weighted average shares	38,378	37,600

Segment Information

The Company's chief operating decision maker, its Chief Executive Officer ("CEO"), reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating its financial performance. Accordingly, the Company has determined that it operates in a single reporting segment—health services.

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

The Company offers two types of subscription access revenue contracts: (i) contracts that provide for a fixed monthly charge for access and unlimited visits per Member, as defined below, and (ii) contracts that provide for a fixed monthly charge for access and a contractually defined cost for each visit. Any visit fee revenue that is not included in the subscription access revenue is recognized when the service has been provided to the Member.

The Company recognizes a substantial portion of its revenue from contracts that provide employers and health plans and consumers (“Clients”) with subscription access to the Company’s network of physicians and other healthcare professionals (“Providers”) on a subscription basis for a fixed monthly fee which entitles the Client and the Client’s employees and their beneficiaries (“Members”) to unlimited consultations (“visits”). The commercial contracts are generally for a one-year term and have an automatic renewal feature for additional years.

The Company commences revenue recognition for the subscription access service on the date that the services are made available to the Client and its Members, which is considered the implementation date, provided all of the following criteria are met:

- there is an executed subscription agreement;
- the Member has access to the service;
- collection of the fees is reasonably assured; and
- the amount of fees to be paid by the Client and Member is fixed and determinable.

Subscription Access Revenue

Subscription access revenue recognition commences on the date that the Company’s services are made available to the Client, which is considered the implementation date, provided all of the other criteria described above are met.

Revenue is recognized over the term of the Client contract and is based on the terms in the Client contracts, which can provide for a variable periodic fee based upon the actual number of Members.

Revenue From Visit Fees

Revenue from visits is comprised of all revenue that is earned in connection with the completion of a visit. The Company recognizes revenue as the visits are completed.

The Company’s contracts do not generally contain refund provisions for fees earned related to services performed. However, certain of the Company’s contracts include client performance guarantees that are based upon minimum Member utilization and guarantees by the Company for specific service level performance of the Company’s services. If client performance guarantees are not being realized, the Company deducts from revenue an estimate of the amount that will be due at the end of the respective client’s contractual period. The Company issued credits amounting to approximately \$0.2 million and \$0.1 million for the quarters ended September 30, 2015 and 2014, respectively, and \$0.4 million and \$0.3 million for the nine months ended September 30, 2015 and 2014, respectively.

### Cash and Cash Equivalents

Cash includes currency on hand and time deposits with banks or other financial institutions. Cash equivalents represent highly liquid investments including money market funds and other marketable securities with original maturities of three months or less when purchased.

### Short-Term Investments

The Company holds short-term investments in marketable securities primarily consist of corporate bonds,

9

---

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

commercial paper and asset backed securities with maturities of less than one year. These short-term investments are classified as available-for-sale and are carried at fair value with unrealized gains (losses) recorded as a separate component of stockholders' equity in accumulated other comprehensive income. Any realized gains (losses) are recognized in the consolidated statements of operations upon disposition of the securities.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. The Company regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice and the collection history of each customer to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectable are charged against the allowance for doubtful accounts when identified.

Property and Equipment

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

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

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

Internal Use Software

Internal use software is included in intangible assets and is amortized on a straight line basis over 3 years.

For development costs related to software development tools that enable the Company's Members and Providers to interact, the Company capitalizes costs incurred during the application development stage. Costs related to minor upgrades, minor enhancements and maintenance activities are expensed as incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment annually on October 1 or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company's impairment tests are based on a single operating segment and reporting unit structure. The goodwill impairment test involves a two step process. The first step involves comparing the fair value of the Company's reporting unit to its

carrying value, including goodwill. The fair value of the reporting unit is estimated using a discounted cash flows analysis. If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

The Company's annual goodwill impairment test resulted in no impairment charges in any of the periods presented in the consolidated financial statements.

Other intangible assets resulted from business acquisitions and include Client relationships, non compete agreements, software and trademarks. Client relationships are amortized over a period 10 years for CADR, AmeriDoc and StatDoc, 6 years for Gateway, and 2 years for BetterHelp, in relation to expected future cash flows. Non compete agreements are amortized over a period of 3 to 5 years using the straight line method, software is amortized over a

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

period of 5 years using the straight-line method and trademarks are amortized over a period of 3 years using the straight line method.

Stock Based Compensation

All stock based compensation is measured based on the grant date fair value of the awards and recognized on a straight line basis 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 employee stock options using the Black Scholes option pricing model.

Income Taxes

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

The Company assesses 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.

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under GAAP. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services



in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the revised guidance requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2018; early adoption is allowed. The revised guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet determined the impact the revised guidance will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, requiring that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company is currently evaluating the potential impact of this guidance on its financial disclosures and results.

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern. This guidance addresses management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management’s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 is effective for interim or annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect to early adopt this guidance and is currently evaluating the impact of the adoption of this guidance on its financial disclosures and results.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The revised guidance is effective for the Company beginning in the quarter ending March 31, 2016 and is required to be applied retrospectively. Early adoption is permitted. The Company is currently evaluating the potential impact of this guidance on its financial disclosures and results.

Note 3. Business Acquisitions

On July 31, 2015, the Company acquired certain assets from Gateway for \$1.5 million, subject to post-closing working capital adjustments as defined in the purchase agreement. Gateway is engaged in the marketing, selling and administering the Company’s services through other third parties and as a result, the price in excess of the net assets acquired (less than \$0.1 million) was allocated to client relationships. The acquisition transaction costs were less than \$0.1 million. The acquisition was considered an asset acquisition for tax purposes.

On June 17, 2015, the Company completed the acquisition of StatDoc through a merger in which StatDoc became a wholly-owned subsidiary of the Company. The aggregate merger consideration paid by the Company in connection with the acquisition was \$30.1 million, which was comprised of \$13.3 million of cash and \$16.8 million of the Company’s common stock (or 1,051,033 shares), subject to post-closing working capital adjustments as defined in the Agreement and Plan of Merger governing the acquisition. During the quarter ended September 30, 2015, the post-closing working capital adjustment was finalized favorably to the Company in the amount of less than \$0.1 million. Fair value of the common stock was determined based on market data from similar healthcare enterprises. StatDoc is a telemedicine provider, focused on managed care, health system and self-insured clients. The acquisition was considered a stock acquisition for tax purposes and as such, the goodwill resulting from this acquisition is not tax deductible. The total associated transaction costs of the acquisition were \$0.3 million. Since the acquisition, StatDoc has been integrated with the Company’s existing business.

On January 23, 2015, the Company completed the acquisition of BetterHelp, through a merger in which BetterHelp became a wholly owned subsidiary of the Company. The merger consideration paid by the Company in connection

with this acquisition consisted of (i) \$3.3 million net of cash acquired and (ii) earn out payments equal to 15% of the annual net revenue of the BetterHelp business for three years following closing. The Company computed the value of these future payments from internally produced revenue projections and recorded a contingent liability in the amount of \$2.4 million which is considered as additional purchase consideration. The Company also issued an unsecured, subordinated promissory note in the amount of \$1.0 million, with all principal and interest at a rate of 5% per annum being payable on the third anniversary of the closing to the selling shareholder and another executive of BetterHelp. If the employment of the promissory note holders is terminated, then they forfeit their right to receive the promissory note. As such, the Company has determined the promissory note to be compensatory and is accruing the expense over the service term. BetterHelp was acquired to help the Company expand its operations in the direct to consumer behavioral health sector. The acquisition was considered a stock acquisition for tax purposes and as such, the goodwill resulting from this acquisition is not tax deductible. The total associated transaction costs of the acquisition were \$0.1 million.

On May 1, 2014, the Company completed the acquisition of AmeriDoc, a company engaged in telehealth activities similar to Teladoc, through the purchase of 100% of AmeriDoc's outstanding members' interests for

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

\$17.2 million, net of cash acquired, including a \$3.5 million promissory note and adjustments for working capital in the amount of \$0.2 million. AmeriDoc was acquired to help the Company expand its initial investment in the local and regional insurance broker markets to reach clients that previously did not have access to the Company's services. Upon the effective date of the merger, AmeriDoc merged with and into Teladoc. The acquisition was considered an asset acquisition for tax purposes and as such, the goodwill resulting from this acquisition is tax deductible. The total associated transaction costs of the acquisition were \$0.2 million.

The acquisitions described above were accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and the liabilities assumed be recognized at their fair values as of the acquisition date. The results of the acquisitions were included within the consolidated financial statements commencing on the respective aforementioned acquisition dates.

The following table summarizes the fair value estimates of the assets acquired and liabilities assumed at each acquisition date. The Company, with the assistance of a third-party valuation expert, estimated the fair value of the acquired tangible and intangible assets.

Identifiable assets acquired and liabilities assumed (in thousands):

	StatDoc	BetterHelp	AmeriDoc
Purchase price	\$ 29,991	\$ 5,749	\$ 17,214
Less:			
Cash	360	89	57
Accounts receivable	419	11	458
Other assets	70	4	18
Client relationships	3,220	141	2,980
Non-compete agreements	1,070	910	520
Internal software	2,960	780	—
Trademarks	—	140	—
Accounts payable	(609)	(6)	(43)
Deferred tax	—	(666)	—
Other liabilities	(700)	(340)	(257)
Goodwill	\$ 23,201	\$ 4,686	\$ 13,481

The amount allocated to goodwill reflects the benefits Teladoc expects to realize from the growth of the respective acquisitions operations.

The Company's unaudited pro forma revenue and net loss for the quarters ended September 30, 2014 and 2015 and for the nine months ended September 30, 2014 and 2015 below have been prepared as if AmeriDoc, BetterHelp and StatDoc had been purchased on January 1, 2014. Unaudited pro forma financial statement results including the results of Gateway would not differ materially from the Company's historically reported financial statement results.

(in thousands)	Pro Forma Quarters Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 19,973	\$ 11,884	\$ 56,569	\$ 34,814
Net loss	\$ (13,246)	\$ (5,627)	\$ (46,056)	\$ (15,373)

The pro forma financial information above is not necessarily indicative of what the Company's consolidated results actually would have been if the acquisitions had been completed at the beginning of the respective periods. In addition, the pro forma information above does not attempt to project the Company's future results.

