PROS Holdings, Inc.
Form 10-Q
November 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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: 001-33554

PROS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	76-0168604
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3100 Main Street, Suite 900 Houston TX	77002
(Address of Principal Executive Offices)	(Zip Code)

(713)-335-5151
Registrant's telephone number, including area code

(Former Name, Former Address and Former Fiscal Year, if changed Since Last Report)

Indicate by check mark whether 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 x No o

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

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

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

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

The number of shares outstanding of the Registrant's Common Stock, $0.001 par value, was 27,457,781 as of October 29, 2012.

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Form 10-Q
For the Quarterly Period Ended September 30, 2012
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management including, without limitation, our expectations regarding the following: the sales of our software products and services; the impact of our revenue recognition policies; our belief that our current assets, including cash, cash equivalents, and expected cash flows from operating activities, will be sufficient to fund our operations; our anticipated additions to property, plant and equipment; our belief that our facilities are suitable and adequate to meet our current operating needs; our belief that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Words such as "we expect," "anticipate," "target," "project," "believe," "goals," "estimate," "potential," "predict," "may," "might," "could," "intend," and variations of these types of words similar expressions are intended to identify these forward-looking statements.

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PART I. Financial Information
ITEM 1. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROS Holdings, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)
(Unaudited)

	September 30, 2012	December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents	$72,644	$68,457
Accounts and unbilled receivables, net of allowance of $860 and $1,130, respectively	46,953	33,864
Prepaid and other current assets	4,816	8,353
Total current assets	124,413	110,674
Restricted cash	329	329
Property and equipment, net	10,698	4,703
Other long term assets, net	5,708	5,553
Total assets	$141,148	$121,259
Liabilities and Stockholders’ Equity:		
Current liabilities:		
Accounts payable	$5,931	$4,915
Accrued liabilities	3,881	1,667
Accrued payroll and other employee benefits	5,913	4,790
Deferred revenue	37,957	33,094
Total current liabilities	53,682	44,466
Long-term deferred revenue	2,774	2,850
Total liabilities	56,456	47,316
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized none issued	—	—
Common stock, $0.001 par value, 75,000,000 shares authorized; 31,872,766 and 31,432,430 shares issued, respectively; 27,455,181 and 27,014,845 shares outstanding, respectively	32	31
Additional paid-in capital	85,139	77,934
Treasury stock, 4,417,585 common shares, at cost	(13,938)	(13,938)
Accumulated other comprehensive loss	(11)	(11)
Retained earnings	13,470	9,927
Total stockholders’ equity	84,692	73,943
Total liabilities and stockholders’ equity	$141,148	$121,259

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PROS Holdings, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands, except share and per share data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue:				
License and implementation	$19,494	$16,560	$55,466	$45,435
Maintenance and support	10,419	8,648	29,602	24,964
Total revenue	29,913	25,208	85,068	70,399
Cost of revenue:				
License and implementation	6,547	4,755	18,090	14,221
Maintenance and support	2,122	1,578	6,017	4,931
Total cost of revenue	8,669	6,333	24,107	19,152
Gross profit	21,244	18,875	60,961	51,247
Operating expenses:				
Selling, marketing, general and administrative	12,383	9,352	34,524	26,320
Research and development	7,049	6,843	20,518	18,952
Income from operations	1,812	2,680	5,919	5,975
Other (expense) income, net	(15)	(90)	(121)	(33)
Income before income tax provision	1,797	2,590	5,798	5,942
Income tax provision	441	658	2,256	1,713
Net income	$1,356	$1,932	$3,542	$4,229
Net earnings per share:				
Basic	$0.05	$0.07	$0.13	$0.16
Diluted	$0.05	$0.07	$0.13	$0.15
Weighted average number of shares:				
Basic	27,426,269	26,928,195	27,322,940	26,783,812
Diluted	28,362,582	27,842,057	28,320,181	27,689,804
Other comprehensive income, net of tax:				
Other comprehensive income	—	—	—	—
Comprehensive income	$1,356	$1,932	$3,542	$4,229