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Note 4. Intangible Assets, Net

Intangible assets, net consist of the following (in thousands):

	Gross Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Useful Life
September 30, 2015				
Client relationships	\$ 11,651	\$ (2,755)	\$ 8,896	8.1
Non-compete agreements	3,410	(1,092)	2,318	2.5
Trademarks	140	(32)	108	2.3
Software	6,798	(1,266)	5,532	3.8
Intangible assets, net	\$ 21,999	\$ (5,145)	\$ 16,854	
December 31, 2014				
Client relationships	\$ 6,790	\$ (1,565)	\$ 5,225	8.5
Non-compete agreements	1,430	(474)	956	2.9
Software	1,885	(536)	1,349	2.8
Intangible assets, net	\$ 10,105	\$ (2,575)	\$ 7,530	

Amortization expense for intangible assets was \$1.2 million and \$0.6 million for the quarters ended September 30, 2015 and 2014, respectively and \$2.6 million and \$1.4 million for the nine months ended September 30, 2015 and 2014, respectively.

Periodic amortization that will be charged to expense over the remaining life of the intangible assets as of September 30, 2015 is as follows (in thousands):

Years Ending December 31,	
2015 (October 1st to December 31st)	\$ 1,180
2016	4,307
2017	3,741
2018	2,694
2019	1,949
Thereafter	2,983
	\$ 16,854

## Note 5. Goodwill

Goodwill consists of the following (in thousands):

	As of September 30, 2015	As of December 31, 2014
Beginning balance	\$ 28,454	\$ 14,786
Additions associated with acquisitions	27,888	13,668
Goodwill	\$ 56,342	\$ 28,454

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## Note 6. Accrued Expenses and Other Current Liabilities

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

	As of September 30, 2015	As of December 31, 2014
Professional fees	\$ 1,532	\$ 963
Consulting fees	1,198	1,118
Legal fees	1,384	389
Contingent liability payments earned	432	—
Lease abandonment	383	—
Other	3,116	1,448
Total	\$ 8,045	\$ 3,918

## Note 7. Fair Value Measurements

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

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

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

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

The Company measures its cash equivalents at fair value on a recurring basis. The Company classifies its cash equivalents within Level 1 and Level 2 because they are valued using observable inputs that reflect quoted prices for identical assets in active markets and quoted prices directly or indirectly in active market.

The Company measures its short-term investments at fair value on a recurring basis and classifies such as Level 2. They are valued using observable inputs that reflect quoted prices directly or indirectly in active market.

The Company measures its contingent consideration at fair value on a recurring basis and classifies such as Level 3. The Company estimates the fair value of contingent consideration as the present value of the expected contingent payments, determined using the weighted probability of the possible payments.



Edgar Filing: Teladoc, Inc. - Form 10-Q

The Company's cash and cash equivalents and short-term investments cost basis approximate the fair value.

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis using the above input categories (in thousands):

	September 30, 2015			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 49,901	\$ 4,163	\$ —	\$ 54,064
Short-term investments	\$ —	\$ 97,934	\$ —	\$ 97,934
Contingent liability	\$ —	\$ —	\$ 2,608	\$ 2,608

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 46,436	\$ —	\$ —	\$ 46,436

There were no transfers between fair value measurement levels during the nine months ended September 30, 2015.

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:

Fair value at inception	\$ 2,391
Payments earned	(432)
Change in fair value	649
Fair value at September 30, 2015	\$ 2,608

## Note 8. Long Term Bank and Other Debt

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

	As of September 30, 2015	As of December 31, 2014
SVB Revolving Advance facility	\$ 6,500	\$ 4,700
SVB Term Loan facility	4,479	5,000
SVB Mezzanine Term Loan less debt discount of \$116 and \$171 for warrants	12,884	12,829
Subordinated Promissory Note	3,250	3,500
Total	27,113	26,029
Less: current portion	(1,250)	(833)
Long term bank and other debt	\$ 25,863	\$ 25,196

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

In May 2014, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank ("SVB") that provided for a Revolving Advance facility and a Term Loan facility (the "Amended Term Loan facility"). The Revolving Advance facility provides for borrowings up to \$12.0 million based on 300% of the Company's monthly recurring revenue, as defined therein. Borrowings under the Revolving Advance facility were

\$4.7 million at December 31, 2014, and the facility carries interest at a rate of 0.75% above the prime rate per annum and matures in April 2016. Interest payments are payable monthly in arrears. The Company entered into an amendment to the Revolving Advance Facility in March 2015 that extended its maturity to April 2017. In May 2015, the Company increased the borrowings to \$11.5 million. On July 15, 2015, the Company reduced its indebtedness under the Revolving Advance facility with a \$5.0 million principal repayment.

The Amended Term Loan facility provides for borrowings up to \$5.0 million. As of September 30, 2015 and December 31, 2014, the Company had utilized the total \$5.0 million available under this facility. The Amended Term Loan facility carries interest at a rate of 1.00% above the prime rate per annum. Interest payments are payable monthly in arrears. Payments on the Amended Term Loan facility commenced in May 2015 and continue with 47 equal monthly payments of principal plus interest.

In May 2014, the Company entered into a Subordinated Loan and Security Agreement with SVB that provided for Mezzanine Term Loans totaling \$13.0 million. The total \$13.0 million drawdown of the mezzanine facility was completed in September 2014. The mezzanine facility carries interest at a rate of 10.00% per annum and matures in May 2017. Interest payments are payable monthly in arrears. In connection with entry into the mezzanine facility, the Company granted two affiliates of SVB warrants to purchase an aggregate of 131,239 shares of common stock of the

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Company at an exercise price of \$2.95 per share. The warrants are immediately exercisable and have a 10 year term. See Note 13, “Common Stock and Stockholders’ Equity (Deficit)”, for more information. The Company also granted SVB a security interest in significantly all of the Company’s assets. The mezzanine facility has been used to fund the expansion of the Company’s business.

The Company incurred approximately \$0.2 million of loan origination costs in connection with the above facilities and amortized approximately \$18,000 during both of the quarters ended September 30, 2015 and 2014, and \$54,000 and \$24,000 during the nine months ended September 30, 2015 and 2014, respectively.

Effective with the purchase of AmeriDoc, 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 carries 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 Promissory Note to April 30, 2017. The Company repaid \$0.2 million of this note in July 2015.

The Company was in compliance with all debt covenants at September 30, 2015 and December 31, 2014.

Note 9. Related Party Transaction

In May 2013, the Company issued a loan to an officer of the Company in the amount of \$0.3 million. This loan was repaid in full to the Company during February 2015. This was a non cash transaction, whereby the loan proceeds were used to exercise options to purchase 312,474 shares of common stock options of the Company at an exercise price of \$0.80 per share. The loan carried an interest rate of 2% per annum and was due and payable upon the earlier of (i) May 13, 2017 and (ii) the occurrence of a “Change of Control” as defined in the promissory note evidencing the loan. The officer was required to make monthly interest payments. At December 31, 2014, the balance of the loan was \$0.3 million.

Note 10. Lease Abandonment Charge

In connection with the Company’s abandonment of facilities in Dallas, Texas and Greenwich, Connecticut, the Company incurred \$0.0 million and \$0.7 million, in lease abandonment charges during the quarter and nine months ended September 30, 2015, respectively, included within general and administrative expenses in the consolidated statement of operations. There were no lease abandonments in 2014. The following table details the associated liability. The current portion of the liability of \$0.4 million was recorded in accrued expenses and other current liabilities and the non-current portion of the liability of \$0.1 million was recorded in other liabilities in the consolidated balance sheet (in thousands):

Balance January 1, 2015	\$ —
Charged to expense	716
Paid or settled	(211)
Balance September 30, 2015	\$ 505

Note 11. Commitments and Contingencies

Legal Matters

The Company is subject to legal proceedings, claims and litigation arising in the ordinary course of its business.

Teladoc is plaintiff in two lawsuits in the Texas courts against the Texas Medical Board (the “TMB”). In the first suit, *Teladoc v. TMB and Leshikar*, on December 31, 2014, the Austin Court of Appeals granted Teladoc’s request for summary judgment, invalidating the TMB’s prior assertion that Teladoc’s doctors do not form “proper professional relationships” with Teladoc’s members in the course of telehealth consultations such as would support the prescription of medications. The TMB has filed a petition for review with the Texas Supreme Court to ask that Court if it will allow the TMB to appeal the Court of Appeals’s decision. In the second suit, *Teladoc et al. v. TMB et al.*, the United States

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

District Court for the Western District of Texas, Austin Division, held a hearing on May 22, 2015 on Teladoc's motion for preliminary injunction of the rule amendments the TMB adopted on April 10, 2015 that seek to effect substantively identical restrictions as at issue in the prior lawsuit. On May 29, 2015, the court granted Teladoc's request for a preliminary injunction of the rule amendments, pending ultimate trial on the amendments' validity. The Court has set a trial date of February 13, 2017. On July 30, 2015, the TMB filed a motion to dismiss the suit. No hearing on this motion to dismiss has been set. Given the nature and status of these lawsuits, the Company cannot yet determine the amount or reasonable range of a potential loss, if any, though it does not believe a material loss is probable in connection with any of the lawsuits.

Business in the State of Texas accounted for approximately \$9.3 million (or 17% ) and \$10.0 million (or 23%) of the Company's consolidated revenue for the nine months ended September 30, 2015 and during the year ended December 31, 2014, respectively. If the TMB's revisions go into effect as written and Teladoc is unable to adapt its business model in compliance with the TMB rule, 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.

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 accrual estimates 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, 2015, 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, 2015 any reasonably possible losses in excess of the amounts accrued would be material to the unaudited consolidated financial statements.

## Note 12. Convertible Preferred Stock (the "Preferred Stock")

On July 7, 2015, all of the Company's then-outstanding convertible preferred stock converted into an aggregate of 25.5 million shares of common stock.