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PROS Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2012	2011
Operating activities:		
Net income	$3,542	$4,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,546	1,189
Share-based compensation	6,962	5,008
Excess tax benefits on share-based compensation	(1,715)	(1,241)
Tax benefit from share-based compensation	1,621	1,210
Deferred income tax	344	(521)
Provision for doubtful accounts	(257)	(2)
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(12,832)	(336)
Prepaid expenses and other assets	3,276	(2,027)
Accounts payable	137	2,087
Accrued liabilities	2,334	326
Accrued payroll and other employee benefits	1,123	1,875
Deferred revenue	4,788	(712)
Net cash provided by operating activities	10,869	11,085
Investing activities:		
Purchases of property and equipment	(6,769)	(1,932)
Increase in restricted cash	—	(36)
Increase in short-term investment	—	73
Net cash used in investing activities	(6,769)	(1,895)
Financing activities:		
Exercise of stock options	1,033	1,737
Excess tax benefits on share-based compensation	1,715	1,241
Tax withholding related to net share settlement of restricted stock units	(2,411)	(1,610)
Debt issuance costs related to credit facility	(250)	—
Net cash provided by financing activities	87	1,368
Net increase in cash and cash equivalents	4,187	10,558
Cash and cash equivalents:		
Beginning of period	68,457	55,845
End of period	$72,644	$66,403

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PROS Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
1. Organization and Nature of Operations

PROS Holdings, Inc., a Delaware corporation, through its operating subsidiaries (the "Company"), is a leading global provider of pricing and revenue management software. This software is an emerging category of enterprise applications designed to allow business to make better sales decisions to significantly improve business agility in dynamic markets. The Company offers its large enterprise and mid-market customers secure and scalable software solutions which optimize pricing and product mix on a real-time basis by applying advanced forecasting and optimization technologies to their relevant enterprise and market data. The Company's software solutions are engineered to work together with existing customer information technology, including private and public cloud environments, and support the real-time, high volume transaction processing and database requirements of some of the world's largest and most sophisticated businesses. The Company also provides professional services to configure its software solutions to meet the specific integration and process needs of each customer. The Company provides its software solutions to enterprises across a range of industries, including manufacturing, distribution, services and travel.

2. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements reflect the application of significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission ("SEC"). In management's opinion, the accompanying interim unaudited condensed consolidated financial statements include all adjustments necessary for a fair statement of the financial position of the Company as of September 30, 2012, the results of operations for the three and nine months ended September 30, 2012 and cash flows for the nine months ended September 30, 2012. Prior period realized and unrealized foreign currency transaction gains and losses in the unaudited condensed consolidated statements of comprehensive income have been reclassified for all periods presented to conform to the current period presentation. Previously, these amounts were recorded in cost of license and implementation revenue. Such reclassifications were insignificant and did not affect net income. Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 ("Annual Report") filed with the SEC. The condensed consolidated balance sheet as of December 31, 2011 was derived from the Company's audited consolidated financial statements, but does not include all disclosures required by GAAP.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Dollar amounts

The dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars, except per unit amounts, or as noted within the context of each footnote disclosure.

Use of estimates

The Company's management prepares the unaudited condensed consolidated financial statements in accordance with GAAP. The Company makes estimates and assumptions in the preparation of its unaudited condensed consolidated financial statements, and its estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment required in the Company's estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenue, expenses, unbilled receivables and deferred revenue. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of

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assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. The critical accounting policies related to the estimates and judgments are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 under management's discussion and analysis of financial condition and results of operations. There have been no significant changes to the Company's critical accounting policies as described in the Company's Annual Report.

Revenue recognition

The Company derives its revenue from the licensing and implementation of software solutions and associated software maintenance and support. To a lesser extent, the Company's revenue includes non-software related hosting services. The Company's arrangements with customers typically include: (a) license fees paid for the use of our solutions either in perpetuity or over a specified term and implementation fees for configuration, implementation and training services and (b) maintenance and support fees related to technical support and software updates. If there is significant uncertainty about contract completion or collectability is not reasonable assured, revenue is deferred until the uncertainty is sufficiently resolved or collectability is reasonably assured. In addition, revenue is recognized when persuasive evidence of an arrangement exists and fees are fixed or determinable. For certain arrangements, we engage independent contractors to assist in the implementation of our software solutions. These arrangements are analyzed based on numerous factors to determine the amount of revenue to be recognized.

The Company's software license arrangements typically include implementation services that can be considered essential to the customer's usability of the licensed software solutions and therefore new perpetual software license revenue is generally recognized with the implementation services using the percentage-of-completion method. The percentage-of-completion computation is measured by the percentage of man-days incurred during the reporting period as compared to the estimated total man-days necessary for each contract for implementation of the software solutions. The Company measures performance under the percentage-of-completion method using total man-day method based on current estimates of man-days to complete the project. The Company believes that for each such project, man-days expended in proportion to total estimated man-days at completion represents the most reliable and meaningful measure for determining a project's progress toward completion. Under our fixed-fee arrangements, should a loss be anticipated on a contract, the full amount is recorded when the loss is determinable.

The Company also licenses software solutions under term license agreements that typically include maintenance during the license term. When maintenance is included for the entire term of the license, there is no renewal rate and the Company has not established vendor specific objective evidence ("VSOE") of fair value for the maintenance. For term license agreements, revenue and the associated costs are deferred until the delivery of the solution and recognized ratably over the remaining license term.

For arrangements that include hosting services we allocate the arrangement consideration between the hosting service and other elements and recognize the hosting fee ratably beginning on the date the customer commences use of our services and continuing through the end of the customer term.

The Company's customer arrangements typically contain multiple elements that include software license, implementation services and post-implementation maintenance and support. In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB Accounting Standards Codification ("ASC")) Topic 605, Revenue Recognition), which amended the accounting standards for certain multiple deliverable revenue arrangements that contain non-software related elements to:

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provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

- require an entity to allocate revenue in an arrangement using best estimated selling price, (“BESP”) of deliverables if a vendor does not have VSOE of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

For multiple element arrangements containing our non-software services, the Company must (1) determine whether and when each element has been delivered; (2) determine fair value of each element using the selling price hierarchy of VSOE of fair value, third party evidence (“TPE”), or BESP, as applicable, and (3) allocate the total price among the various elements based on the relative selling price method.

For multiple-element arrangements that contain software and non-software elements such as the Company's hosting service offerings, we allocate revenue between the software and software related elements as a group and any non-software elements based on a relative fair value allocation. We determine fair value for each deliverable using this hierarchy and utilize VSOE of fair value if it exists.

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In certain instances, the Company may not be able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to infrequently selling each element separately, not pricing solutions or services within a narrow range, or only having a limited sales history. In addition, third party evidence may not be available. When the Company is unable to establish selling prices using VSOE or TPE, it uses BESP in the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. For transactions that only include software and software-related elements the Company continues to account for such arrangements under the software revenue recognition standards which require it to establish VSOE of fair value to allocate arrangement consideration to multiple deliverables.

Maintenance and support revenue includes post-implementation customer support and the right to unspecified software updates and enhancements on a when and if available basis. The Company generally invoices for maintenance and support services on a monthly, quarterly or on an annual basis through the maintenance and support period. The Company recognizes revenue from maintenance arrangements ratably over the period in which the services are provided.

Software license and implementation revenue that has been recognized, but for which the Company has not invoiced the customer, is recorded as unbilled receivables. Invoices that have been issued before software license, implementation and maintenance and support revenue has been recognized are recorded as deferred revenue in the accompanying unaudited condensed consolidated balance sheets.