The Preferred Stock consists of the following:

	Shares	Shares	Common	Liquidation
December 31, 2014	Authorized	Outstanding	Shares Upon	Preference
Series A	418,634	418,634	Conversion	\$ 5,232,925
Series A 1	53,957	53,957	282,689	918,955

Edgar Filing: Teladoc, Inc. - Form 10-Q

Series B	263,839	263,839	1,790,050	5,768,378
Series C 1	18,287,483	18,267,759	7,991,497	15,253,579
Series D	12,339,204	12,339,204	5,397,962	18,600,005
Series E	6,227,169	6,227,169	2,724,165	15,000,005
Series F	12,889,000	12,882,377	5,635,580	57,139,783
	50,479,286	50,452,939	25,450,441	\$ 117,913,630

As of December 31, 2014, the significant terms applicable to the Series A through Series F Preferred Stock were as follows:

Dividend Rights

Prior to the issuance of the Series F Preferred Stock, the Series A—E Preferred Stock accrued cumulative dividends at the per annum rate of 7.5% of the respective original purchase price (as previously adjusted for a reverse stock split and, with respect to the Series A, A 1 and B Preferred Stock, anti dilution protection) for each such series of Preferred Stock. Such dividends were payable when, as and if declared by the Company's board of directors, but prior and in preference to any dividend on the common stock of the Company. In connection with the issuance of the Series F Preferred Stock, all such accrued and accumulated dividends (which totaled approximately \$13.8 million at August 31,

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2014) were converted into Series F Preferred Stock at a rate of \$0.50 of Series F Preferred Stock per \$1.00 in accrued dividends, resulting in the issuance of approximately 1,554,000 shares of Series F Preferred Stock on September 10, 2014. There are no longer any accrued or unpaid dividends on the Preferred Stock, and no such dividends are required to accrue or be declared by the Company.

## Conversion Rights

Each share of Preferred Stock is convertible, at any time and at the option of the holder of such share, into shares of the common stock of the Company, at the following ratios (subject to adjustment as described below):

Series of Preferred Stock	Original Issue Price	Conversion Price	Number of Shares of Common Stock Issued for each Preferred Share Upon Conversion (= Original Issue Price/ Conversion Price)
Series F	\$ 4.4355	\$ 10.1391	0.4375
Series E	\$ 2.4088	\$ 5.5063	0.4375
Series D	\$ 1.5074	\$ 3.4458	0.4375
Series C-1	\$ 0.835	\$ 1.909	0.4375
Series B	\$ 12.95	\$ 1.909	6.7846
Series A-1	\$ 10.00	\$ 1.909	5.2391
Series A	\$ 7.425	\$ 1.909	3.8900

The holders of a majority of the outstanding shares of the Preferred Stock (voting as a single class on an as-converted basis, including holders of at least a majority of the outstanding shares of Series F Preferred Stock) approved the automatic conversion of the Preferred Stock into common stock of the Company upon the closing of an initial public offering of the common stock of the Company at a per share price of at least \$12.00 (prior to underwriting discounts and commissions) that results in aggregate proceeds to the Company of at least \$75.0 million (net of underwriting discounts and commissions).

Subject to limited exceptions, the conversion price for each series of the Preferred Stock was subject to an adjustment to reduce dilution in the event that the Company issued additional equity securities at a purchase price less than the applicable conversion price for such series of the Preferred Stock.

## Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the assets of the Company available for distribution will be distributed to the Company's stockholders in the following order of priority:

- 1.



First, the holders of Series F Preferred Stock will receive an amount per share equal to the sum of (i) the original issue price for the Series F Preferred Stock (\$4.4355), plus (ii) any declared but unpaid dividends on the Series F Preferred Stock (the "Series F Liquidation Amount").

2. Second, the holders of Series E, D and C 1 Preferred Stock (pari passu) will receive an amount per share equal to the sum of (i) the original issue price for the Series E Preferred Stock (\$2.4088), Series D Preferred Stock (\$1.507391) or Series C 1 Preferred Stock (\$0.835), as applicable, plus (ii) any declared but unpaid dividends on the Series E Preferred Stock, Series D Preferred Stock or Series C 1 Preferred Stock, as applicable (the "Series E Liquidation Amount," the "Series D Liquidation Amount," and the "Series C 1 Liquidation Amount," respectively).
3. Third, the holders Series B Preferred Stock will receive an amount per share equal to the sum of (i) 1.23 times the original issue price (adjusted for a prior reverse stock split and anti dilution protection) for the Series B Preferred Stock (\$17.775), plus (ii) any declared but unpaid dividends on the Series B Preferred Stock (the "Series B Liquidation Amount").
4. Fourth, the holders of Series A and A 1 Preferred Stock (pari passu) will receive an amount per share equal to the greater of (x) the sum of (i) 1.25 times the original issue price (adjusted for a prior reverse stock split and anti dilution protection) for the Series A Preferred Stock (\$10.00) or Series A 1

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock (\$13.625), as applicable, plus (ii) any declared but unpaid dividends on the Series A Preferred Stock or Series A-1 Preferred Stock, as applicable, and (y) the aggregate amount that would have been payable in respect of number of common stock issued upon conversion of Series A and Series A-1 immediately prior to liquidation, dissolution or winding up of the Company, the “Series A Liquidation Amount” and the “Series A-1 Liquidation Amount,” respectively).

5. Following the payment in full of the amounts described above, the remaining assets of the Company will be distributed to the holders of Series F, E, D, C-1 and B Preferred Stock and common stock of the Company (but not Series A or A-1 Preferred Stock) pro rata based on the number of such shares held by each stockholder on an as converted to common stock basis (as applicable, the “Participation Amount”). Notwithstanding the above:
- a. If the aggregate of the Series F Liquidation Amount and the Participation Amount payable with respect to the Series F Preferred Stock exceeds the sum of (i) 1.5 times the original issue price for the Series F Preferred Stock (\$4.4355), plus (ii) any declared but unpaid dividends thereon (collectively, the “Maximum Series F Liquidation Amount”), then holders of Series F Preferred Stock will instead receive the greater of (x) the Maximum Series F Liquidation Amount, or (y) the amount that such holders would receive if all shares of Series F Preferred Stock had been converted into common stock of the Company immediately prior to the liquidation, dissolution or winding up of the Company.
  - b. If the aggregate of the Series E Liquidation Amount and the Participation Amount payable with respect to the Series E Preferred Stock exceeds the sum of (i) 3 times the original issue price for the Series E Preferred Stock (\$2.4088), plus (ii) any declared but unpaid dividends thereon (collectively, the “Maximum Series E Liquidation Amount”), then holders of Series E Preferred Stock will instead receive the greater of (x) the Maximum Series E Liquidation Amount, or (y) the amount that such holders would receive if all shares of Series E Preferred Stock had been converted into common stock of the Company immediately prior to the liquidation, dissolution or winding up of the Company.

Subject to limited exceptions, unless waived by holders of at least (i) a majority of the outstanding shares of Preferred Stock (voting together as a single class on an as converted to common stock basis), and (ii) a majority of the outstanding Series F Preferred Stock, a merger, combination, consolidation, or sale of voting control of the Company or sale or transfer of substantially all of the assets of the Company, in each case in which the Company’s stockholders do not own a majority of the voting shares of the surviving or acquiring corporation, will be deemed to be a liquidation event. If such deemed liquidation event is structured as a merger, combination, consolidation or sale of voting control, the proceeds of such transaction must be distributed to the stockholders in the order described above. If, alternatively, the deemed liquidation event is structured as a sale of assets, and the Company does not dissolve within 90 days after such deemed liquidation event, the holders of Preferred Stock may elect (pursuant to a procedure and in an order of priority similar to that described under “Redemption” below) to have their shares redeemed by the Company in exchange applicable Liquidation Amount described above.

Protective Provisions

Subject to limited exceptions and certain additional restrictions, so long as at least three million shares of Preferred Stock remain outstanding, the Company may not do any of the following without the consent of holders of a majority of the Preferred Stock (voting together as a single class on an as converted to common stock basis):

- a. increase the authorized number of shares of any series of Preferred Stock or common stock of the Company;
- b. issue or obligate itself to issue shares of any additional class or series of capital stock unless the same ranks junior to the existing Preferred Stock;

20

---

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

- c. effect any transaction or series of related transactions resulting in the consummation of a merger, combination, consolidation or other reorganization of the Company with or into any third party, the transfer of all or substantially all of the assets of the Company to a third party, or any other change of control or recapitalization;
- d. subject to limited exceptions, purchase or redeem any shares of capital stock of the Company;
- e. amend, alter or repeal any provision of the Certificate of Incorporation or the Bylaws of the Company;
- f. sell or otherwise dispose of any of the Company's or its subsidiaries' material assets, other than (A) in the ordinary course of business or (B) to wholly owned subsidiaries of the Company or its subsidiaries;
- g. liquidate, dissolve or wind up the business and affairs of the Company;
- h. pay or declare any dividend other than as set forth in the Certificate of Incorporation of the Company;
- i. increase the number of shares of common stock or stock options of the Company authorized to be issued to employees or directors of, or consultants or advisors to, the Company or any of its subsidiaries;
- j. change the size of the Company's board of directors;
- k. alter the rights or preferences of the Preferred Stock;
- l. issue any shares of Preferred Stock;
- m. subject to limited exceptions, issue any shares of common stock of the Company other than issuances approved by the Company's board of directors (including the approval of the director appointed by the holders of Series D Preferred Stock and the director appointed by the holders of Series F Preferred Stock).

Additionally, for so long as at least twenty five percent (25%) of the number of shares of any series of Preferred Stock remain issued and outstanding, the Company may not (i) take any action that materially and adversely alters the rights of such series of the Preferred Stock unless substantially similar action is taken with respect to all of the other series of the Preferred Stock or (ii) create any additional class or series of capital stock which ranks senior or pari passu to such series of the Preferred Stock, in each such case without the consent of the holders of a majority (which majority must, in certain cases, include the consent of certain named institutional investors) of the outstanding shares of the respective, affected series of the Preferred Stock, voting as a separate class.

Redemption

On and after September 1, 2019, the holders of shares Preferred Stock may require that such shares be redeemed by the Company out of lawfully available funds, as follows:

- 1) First, the holders of at least a majority of the Series F Preferred Stock (voting as a separate class) may require that all shares of Series F Preferred Stock be redeemed at a price equal to the sum of (i) the original issue price for the Series F Preferred Stock (\$4.4355), plus (ii) any declared or accrued but unpaid dividends thereon.
- 2) Second, and provided that all shares of Series F Preferred Stock have been redeemed by the Company, the Company's Series E, D and C-1 Preferred Stock (acting pari passu but as separate classes), may be redeemed as follows:

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

- a) The holders of at least a majority of the Series E Preferred Stock (voting as a separate class) may require that all shares of Series E Preferred Stock be redeemed at a price equal to the sum of (i) the original issue price for the Series E Preferred Stock (\$2.4088), plus (ii) any declared or accrued but unpaid dividends thereon.
- b) The holders of at least a majority of the Series D Preferred Stock (voting as a separate class) may require that all shares of Series D Preferred Stock be redeemed at a price equal to the sum of (i) the original issue price for the Series D Preferred Stock (\$1.5074), plus (ii) any declared or accrued but unpaid dividends thereon.
- c) The holders of at least a majority of the Series C 1 Preferred Stock (voting as a separate class) may require that all shares of Series C 1 Preferred Stock be redeemed at a price equal to the sum of (i) the original issue price for the Series C 1 Preferred Stock (\$0.835), plus (ii) any declared or accrued but unpaid dividends thereon.
- 3) Third, and provided that all shares of Series F, D, E and C 1 Preferred Stock have been redeemed, the holders of a majority of the Series B Preferred Stock may require that all shares of Series B Preferred Stock be redeemed at a price equal to (i) 1.23 times the original issue price (adjusted for a prior reverse stock split and anti dilution protection) for the Series B Preferred Stock (\$17.775), plus (ii) any declared but unpaid dividends thereon.
- 4) Fourth, and provided that all shares of Series F, D, E, C 1 and B Preferred Stock (as well as certain shares of Common Stock held by the holders of Series B Preferred Stock) have been redeemed, the holders of a majority of the Series A and A 1 Preferred Stock (voting together as a single class) may require that all shares of Series A and A 1 Preferred Stock be redeemed at a price equal to the sum of (i) 1.25 times the original issue price (adjusted for a prior reverse stock split and anti dilution protection) for the Series A Preferred Stock (\$10.00) or Series A 1 Preferred Stock (\$13.625), as applicable, plus (ii) any declared but unpaid dividends on the Series A Preferred Stock or Series A 1 Preferred Stock, as applicable.

All shares of the Preferred Stock have been presented outside of permanent stockholders' deficit, because there are redemption events outside of the Company's control.

Note 13. Common Stock and Stockholders' Equity (Deficit)

Capitalization

On July 7, 2015, Teladoc closed on its initial public offering (the "IPO") in which the Company issued and sold 9,487,500 shares of common stock, including the exercise of an underwriter option to purchase additional shares, at an issuance price of \$19.00 per share. The Company received net proceeds of \$163.1 million after deducting underwriting discounts and commissions of \$12.6 million as well as other offering expenses of \$4.5 million.

On June 17, 2015, the Company filed a Certificate of Amendment to the Company's Certificate of Incorporation to effect a one for 2.2859 reverse stock split of all outstanding shares of common stock with the Secretary of State of the State of Delaware. The Certificate of Amendment provides that every 2.2859 shares of the Company's issued and outstanding common stock automatically combine into one issued and outstanding share of the Company's common stock. The Certificate of Amendment did not change the par value of the Company's common stock and preferred stock. All shares and per share amounts in the consolidated financial statements and accompanying notes have been retroactively adjusted to give effect to the reverse stock split. In addition, the Certificate of Amendment increased the

number of authorized shares of the Company's common stock to 75,000,000 shares and the number of authorized shares of the Company's preferred stock to 50,479,286 shares. Additionally, the holders of a majority of the outstanding shares of the Preferred Stock (voting as a single class on an as converted basis, including holders of at least a majority of the outstanding shares of Series F Preferred Stock) approved the automatic conversion of the Preferred Stock into common stock of the Company upon the closing of an initial public offering of the common stock of the Company at a

Table of Contents

TELADOC, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

per share price of at least \$12.00 (prior to underwriting discounts and commissions) that results in aggregate proceeds to the Company of at least \$75.0 million (net of underwriting discounts and commissions). On July 7, 2015, all of the Company's then-outstanding convertible preferred stock converted into an aggregate of 25.5 million shares of common stock and all of the Company's redeemable common stock converted into 113,294 shares of common stock.

Redeemable Common Stock

The holders of at least a majority of the Preferred Stock have agreed that, following the redemption of all the Preferred Stock, the total 59,048 shares of Series A Common Stock will be subject to a redemption price equal to the greater of (i) the sum of (A) 2.25 times 2.2859 times the Series A Investors Common Stock price, plus (B) any dividends declared but unpaid thereon and (ii) the Series A Investors Common Stock appraised value.

The holders of at least a majority of the Preferred Stock have agreed that, following the redemption of all the Preferred Stock, the total 54,246 shares of Series B Common Stock will be subject to a redemption price equal to the greater of (1) the sum of (A) 2.25 times 2.2859 times the Series B Investors Common Stock price, plus (B) any dividends declared but unpaid thereon and (ii) the Series B Investors Common Stock appraised value. The Company had recorded the Series B Common Stock \$2.1 million redemption value and the Series A Common Stock \$0.8 million value together in mezzanine equity as of December 31, 2014.

On July 7, 2015, all of the Company's redeemable common stock converted into 113,294 shares of common stock.

Warrants

On May 2, 2014, the Company issued 131,239 common stock warrants to purchase an aggregate of 131,239 shares of its common stock at an exercise price of \$2.95 per share to two entities affiliated with SVB. The common stock warrants were immediately exercisable upon issuance and have a 10-year term. The fair value of the common stock warrants on the date of issue was approximately \$0.2 million which was recorded as an increase to additional paid in capital and as a debt discount.

On July 24, 2015, the Company issued an aggregate of 59,281 shares of common stock from the cashless exercise of 65,620 warrants at an exercise price of \$2.95 per share for one of the affiliates. The Company did not receive any proceeds from this cashless exercise. As a result of this activity, the Company has 65,619 of common stock warrants at an exercise price of \$2.95 per share outstanding for the other affiliate as of September 30, 2015.

Stock Plan and Stock Options

The Company's Second Amended and Restated Stock Incentive Plan (the "Plan") provides for the issuance of incentive and nonstatutory options to its employees and non employees. Options issued under the Plan are exercisable for periods not to exceed ten years, vest over four years and historically were issued at the fair value of the shares of common stock on the date of grant as determined by the Company's board of directors, which obtains periodic third party valuations to assist their determination process. Subsequent to the Company becoming a public enterprise,

options are granted at the public trading market price of the Company's stock on the date of grant.

The Plan provides for the early exercise of stock options for certain individuals as determined by their respective option agreements.

23

---



Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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, 2014	741,971	2,875,106	\$ 3.73	8.38	\$ 6,758
Increase in Plan authorized shares	2,493,339	—	—	—	—
Stock option grants	(1,325,845)	1,325,845	\$ —	—	—
Stock options exercised	—	(241,585)	\$ —	—	—
Stock options cancelled	170,805	(170,805)	\$ —	—	—
Stock options expired	33,597	(33,597)	\$ —	—	—
Balance at September 30, 2015	2,113,867	3,754,964	\$ 7.06	8.72	\$ 57,827
Vested or expected to vest September 30, 2015		3,473,776	\$ 6.92	8.68	\$ 53,989
Exercisable as of September 30, 2015		798,837	\$ 2.12	7.28	\$ 16,111

The total grant date fair value of stock options granted during the quarter and nine months ended September 30, 2015 was \$3.3 million and \$5.2 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 initial public offering 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 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 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 remaining 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 used the “simplified” method because the Company does not have adequate 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. The Company uses historical data to estimate pre vesting option forfeitures and record stock based compensation expense only for those awards that are expected to vest.

Table of Contents

TELADOC, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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,	
	2015	2014
Volatility	49.4% – 51.0%	53.3% – 53.7%
Expected life (in years)	7	7
Risk-free interest rate	1.58% - 2.06%	1.92% - 2.30%
Dividend yield	–	–
Weighted-average fair value of underlying common stock	\$ 6.95	\$ 5.92

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Administrative and marketing	\$ 8	\$ 6	\$ 49	\$ 18
Sales	109	13	274	61
Technology and development	60	8	151	32
General and administrative	542	91	1,622	317
Total stock-based compensation expense	\$ 719	\$ 118	\$ 2,096	\$ 428

As of September 30, 2015, the Company had \$10.7 million in unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted average period of approximately 3.4 years.

## Note 14. 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. A deferred tax provision was recognized for the quarter ended September 30, 2015 and September 30, 2014, as well as for the nine months ended September 30, 2014, primarily attributable to the timing differences with respect to the treatment of the amortization of tax deductible goodwill. For the nine months ended September 30, 2015, an income tax benefit was realized as a result of acquisition activity partially offset by the aforementioned timing differences.

All of the Company's operations, and resulting deferred tax assets, were generated in the United States.



Table of Contents

## 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”, “plans”, “expects”, “future”, “intends”, “may”, “will”, “should”, “estimates”, “predicts”, “potential”, “would”, “likely”, “foresee”, “continue” and other similar 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.

- Our business could be adversely affected by ongoing legal challenges to our business model or by new state actions restricting our ability to provide the full range of our services in certain states;
- We are dependent on our relationships with affiliated professional entities, which we do not own, to provide physician services, and our business would be adversely affected if those relationships were disrupted;
- Evolving government regulations may require increased costs or adversely affect our results of operations;
- We conduct business in a heavily regulated industry and if we fail to comply with these laws and government regulations, we could incur penalties or be required to make significant changes to our operations or experience adverse publicity, which could have a material adverse effect on our business, financial condition, and results of operations;
- We have a history of cumulative losses, which we expect to continue, and we may never achieve or sustain profitability;
- The impact of recent healthcare reform legislation and other changes in the healthcare industry and in healthcare spending on us is currently unknown, but may adversely affect our business, financial condition and results of operations;
- A significant portion of our revenue comes from a limited number of Clients, the loss of which would have a material adverse effect on our business, financial condition and results of operations;
- The telehealth market is immature and volatile, and if it does not develop, if it develops more slowly than we expect, if it encounters negative publicity or if our solution does not drive Member engagement, the growth of our business will be harmed;
- If the number of individuals covered by our employer, health plan and other Clients decreases, or the number of applications or services to which they subscribe decreases, our revenue will likely decrease;
- Our growth depends in part on the success of our strategic relationships with third parties;
- Our business and growth strategy depend on our ability to maintain and expand a network of qualified Providers. If we are unable to do so, our future growth would be limited and our business, financial condition and results of operations would be harmed;
- We may become subject to medical liability claims, which could cause us to incur significant expenses and may require us to pay significant damages if not covered by insurance;
- Rapid technological change in our industry presents us with significant risks and challenges;
- A decline in the prevalence of employer-sponsored healthcare or the emergence of new technologies may render our solution obsolete or require us to expend significant resources in order to remain competitive;
- If our new applications and services are not adopted by our Clients, or if we fail to continue to innovate and develop new applications and services that are adopted by our Clients, our revenue and results of operations will be adversely affected;