Internal-use software

Costs incurred to date to develop internal-use software during the application development stage are capitalized, stated at cost, and depreciated using the straight-line method over the estimated useful lives of the assets. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. During the three and nine months ended September 30, 2012, the Company capitalized internal-use software development costs of $0.6 million and $1.4 million, respectively, related to its cloud-based offerings and approximately $35,000 and $0.4 million, respectively, related to the implementation of a new enterprise resource planning system. Prior to 2011, the Company did not have any costs to capitalize related to internal-use software. Capitalized software for internal use is included in property and equipment, net in the condensed consolidated balance sheets.

Noncash share-based compensation

The Company measures all share-based payments to its employees based on the grant date fair value of the awards and recognizes expense in the Company’s unaudited consolidated statement of comprehensive income on a straight-line basis over the period during which the recipient is required to perform service (generally over the vesting period of the awards). To date, the Company has granted Stock Options, Stock Appreciation Rights (“SARs”), Restricted Stock Units (“RSUs”) and Market Stock Units (“MSUs”). The MSUs are performance-based awards that vest based upon the Company’s relative shareholder return.

The following table presents the number of shares or units outstanding for each award type as of September 30, 2012 and December 31, 2011, respectively (in thousands).

Award type	September 30, 2012	December 31, 2011
Stock options	1,498	1,581

Restricted stock units	1,250	1,153
Stock appreciation rights	800	836
Market share units	205	—

Stock options, SARs and RSUs vest ratably between three and four years. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Russell 2000 Index (“Index”) over a two year period ending December 31, 2013 (“Performance Period”). The MSUs vest on January 1, 2014, and the maximum number of shares issuable upon vesting is 200% of the MSUs initially granted.

The fair value of the restricted stock units is based on the closing price of the Company’s stock on the date of grant.

The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of fair value of the MSUs is affected by the Company’s stock price and a number of assumptions including the expected volatilities of the Company’s stock and the Index, its risk-free interest rate and expected dividends. The Company’s

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expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period. The Company did not estimate a forfeiture rate for the MSUs due to the limited size, the vesting period and nature of the grantee population and the lack of history of granting this type of award.

The Company did not grant any MSUs in 2011 or in the three months ended September 30, 2012.

The assumptions used to value the MSUs granted during the nine months ended September 30, 2012 were as follows:

	For the Nine Months Ended September 30, 2012
Volatility	61%
Risk-free interest rate	0.28%
Expected option life in years	1.88
Dividend yield	—

Earnings per share

The Company computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and SARs or the vesting of share-based awards. Diluted earnings per share reflects the assumed conversion of all dilutive share-based awards using the treasury stock method.

Fair value measurement

The Company’s financial assets that are measured at fair value on a recurring basis consisted of $58.0 million invested in treasury money market funds at both September 30, 2012 and December 31, 2011, respectively. The fair value of these accounts is determined based on quoted market prices, which represents level 1 in the fair value hierarchy as defined by Accounting Standard Codification, (“ASC”), 820, “Fair Value Measurement and Disclosure.”

Deferred revenue and unbilled receivables

Software license and implementation services that have been performed, but for which the Company has not invoiced the customer, are recorded as unbilled receivables, and invoices that have been issued before the software license and implementation services have been performed are recorded as deferred revenue in the accompanying unaudited condensed consolidated balance sheets. The Company generally invoices for maintenance and support services on a monthly, a quarterly or an annual basis through the maintenance and support period.