- We rely on data center providers, Internet infrastructure, bandwidth providers, third-party computer hardware and software, other third parties and our own systems for providing services to our Clients and Members, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with Clients, adversely affecting our brand and our business;
  - We could incur substantial costs as a result of any pending or future claim of infringement of another party's intellectual property rights;
- If our arrangements with our Providers or our Clients are found to violate state laws prohibiting the corporate practice of medicine or fee splitting, our business, financial condition and our ability to operate in those states could be adversely impacted;

Table of Contents

- If our Providers are characterized as employees, we would be subject to employment and withholding liabilities;
- Any future litigation against us could be costly and time-consuming to defend;
- We will incur significantly increased costs and devote substantial management time as a result of operating as a public company;
- Certain state tax authorities may assert that we have a state nexus and seek to impose state and local income taxes which could adversely affect our results of operations;
- Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations;
- Our proprietary software may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm our business, financial condition and results of operations;
  - In order to support the growth of our business, we may need to incur additional indebtedness under our current credit facilities or seek capital through new equity or debt financings, which sources of additional capital may not be available to us on acceptable terms or at all;
- Failure to adequately expand our direct sales force will impede our growth;
- We may be unable to successfully execute on our growth initiatives, business strategies or operating plans;
- Our use and disclosure of personally identifiable information, including health information, is subject to federal and state privacy and security regulations, and our failure to comply with those regulations or to adequately secure the information we hold could result in significant liability or reputational harm and, in turn, a material adverse effect on our client base, membership base and revenue;
- Our quarterly results may fluctuate significantly, which could adversely impact the value of our common stock;
- If we fail to manage our growth effectively, our expenses could increase more than expected, our revenue may not increase and we may be unable to implement our business strategy;
- We incur significant upfront costs in our Client relationships, and if we are unable to maintain and grow these Client relationships over time, we are likely to fail to recover these costs, which could have a material adverse effect on our business, financial condition and results of operations;
- If our existing Clients do not continue or renew their contracts with us, renew at lower fee levels or decline to purchase additional applications and services from us, it could have a material adverse effect on our business, financial condition and results of operations;
- Our sales and implementation cycle can be long and unpredictable and requires considerable time and expense, which may cause our results of operations to fluctuate;
- We operate in a competitive industry, and if we are not able to compete effectively, our business, financial condition and results of operations will be harmed;
- If we cannot implement our solution for Clients or resolve any technical issues in a timely manner, we may lose Clients and our reputation may be harmed;
- We depend on our senior management team, and the loss of one or more of our executive officers or key employees or an inability to attract and retain highly skilled employees could adversely affect our business;
- If we fail to develop widespread brand awareness cost-effectively, our business may suffer;
- Our marketing efforts depend significantly on our ability to receive positive references from our existing Clients;
- Any failure to protect our intellectual property rights could impair our ability to protect our technology and our brand;
- We may acquire other companies or technologies, which could divert our management's attention, result in dilution to our stockholders and otherwise disrupt our operations and we may have difficulty integrating any such acquisitions successfully or realizing the anticipated benefits therefrom, any of which could have a material adverse effect on our business, financial condition and results of operations;
- Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use or similar taxes which could adversely affect our results of operations;
- Economic uncertainties or downturns in the general economy or the industries in which our Clients operate could disproportionately affect the demand for our solution and negatively impact our results of operations;
-

The estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all;

- Natural or man-made disasters and other similar events may significantly disrupt our business and negatively impact our business, financial condition and results of operations;



## Table of Contents

- Future sales to Clients outside the United States or with international operations may expose us to risks inherent in international sales that, if realized, could adversely affect our business;
- We have an unremediated material weakness in internal control over financial reporting. Our failure to establish and maintain effective internal control over financial reporting could result in our failure to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which in turn could cause the trading price of our common stock to decline; and
- We are an “emerging growth company”, and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

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 registration statements on Form S-1 (File No.333-204577) filed with the Securities and Exchange Commission (the “SEC”), our Form 10-Q for the period ended June 30, 2015 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.

## Overview

We are the nation’s first and largest telehealth platform, delivering on-demand healthcare anytime, anywhere, via mobile devices, the internet, video and phone. Our solution connects consumers, or our Members, with our over 2,650 board-certified physicians and behavioral health professionals who treat a wide range of conditions and cases from acute diagnoses such as upper respiratory infection, urinary tract infection and sinusitis to dermatological conditions, anxiety and smoking cessation. Over 12 million unique Members now benefit from access to Teladoc 24 hours a day, seven days a week, 365 days a year, at a cost of \$40 per visit. Our solution is delivered with a median response time of less than ten minutes from the time a Member requests a telehealth visit to the time they speak with a Teladoc physician. We completed approximately 391,000 telehealth visits in the first nine months of 2015 and approximately 300,000 telehealth visits for the full year in 2014. Membership increased by approximately 4.6 million members from September 30, 2014 through September 30, 2015 with 4.2 million members or approximately 90% of the increase representing organic growth.

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 and consumers (our “Clients”) purchase our solution to reduce their healthcare spending 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”) 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 95% over the last six years, and a 109% annual net dollar retention rate among our Clients on average over the last three years. We further believe any consumer, employer or health plan or practitioner interested in a better approach to healthcare is a potential Teladoc Member, Client or Provider.

In July 2015, we successfully closed on our IPO in which the Company issued and sold 9,487,500 shares of common stock, including the exercise of an underwriter option to purchase additional shares, at an issuance price of \$19.00 per share. We received net proceeds of \$163.1 million after deducting underwriting discounts and commissions of \$12.6 million as well as other offering expenses of \$4.5 million. On July 7, 2015, all of the Company’s then-outstanding convertible preferred stock converted into an aggregate of 25.5 million shares of common stock and all of the Company’s redeemable common stock converted into 113,294 shares of common stock.

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 visit basis, through a visit fee. Subscription access fees are paid by our Clients on behalf of their employees, dependents, beneficiaries or themselves, while visit fees are paid by either Clients or Members. We generated \$20.0 million and \$10.9 million in revenue for the quarters ended September 30, 2015 and 2014, respectively, representing 83% year-over-year growth and \$54.7 million and \$30.6 million for the nine months ended September 30, 2015 and 2014, respectively, representing 79% year-over-year growth. We had net losses of \$13.2 million and \$4.5 million for the quarters ended September 30, 2015 and 2014, respectively, and \$43.0 million

## Table of Contents

and \$10.0 million for the nine months ended September 30, 2015 and 2014, respectively. For the quarter ended September 30, 2015, 85% and 15% of our revenue was derived from subscription access fees and visit fees, respectively, and for the nine months ended September 30, 2015, 83% and 17% of our revenue was derived from subscription access fees and visit fees, respectively.

### Acquisition History

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

On July 31, 2015, the Company acquired certain assets from Gateway for \$1.5 million, subject to post-closing working capital adjustments as defined in the purchase agreement. Gateway is engaged in the marketing, selling and administering the Company's services through other third parties.

On June 17, 2015, we completed our acquisition of StatDoc for aggregate consideration of \$30.1 million, comprised of \$13.3 million of cash and \$16.8 million of our common stock (or 1,051,033 shares), subject to post-closing working capital adjustments as defined in the Agreement and Plan of Merger governing the acquisition. StatDoc is a telemedicine provider, focused on managed care, health system and self-insured clients.

In January 2015, we completed the acquisition of BetterHelp, a provider of direct-to-consumer, behavioral health services, for \$3.3 million net of cash acquired, and a \$1.0 million promissory note and we have agreed to make annual payments to the sellers equal to 15% of the total net revenue generated by the BetterHelp business for each of the next three years. We believe this acquisition will help us broaden our service into the direct-to-consumer and behavioral health sector.

In May 2014, we acquired AmeriDoc for \$17.2 million, net of cash acquired. In August 2013, we acquired Consult A Doctor for \$16.6 million, net of cash acquired. Both of these acquired businesses specialized in providing telehealth solutions to small- and medium-sized businesses through broker distribution channels. These acquisitions added new distribution opportunities that we believe are an important element of our growth strategy.

### 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 and lead to increasing or maintaining our existing annual net dollar retention rate. Membership increased by approximately 4.6 million members from September 30, 2014 through September 30, 2015 with 4.2 million members or approximately 90% of the increase representing organic growth.

**Number of Visits.** We also realize revenue in connection with the completion of a visit. Accordingly, our visit revenue, or visit fees, 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 is a key objective in order for our Clients to realize tangible healthcare savings with our service.

Annual Net Dollar Retention Rate. We disclose annual net dollar retention rate as a supplemental measure of our organic revenue growth. We believe annual net dollar retention rate is an important metric that provides insight into the long-term value and stability of our subscription agreements and our ability to retain and grow revenue from our existing Clients. Because we typically enter into annual contracts with our Clients, a large percentage of our Client agreements have reached the end of their original terms and, as a result, we have observed significant renewal rates. We observed a 109% annual net dollar retention rate among our Clients on average over the last three years. We calculate annual net dollar retention rate as the aggregate annualized subscription contract value as of the last day of a calendar year from our Clients that have been under contract with us for at least 12 months divided by the aggregate annualized subscription contract value from all our Clients as of the last day of the prior calendar year. We calculate the annualized

## Table of Contents

subscription contract value for each Client by multiplying the monthly recurring revenue of such Client by 12. For the purposes of annual net dollar retention rate, we count health plan Clients separately from each self-insured employer Client that contracts with us through a health plan relationship.

**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 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 elsewhere in this quarterly report on Form 10-Q.

## Components of Results of Operations

### Revenue

We generate in excess of 80% of our revenue from our Clients who purchase access to our professional Provider network for their employees, dependents and other beneficiaries. Our Client contracts include a per-Member-per-month subscription access fee as well as a visit fee for each completed visit, which is either paid to us by the Client, the Member or both parties. Accordingly, we generate subscription access revenue from our subscription access fees and visit revenue from our visit fees.

Subscription access revenue accounted for approximately 85% and 88% of our total revenue during the quarters ended September 30, 2015 and 2014, respectively, and 83% and 86% during the nine months ended September 30, 2015 and 2014, 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 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 monthly 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. We generally invoice our Members in advance on a monthly basis. Visit fees are recognized as incurred and billed in arrears.

### 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 investments and accounts receivable. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits. Our short-term investments are comprised of a portfolio of diverse high credit rating instruments with maturity durations of 1 year or less.

## Table of Contents

During the quarter ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, all of our revenue was generated by Clients located in the United States.

### Cost of Revenue

Cost of revenue primarily consists of fees paid to our Providers, costs incurred in connection with our Provider network operations, which include employee-related expenses (including salaries and benefits), costs related to our call center activities and insurance, which includes coverage for medical malpractice claims. Cost of revenue is driven primarily by the number of 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 grow our headcount to build our Provider network operations center and to enhance our sales and technology capabilities, 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 our gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin has been and will continue to be affected by a number of factors, including the fees we charge our Clients, the number of visits we complete and the costs of running our Provider network operations center. We expect our annual gross margin to remain relatively steady over the near term, although our quarterly gross margin is expected to fluctuate from period to period depending on the interplay of these factors.

### Advertising and Marketing Expenses

Advertising and marketing expenses consist primarily of personnel and related expenses for our marketing staff, including costs of 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 any allocation 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 advertising and marketing operations 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 and marketing expenses. We will continue to invest in advertising and marketing by hiring additional personnel and promoting our brand 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. Our sales expenses exclude any allocation of occupancy expense as well as depreciation and amortization.

We expect our sales expenses to increase as we strategically invest to expand our business. We expect to hire additional sales personnel and related account management and sales support personnel to capture an increasing

amount of our market opportunity. As we scale our sales and related account management and sales support personnel in the short- to medium-term, we expect these expenses to increase in both absolute dollars and as a percentage of revenue. We will continue to invest in sales by hiring additional sales and account management and sales support personnel.

#### 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 and stock-based compensation for our technology and development employees. Our technology and



## Table of Contents

development expenses exclude any allocation 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 expenses has been expensed.

### General and Administrative Expenses

General and administrative expenses include personnel and related expenses of, and professional fees incurred by, our executive, finance, legal and human resources departments. They also include stock-based compensation and all facilities costs including, utilities, communications 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 due to the additional legal, insurance, investor relations and other costs that we incur as a public company, as well as other costs associated with continuing 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.

### Interest (Expense), Net

Interest (expense), net consists of interest activity associated with our bank, other debt and short-term investments.

### Income Tax Provision (Benefit)

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 treatment of the goodwill between tax and financial accounting book purposes. We have provided a full valuation allowance for our deferred tax assets at September 30, 2015 and December 31, 2014, due to the uncertainty surrounding the future realization of such assets.

Table of Contents

## Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the three and nine months ended September 30, 2015 and 2014 and the dollar and percentage change between the respective periods:

	Three Months Ended September 30,				Nine Months Ended September 30,					
	2015	2014	Variance	%(a)	2015	2014	Variance	%(a)		
	\$	\$	\$	%	\$	\$	\$	%	%	
Revenue	\$ 19,973	\$ 10,905	\$ 9,068	83	%	\$ 54,745	\$ 30,601	\$ 24,144	79	%
Cost of revenue	4,488	2,151	2,337	109	%	14,563	6,160	8,403	136	%
Gross profit	15,485	8,754	6,731	77	%	40,182	24,441	15,741	64	%
Operating expenses:										
Advertising and marketing	5,284	1,984	3,300	166	%	14,356	5,938	8,418	142	%
Sales	5,111	3,263	1,848	57	%	13,190	8,441	4,749	56	%
Technology and development	3,941	1,960	1,981	101	%	10,050	5,216	4,834	93	%
General and administrative	12,253	4,754	7,499	158	%	40,708	12,131	28,577	236	%
Total operating expenses	26,589	11,961	14,628	122	%	78,304	31,726	46,578	147	%
EBITDA(1)	(11,104)	(3,207)	(7,897)	246	%	(38,122)	(7,285)	(30,837)	423	%
Depreciation and amortization	1,491	650	841	129	%	3,317	1,618	1,699	105	%
Loss from operations	(12,595)	(3,857)	(8,738)	227	%	(41,439)	(8,903)	(32,536)	365	%
Interest (expense), net	(489)	(510)	21	4	%	(1,699)	(914)	(785)	-86	%
Net loss before taxes	(13,084)	(4,367)	(8,717)	200	%	(43,138)	(9,817)	(33,321)	339	%
Income tax provision (benefit)	162	162	(0)	0	%	(125)	227	(352)	155	%
Net loss	\$ (13,246)	\$ (4,529)	\$ (8,717)	192	%	\$ (43,013)	\$ (10,044)	\$ (32,969)	328	%

(1) EBITDA consists of net income (loss) before interest, taxes, depreciation and amortization. See additional information regarding EBITDA and Adjusted EBITDA at the end of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We completed our acquisitions of Gateway on July 31, 2015, StatDoc on June 17, 2015, BetterHelp on January 23, 2015 and AmeriDoc on May 1, 2014. The results of operations of AmeriDoc, BetterHelp, StatDoc and Gateway since

the respective acquisition dates have been included in our unaudited consolidated financial statements included in this Quarterly Report from the date of their acquisition.

Revenue. Total revenue was \$20.0 million for the quarter ended September 30, 2015, compared to \$10.9 million during the quarter ended September 30, 2014, an increase of \$9.1 million, or 83%. Total revenue was \$54.7 million for the nine months ended September 30, 2015, compared to \$30.6 million during the nine months ended September 30, 2014, an increase of \$24.1 million, or 79%. The increase in revenue for both periods was substantially driven by an increase in new Clients and the number of new Members generating additional subscription access fees. The increase in subscription access fees was due to the addition of new Clients, as the number of Members increased by 56% from September 30, 2014 to September 30, 2015. We experienced 117,213 visits, representing \$3.0 million of visit fees for the quarter ended September 30, 2015, compared to 61,929 visits, representing \$1.3 million of visit fees during the quarter ended September 30, 2014, an increase of \$1.7 million, or 122%. We also experienced 391,231 visits, representing \$9.4 million of visit fees for the nine months ended September 30, 2015, compared to 188,551 visits,

Table of Contents

representing \$4.2 million of visit fees during the nine months ended September 30, 2014, an increase of \$5.2 million, or 126%.

**Cost of Revenue.** Cost of revenue was \$4.5 million for the quarter ended September 30, 2015 compared to \$2.2 million for the quarter ended September 30, 2014, an increase of \$2.3 million, or 109%. Cost of revenue was \$14.6 million for the nine months ended September 30, 2015 compared to \$6.2 million for the nine months ended September 30, 2014, an increase of \$8.4 million, or 136%. The increase for both periods was primarily due to increased telehealth visits resulting in increased provider fees, increased call center costs, and hiring of additional personnel to manage our physician network operations.

**Gross Profit.** Gross profit was \$15.5 million, or 78% as a percentage of revenue, for the quarter ended September 30, 2015 compared to \$8.8 million, or 80%, as a percentage of revenue, for the quarter ended September 30, 2014, an increase of \$6.7 million, or 77%. Gross profit was \$40.2 million, or 73% as a percentage of revenue, for the nine months ended September 30, 2015 compared to \$24.4 million, or 80%, as a percentage of revenue, for the nine months ended September 30, 2014, an increase of \$15.7 million, or 64%. The increase for the quarter and nine months ended September 30, 2015 was primarily due to the aforementioned revenue and cost of revenue growth. Additionally, increased visit volume, resulting in greater mix of visit revenue to total revenue and their associated costs negatively impacted gross profit for the period compared to the nine months ended September 30, 2014.

**Advertising and Marketing Expenses.** Advertising and marketing expenses were \$5.3 million for the quarter ended September 30, 2015 compared to \$2.0 million for the quarter ended September 30, 2014, an increase of \$3.3 million, or 166%. This increase primarily consisted of increased member engagement initiatives, sponsorship of professional organizations and trade shows of \$2.7 million, increased staffing of \$0.2 million and other expenses of \$0.4 million. Advertising and marketing expenses were \$14.3 million for the nine months ended September 30, 2015 compared to \$5.9 million for the nine months ended September 30, 2014, an increase of \$8.4 million, or 142%. This increase primarily consisted of increased member engagement initiatives, sponsorship of professional organizations and trade shows of \$6.6 million, increased staffing of \$0.8 million and other expenses of \$1.0 million.

**Sales Expenses.** Sales expenses were \$5.1 million for the quarter ended September 30, 2015 compared to \$3.3 million for the quarter ended September 30, 2014, an increase of \$1.8 million, or 57%. This increase primarily consisted of increased staffing and sales commissions of \$1.5 million. Sales expenses were \$13.2 million for the nine months ended September 30, 2015 compared to \$8.4 million for the nine months ended September 30, 2014, an increase of \$4.7 million, or 56%. This increase primarily consisted of increased staffing and sales commissions of \$3.8 million, increased travel and entertainment expenses of \$0.5 million and an increase to other sales expenses of \$0.4 million.

**Technology and Development Expenses.** Technology and development expenses were \$3.9 million for the quarter ended September 30, 2015 compared to \$2.0 million for the quarter ended September 30, 2014, an increase of \$1.9 million, or 101%. This increase resulted primarily from hiring additional personnel totaling \$1.9 million.

Technology and development expenses were \$10.0 million for the nine months ended September 30, 2015 compared to \$5.2 million for the nine months ended September 30, 2014, an increase of \$4.8 million, or 93%. This increase resulted primarily from hiring additional personnel totaling \$4.7 million. For both of the quarter and nine months ended September 30, 2015, the increases in technology and development expenses is partially offset by reduction in professional fees paid to third parties.

**General and Administrative Expenses.** General and administrative expenses were \$12.3 million for the quarter ended September 30, 2015 compared to \$4.8 million for the quarter ended September 30, 2014, an increase of \$7.5 million, or 158%. This increase was driven primarily by an increase in employee-related expenses of approximately \$4.3 million as a result of growth in total employee headcount to 537 at September 30, 2015 as compared to 169 at September 30, 2014. Professional fees, principally legal, increased by \$1.9 million for the quarter ended

September 30, 2015 as compared to the quarter ended September 30, 2014. Lease costs including costs associated with abandoned facilities and bad debt expenses, increased to \$2.6 million for the quarter ended September 30, 2015 from \$0.9 million for the quarter ended September 30, 2014, an increase of \$1.7 million. The aforementioned increases are partially offset by \$0.4 million as a result of reduction in our physician network operations as we migrated activities in house from our third party call center provider. General and administrative expenses were \$40.7 million for the nine months ended September 30, 2015 compared to \$12.1 million for the nine months ended September 30, 2014, an increase of \$28.6 million, or 236%. This increase was driven in part by an increase in employee-related expenses of approximately \$11.2 million as a result of growth in total employee headcount to 537 at September 30, 2015 as compared to 169 at September 30, 2014. Additionally, costs incurred in our physician network operations center in connection with enhancing our Member services increased by \$1.5 million and professional fees, principally legal, increased by

Table of Contents

\$11.7 million for the nine months ended September 30, 2015 as compared to September 30, 2014. Severance costs, lease costs including costs associated with abandoned facilities and bad debt expenses, increased to \$7.3 million for the nine months ended September 30, 2015 from \$3.1 million for the nine months ended September 30, 2014, an increase of \$4.2 million.