Income taxes

At the end of each interim reporting period, the Company estimates its annual effective tax rate to calculate its income tax provision. The estimated effective tax rate includes U.S. federal, state and foreign income taxes and is based on the application of an estimated annual income tax rate applied to the current quarter’s year-to-date pre-tax income. This estimated effective tax rate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim reporting periods. The effective tax rate for the three and nine months ended September 30, 2012 was 25% and 39%, respectively. The effective tax rate for the three and nine months ended September 30, 2011 was 25% and 29%, respectively. The difference between the effective tax rate and the federal statutory rate of 34% for the three ended September 30, 2012 was due primarily to a rate decrease of 21% from a discrete tax provision amount recorded in the third quarter of 2012 primarily related to a favorable return-to-provision adjustment attributable to higher than expected research and development tax credits in 2011, partially offset by a rate increase of 8% attributable to nondeductible share-based compensation expense. The difference between the effective tax rate and the federal statutory rate for the nine months ended September 30, 2012 was due to a rate increase of 8% attributable to nondeductible share-based compensation expense, offset by a rate decrease of 6% primarily related to the favorable return-to-provision adjustment. The effective tax rates in 2011 were lower than the statutory tax rate due to the application of the Research and Experimentation tax credits, which expired at the end of 2011.

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Recent accounting pronouncements

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in ASU 2011-5. ASU 2011-12 defers the effective date pertaining to the financial statement presentation of reclassification adjustments out of accumulated other comprehensive income in ASU 2011-5, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The Company adopted the standard on January 1, 2012, reporting comprehensive income in a single continuous financial statement in its unaudited condensed statements of comprehensive income. For the three and nine months ended September 30, 2012 and 2011, the Company did not report other comprehensive income in its unaudited consolidated statements of comprehensive income. In previous periods, the Company has reported cumulative foreign currency translation adjustments in other comprehensive income related to a wholly-owned foreign subsidiary. Since this standard affects disclosure requirements only, its adoption did not have a material impact on the Company’s consolidated financial statements.

3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2012 and 2011:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income	$1,356	$1,932	$3,542	$4,229
Denominator:				
Weighted average shares (basic)	27,426	26,928	27,323	26,784
Dilutive effect of potential common shares	937	914	997	906
Weighted average shares (diluted)	28,363	27,842	28,320	27,690
Basic earnings per share	$0.05	$0.07	$0.13	$0.16
Diluted earnings per share	$0.05	$0.07	$0.13	$0.15

Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of SARs, and vesting of RSUs. The MSUs are not included in dilutive potential common shares outstanding as they were determined to be antidilutive for the three and nine months ended September 30, 2012. Potential common shares determined to be antidilutive and excluded from diluted weighted average shares outstanding were approximately 1,005,000 and 915,000 for the three months ended September 30, 2012 and 2011, respectively, and approximately 549,000 and 886,000 for the nine months ended September 30, 2012 and 2011.

4. Noncash Share-based Compensation

The Company has two non-cash share based compensation plans; the 1999 Equity Incentive Plan ("1999 Stock Plan") and the 2007 Equity Incentive Plan ("2007 Stock Plan").

1999 Stock Plan. Under the 1999 Stock Plan, the Company is authorized to grant options to purchase shares of common stock to its employees, directors and consultants at the Company’s discretion. The Company’s 1999 Stock Plan was terminated in March 2007 for purposes of granting any future equity awards. There were issued and outstanding stock options to purchase 46,017 shares of the Company’s common stock under the 1999 Stock Plan on September 30, 2012.

2007 Stock Plan. Under the 2007 Stock Plan, the Company is authorized to grant awards to the Company's employees, officers, directors and other individuals providing services to the Company or any of its affiliates. The 2007 Stock Plan has an evergreen provision that allows for an annual increase equal to the lesser of (i) 3.5% of the Company’s outstanding shares (ii) 900,000 shares or (iii) any lesser amount determined by the Compensation Committee of the Board of Directors.

During the three months ended September 30, 2012, the Company granted 12,500 shares of RSUs to certain non-executive employees. These units vest over four years, convert to shares of common stock upon certain triggering events, and carried a weighted average grant-date fair value of $15.35 per share. The Company did not grant any MSUs, stock options or SARs during the three months ended September 30, 2012.