**Depreciation and Amortization.** Depreciation and amortization was \$1.5 million for the quarter ended September 30, 2015 compared to \$0.7 million for the quarter ended September 30, 2014, an increase of \$0.8 million, or 129%. Depreciation and amortization was \$3.3 million for the nine months ended September 30, 2015 compared to \$1.6 million for the nine months ended September 30, 2014, an increase of \$1.7 million, or 105%. This increase in both periods was due to an increase of amortization expense of primarily acquisition-related intangible assets that grew from \$10.2 million at December 31, 2014 to \$22.0 million at September 30, 2015 and an increase of depreciation expense on an increased base of depreciable fixed assets that grew from \$2.3 million at December 31, 2014 to \$6.1 million at September 30, 2015.

**Interest (Expense), Net.** Interest (expense), net consists of interest costs associated with our bank and other debt and interest income from short-term investments in marketable securities. Interest (expense), net was consistent at \$0.5 million for the three months ended September 30, 2015 and September 30, 2014. Interest (expense), net was approximately \$1.7 million for the nine months ended September 30, 2015 compared to \$0.9 million for the nine months ended September 30, 2014, an increase of \$0.8 million. The increase in interest expense for both periods reflects higher outstanding debt. For the three months ended September 30, 2015, the increase in interest expense is offset by interest income from our short-term investments resulting from our IPO proceeds.

#### Liquidity and Capital Resources

The following table presents a summary of our cash flow activity for the periods set forth below:

	Nine Months Ended September 30,	
	2015	2014
Consolidated Statements of Cash Flows Data		
Net cash used in operating activities	\$ (34,377)	\$ (7,075)
Net cash used in investing activities	(122,469)	(15,075)
Net cash provided by financing activities	164,474	70,428
Total	\$ 7,628	\$ 48,278

Since our inception, we have financed our operations primarily through private sales of equity securities and to a lesser extent, bank borrowings. In July 2015, we received \$163.1 million of net cash proceeds associated with the issuance of 9,487,500 shares of common stock in conjunction with our IPO, after deducting underwriting discounts and commissions of \$12.6 million as well as other offering expenses of \$4.5 million.

Our principal sources of liquidity were cash and cash equivalents totaling \$54.1 million as of September 30, 2015, which were held for working capital purposes. In addition, we have \$97.9 million of short-term investments in marketable securities. Our cash and cash equivalents are comprised of money market funds and marketable securities.

#### Cash Used in Operating Activities

For the nine months ended September 30, 2015, cash used in operating activities was \$34.4 million. The negative cash flows resulted primarily from our net loss of \$43.0 million, partially offset by depreciation and amortization of \$3.3 million, allowance for doubtful accounts of \$1.4 million, stock-based compensation of \$2.1 million, deferred

income tax of \$0.1 million, as well as the effect of changes in working capital and other balance sheet accounts resulting in cash inflows of approximately \$1.7 million, all of which was the result of growth of the business.

For the nine months ended September 30, 2014, cash used in operating activities was \$7.1 million. The cash used primarily related to our net loss of \$10.0 million and the effect of changes in working capital and other balance sheet accounts resulting in cash outflows of approximately \$0.1 million, partially offset by depreciation and amortization of \$1.6 million, allowance for doubtful accounts of \$0.8 million, deferred income taxes of \$0.2 million, and stock-based compensation of \$0.4 million.

The increase for both periods in cash used in operating activities was primarily the result of additional headcount, increased marketing expenses, costs incurred to improve and optimize our technology platform, increases in

## Table of Contents

our physician network operations, increased legal fees and office-related charges to support the growth of our business.

### Cash Used in Investing Activities

Cash used in investing activities was \$122.5 million for the nine months ended September 30, 2015. Cash used in investing activities consisted of the acquisitions of BetterHelp, StatDoc and Gateway which required payments of \$3.3 million, \$12.9 million and \$1.5 million net of cash acquired, respectively, purchases of short-term marketable securities \$98.0 million, net of sales, and of purchases of property and equipment totaling \$5.5 million and investments in internally developed capitalized software of \$1.2 million.

Cash used in investing activities was \$15.1 million for the nine months ended September 30, 2014. Cash used in investing activities consisted of the acquisition of AmeriDoc, which required initial cash payments of \$13.8 million, and of purchases of property and equipment totaling \$0.7 million and investments in internally developed capitalized software of \$0.5 million.

### Cash Provided by Financing Activities

Historically, our primary financing activities have consisted of private sales of preferred stock and bank and other borrowings. In July 2015, we generated cash proceeds from our IPO.

Cash provided by financing activities for the nine months ended September 30, 2015 was \$164.5 million. Cash provided by financing activities consisted of \$163.1 million of net cash proceeds from IPO, an additional \$6.8 million borrowed under the Revolving Advance facility and \$0.3 million of proceeds from the exercise of employee stock options. Cash used in financing activities consisted of the repayment of \$5.7 million under the Amended Term Loan facility and promissory note.

Cash provided by financing activities was \$70.4 million for the nine months ended September 30, 2014. Cash provided by financing activities was primarily attributable to the issuance of preferred stock of \$50.1 million, \$19.7 million borrowed under the Revolving Advance facility, Term Loan facility and Mezzanine Term Loans and \$0.6 million of proceeds from the exercise of employee stock options.

### Looking Forward

As a result of our recent IPO, we received \$163.1 million of net cash proceeds in July 2015. Additionally in July 2015 we made a \$5.0 million repayment on our Revolving Advance facility. Currently, we anticipate negative EBITDA results through the end of 2017.

We believe that our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, contract renewal activity, number of visits, the timing and extent of spending to support product development efforts, our expansion of sales and marketing activities, the introduction of new and enhanced services offerings and the continuing market acceptance of telehealth. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies and intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition and results of operations would be adversely affected.

### Indebtedness



In May 2014, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank (“SVB”) that provided for a Revolving Advance facility and a Term Loan facility (the “Amended Term Loan facility”). The Revolving Advance facility provides for borrowings up to \$12.0 million based on 300% of the Company’s monthly recurring revenue, as defined therein. Borrowings under the Revolving Advance facility were \$4.7 million at December 31, 2014, and the facility carries interest at a rate of 0.75% above the prime rate per annum and matures in April 2016. Interest payments are payable monthly in arrears. The Company entered into an amendment to the Revolving Advance Facility in March 2015 that extended its maturity to April 2017. In May 2015, the Company increased the borrowings to \$11.5 million. On July 15, 2015, the Company reduced its indebtedness under the Revolving Advance facility with a \$5.0 million principal repayment.

Table of Contents

The Amended Term Loan facility provides for borrowings up to \$5.0 million. As of December 31, 2014 and September 30, 2015, the Company had utilized the total \$5.0 million available under this facility. The Amended Term Loan facility carries interest at a rate of 1.00% above the prime rate per annum. Interest payments are payable monthly in arrears. Payments on the Amended Term Loan facility commenced in May 2015 and continue with 47 equal monthly payments of principal plus interest.

In May 2014, the Company entered into a Subordinated Loan and Security Agreement with SVB that provided for Mezzanine Term Loans totaling \$13.0 million. The total \$13.0 million drawdown of the mezzanine facility was completed in September 2014. The mezzanine facility carries interest at a rate of 10.00% per annum and matures in May 2017. Interest payments are payable monthly in arrears. In connection with entry into the mezzanine facility, the Company granted two affiliates of SVB warrants to purchase an aggregate of 131,239 shares of common stock of the Company at an exercise price of \$2.95 per share. The warrants were immediately exercisable and have a 10 year term. The Company also granted SVB a security interest in significantly all of the Company's assets. The mezzanine facility has been used to fund the expansion of the Company's business. On July 24, 2015, the Company issued an aggregate of 59,281 shares of common stock from the cashless exercise of 65,620 warrants at an exercise price of \$2.95 per share for one of the affiliates. The Company did not receive any proceeds from this cashless exercise. As a result of this activity, the Company has 65,619 of common stock warrants at an exercise price of \$2.95 per share outstanding for the other affiliate as of September 30, 2015.

The Company incurred approximately \$0.2 million of loan origination costs in connection with the above facilities and amortized approximately \$18,000 during both of the quarters ended September 30, 2015 and 2014, and \$54,000 and \$24,000 during the nine months ended September 30, 2015 and 2014, respectively.

Effective with the purchase of AmeriDoc, 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 carries 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 Promissory Note to April 30, 2017. The Company repaid \$0.2 million of this note in July 2015.

The Company was in compliance with all debt covenants at December 31, 2014 and September 30, 2015.

## Contractual Obligations and Commitments

The following summarizes our contractual obligations as of September 30, 2015:

	Payment Due by Period				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years
	(in thousands)				
Operating leases	\$ 10,767	\$ 1,694	\$ 2,483	\$ 1,815	\$ 4,775
Obligations under SVB Facilities and AmeriDoc Promissory Note	27,229	1,250	25,250	729	—
Interest associated with long-term debt	3,364	2,073	1,281	10	—
Total	\$ 41,360	\$ 5,017	\$ 29,014	\$ 2,554	\$ 4,775

Our existing office and hosting co-location facilities lease agreements provide us with the option to renew and generally provide for rental payments on a graduated basis. Our future operating lease obligations would change if we entered into additional operating lease agreements as we expand our operations and if we exercised the office and hosting co-location facilities lease options. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above. For abandoned facilities, the above contractual obligation schedule does not reflect any realized or potential subleases.

#### Off-Balance Sheet Arrangements

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

Table of Contents

had engaged in those types of relationships.

Adjusted EBITDA

To supplement our financial information presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, we use the following additional non-U.S. GAAP financial measures to clarify and enhance an understanding of past performance: adjusted EBITDA. We believe that the presentation of this financial measure enhances an investor’s understanding of our financial performance. We further believe that this financial measure is a useful financial metric to assess our operating performance from period-to-period by excluding certain items that we believe are not representative of our core business. We use certain financial measures for business planning purposes and in measuring our performance relative to that of our competitors. We utilize adjusted EBITDA as the primary measure of segment performance.

Adjusted EBITDA consists of net loss before interest, taxes, depreciation, amortization and stock-based compensation. We believe that making such adjustment provides investors meaningful information to understand our results of operations and ability to analyze financial and business trends on a period-to-period basis.

We believe these financial measures are commonly used by investors to evaluate our performance and that of our competitors. However, our use of the term adjusted EBITDA may vary from that of others in our industry. Adjusted EBITDA should not be considered as an alternative to net loss before taxes, net loss, loss per share or any other performance measures derived in accordance with U.S. GAAP as measures of performance.

Adjusted EBITDA has an important limitation as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

Adjusted EBITDA:

- does not reflect the significant interest expense on our debt; and
- eliminates the impact of income taxes on our results of operations; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any expenditures for such replacements; and
  - other companies in our industry may calculate adjusted EBITDA differently than we do, limiting the usefulness of adjusted EBITDA as comparative measures.

We compensate for these limitations by using adjusted EBITDA along with other comparative tools, together with U.S. GAAP measurements, to assist in the evaluation of operating performance. Such U.S. GAAP measurements include gross profit, net loss, net loss per share and other performance measures.

In evaluating these financial measures, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items.

The following table reconciles net loss to adjusted EBITDA for the periods presented:

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2015	2014	2015	2014

(in thousands)

Edgar Filing: Teladoc, Inc. - Form 10-Q

Net loss	\$ (13,246)	\$ (4,529)	\$ (43,013)	\$ (10,044)
Add (deduct):				
Interest expense, net	489	510	1,699	914
Provision for income taxes (benefit)	162	162	(125)	227
Depreciation expense	317	95	746	225
Amortization expense	1,174	555	2,571	1,393
EBITDA	(11,104)	(3,207)	(38,122)	(7,285)
Stock-based compensation	719	118	2,096	428
Adjusted EBITDA	\$ (10,385)	\$ (3,089)	\$ (36,026)	\$ (6,857)

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have floating rate debt with our Term Loan facility and Revolving Advance facility, and cash equivalents that are subject to interest rate volatility, which is our principal market risk. A 25 basis point change in the weighted average interest rate relating to the Term Loan facility and Revolving Advance facility as of September 30, 2015, which are subject to variable interest rates based on the prime rate, would yield a change of approximately \$41,000 in annual interest expense. We do not expect cash flows to be affected to any significant degree by a sudden change in market interest rates.

Item 4. Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were ineffective at the reasonable assurance level as of September 30, 2015. This conclusion is due to the following material weakness in our internal control over financial reporting.

During 2014, management identified a material weakness in our internal control over financial reporting relating to the breadth of our internal accounting team. Specifically, we did not have a sufficient number of accounting personnel to effectively design and operate proper internal controls over financial reporting. We are taking steps to remediate this material weakness.

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to legal proceedings, claims and litigation arising in the ordinary course of our business.

Teladoc is plaintiff in two lawsuits in the Texas courts against the Texas Medical Board (the “TMB”). In the first suit, *Teladoc v. TMB and Leshikar*, on December 31, 2014, the Austin Court of Appeals granted Teladoc’s request for summary judgment, invalidating the TMB’s prior assertion that Teladoc’s doctors do not form “proper professional relationships” with Teladoc’s members in the course of telehealth consultations such as would support the prescription of medications. The TMB has filed a petition for review with the Texas Supreme Court to ask that Court if it will allow the TMB to appeal the Court of Appeals’s decision. In the second suit, *Teladoc et al. v. TMB et al.*, the United States District Court for the Western District of Texas, Austin Division, held a hearing on May 22, 2015 on Teladoc’s motion for preliminary injunction of the rule amendments the TMB adopted on April 10, 2015 that seek to effect substantively identical restrictions as at issue in the prior lawsuit. On May 29, 2015, the court granted Teladoc’s request for a preliminary injunction of the rule amendments, pending ultimate trial on the amendments’ validity. The Court has set a trial date of February 13, 2017. On July 30, 2015, the TMB filed a motion to dismiss the suit. No hearing on this motion to dismiss has been set. Given the nature and status of these lawsuits, the Company cannot yet determine the amount or reasonable range of a potential loss, if any, though it does not believe a material loss is probable in connection with any of the lawsuits.

Business in the State of Texas accounted for approximately \$9.3 million, or 17%, and \$10.0 million, or 23%, of the Company’s consolidated revenue for the nine months ended September 30, 2015 and during the year ended December 31, 2014, respectively. If the TMB’s revisions go into effect as written and Teladoc is unable to adapt its business model in compliance with the TMB rule, 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.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Special Note Regarding Forward-Looking Statements” section in Part I, Item 2, of this Quarterly Report on Form 10-Q.

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them. Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in or incorporated by reference into this Quarterly Report on Form 10-Q and our other public filings with the SEC. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 30, 2015, the Securities and Exchange Commission (the “SEC”) declared effective our Registration Statement on Form S-1 (File No. 333-204577), as amended, filed in connection with the initial public offering of our common stock. Pursuant to the Registration Statement and to a 462(b) Registration Statement filed on June 30, 2015 (File No. 333-204577), we registered the offer and sale of 9,487,500 shares of common stock with an aggregate offering price of approximately \$163.5 million. On July 7, 2015 (“Closing Date”), we issued and sold 8,250,000 shares of our common stock at a price to the public of \$19.00 per share (the “Offering”). J.P. Morgan Securities LLC and Deutsche Bank

Securities Inc. acted as joint book-running managers for the offering, and William Blair & Company, L.L.C., Wells Fargo Securities, LLC and SunTrust Robinson Humphrey, Inc. acted as co-managers. On July 1, 2015, the underwriters exercised their option to purchase additional shares pursuant to the underwriting agreement (the “Over-Allotment Option”). On July 7, 2015, we closed the Over-Allotment Option, and we sold 1,237,500 shares at a price to the public of \$19.00 per share.

As a result of the Offering and the Over-Allotment Option, we received net proceeds of approximately \$163.1 million in the aggregate, which is comprised of gross proceeds of approximately \$180.2 million, offset by underwriting discounts and commissions of approximately \$12.6 million and other offering expenses of approximately \$4.5 million. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates,



Table of Contents

(ii) any persons owning 10% or more of any class of our equity securities or (iii) any of our affiliates. The Offering and the Over-Allotment Option terminated after all registered securities had been sold.

The net proceeds of approximately \$163.1 million from our initial public offering have been invested in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. There has been no material change in the expected use of the net proceeds from our initial public offering as described in our final prospectus, dated June 30, 2015, filed with the SEC pursuant to Rule 424(b) relating to our Registration Statement on Form S-1.

Item 6. Exhibits and Reports on Form 8-K

A list of exhibits is set forth on the Exhibit Index immediately following the signature page of this Form 10-Q, and is incorporated herein by reference.

Table of Contents

Signatures

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

TELADOC, INC.

Date: November 2, 2015 By: /s/ JASON GOREVIC  
Name: Jason Gorevic  
Title: President and Chief Executive Officer

Date: November 2, 2015 By: /s/ MARK HIRSCHHORN  
Name: Mark Hirschhorn  
Title: Executive Vice President and Chief Financial Officer

Table of Contents

Exhibit

Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
3.1	Fifth Amended and Restated Certificate of Incorporation of Teladoc, Inc.	8-K	001-37477	3.1	7/07/15	
3.2	Amended and Restated Bylaws of Teladoc, Inc.	8-K	001-37477	3.2	7/07/15	
4.1	Specimen stock certificate evidencing shares of the common stock.	S-1/A	333-204577	4.5	6/24/15	
10.1	Form of Indemnification Agreement.	S-1/A	333-204577	10.7	6/18/15	
10.2	Teladoc, Inc. 2015 Incentive Award Plan.	S-1/A	333-204577	10.10	6/18/15	
10.3	Form of Stock Option Agreement under the Teladoc, Inc. 2015 Incentive Award Plan.	S-1/A	333-204577	10.11	6/18/15	
10.4	Form of Restricted Stock Agreement under the Teladoc, Inc. 2015 Incentive Award Plan.	S-1/A	333-204577	10.12	6/18/15	
10.5	Form of Restricted Stock Unit Agreement under the Teladoc, Inc. 2015 Incentive Award Plan.	S-1/A	333-204577	10.13	6/18/15	
10.6	Teladoc, Inc. 2015 Employee Stock Purchase Plan.	S-1/A	333-204577	10.14	6/18/15	
10.7	Teladoc, Inc. Non-Employee Director Compensation Program.	10-Q	001-37477	10.7	8/12/15	
10.8	Amended and Restated Executive Employment Agreement, dated June 16, 2015, by and between Teladoc, Inc. and Jason Gorevic.	S-1/A	333-204577	10.19	6/18/15	
10.9	Amended and Restated Executive Employment Agreement, dated June 16, 2015, by and between Teladoc, Inc. and	S-1/A	333-204577	10.20	6/18/15	

Edgar Filing: Teladoc, Inc. - Form 10-Q

Mark Hirschhorn.

10.10	Amended and Restated Executive Employment Agreement, dated June 16, 2015, by and between Teladoc, Inc. and Michael King.	S-1/A	333-204577	10.21	6/18/15
-------	--	-------	------------	-------	---------

31.1	Chief Executive Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				*
------	--	--	--	--	---

43

---

Table of Contents

31.2	Chief Financial Officer—Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.1	Chief Executive Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
32.2	Chief Financial Officer—Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
99.1	Financial Statements for the Recently Acquired Stat Health Service, Inc.	10-Q 001-37477 99.1 8/12/15
101.INS	XBRL Instance Document.	*
101.SCH	XBRL Taxonomy Extension Schema Document.	*
101.CAL	XBRL Taxonomy Calculation Linkbase Document.	*
101.DEF	XBRL Definition Linkbase Document.	*
101.LAB	XBRL Taxonomy Label Linkbase Document.	*
101.PRE	XBRL Taxonomy Presentation Linkbase Document.	*

---

\*Filed herewith.

\*\*Furnished herewith.