During the nine months ended September 30, 2012, the Company granted 596,300 shares of RSUs to certain employees, which carried a weighted average grant-date fair value of $18.80 per share. During the nine months ended September 30, 2012, the Company granted 205,000 shares of MSUs to certain executive officers and non-executive employees. These units vest on January 1, 2014, convert to shares of common stock upon certain triggering events and carried a weighted average grant-date fair value of $26.08 per share upon their issuance. The Company did not grant any stock options or SARs during the nine months ended September 30, 2012.

Share-based compensation expense is allocated to expense categories on the unaudited condensed consolidated statements of comprehensive income. The following table summarizes share-based compensation expense included in the Company's unaudited condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2012 and 2011:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Share-based compensation:				
Cost of revenue:				
License and implementation	$335	$282	$966	$894
Total included in cost of revenue	335	282	966	894
Operating expenses:				
Selling, marketing, general and administrative	1,662	967	4,565	2,971
Research and development	493	398	1,431	1,143
Total included in operating expenses	2,155	1,365	5,996	4,114
Total share-based compensation expense	$2,490	$1,647	$6,962	$5,008

In February 2012, the Company increased the number of shares available for issuance by 900,000 to 6,368,000 under the evergreen provision in the 2007 Stock Plan. As of September 30, 2012, 688,501 shares remained available for issuance under the 2007 Stock Plan. At September 30, 2012, there was an estimated $21.1 million of total unrecognized compensation costs related to share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.6 years.

5. Credit Facility

In July 2012, the Company, through its wholly owned subsidiary PROS, Inc., entered into a $50.0 million secured Credit Agreement (the "Revolver") with Wells Fargo Bank, N.A. ("Wells Fargo").

The Revolver is for a five year term, with interest paid at the end of the applicable one month, three month or six month interest period at a rate per annum equal to LIBOR plus an applicable margin of 1.5% to 2.25% or the Federal Funds Rate plus an applicable margin of 1.5% to 2.25%. Borrowings under the Revolver are collateralized by a first priority interest in and lien on all of the Company's material assets.

The Revolver contains affirmative and negative covenants, including covenants which restrict the ability of the Company to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, the Revolver contains certain financial covenants which become effective in the event the Company's availability under the revolver plus cash and cash equivalents falls below $20.0 million or upon the occurrence of an event of default.

Debt issuance costs of $0.2 million incurred related to the Revolver will be carried in other long term assets and amortized to interest expense over the life of the Revolver.

As of September 30, 2012, the Company had no outstanding borrowings under the Revolver.

6. Commitments and Contingencies

Litigation:

In the ordinary course of the Company's business, the Company regularly becomes involved in contract and other negotiations and, in more limited circumstances, becomes involved in legal proceedings, claims and litigation. The outcomes of these matters are inherently unpredictable. The Company is not currently involved in any outstanding litigation that it believes, individually or in the aggregate, will have a material adverse effect on its business, financial condition, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms "we," "us" and "our" refer to PROS Holdings, Inc. and all of its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States of America.

This management's discussion and analysis of financial condition and results of operations should be read along with the unaudited condensed consolidated financial statements and unaudited notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes to consolidated financial statements and management's discussion and analysis of financial condition and results of operations set forth in our Annual Report on Form 10-K for the year ended December 31, 2011.

Overview

We are a leading provider of enterprise pricing and revenue management software to enterprises across a range of industries, including manufacturing, distribution, services and travel. These products are an emerging category of big data enterprise applications designed to allow companies to improve financial performance by implementing pricing excellence best practices. Enterprises use our big data software to gain insight into their pricing strategies, identify detrimental pricing practices, optimize their pricing decision-making and improve their business processes and financial performance. Our software incorporates advanced pricing science, which includes operations research, forecasting and statistics. Our innovative science-based software products analyze, execute and optimize pricing strategies using data elements determined using pricing algorithms, including the pocket price, pocket margin, customer willingness-to-pay, customer cost-to-serve, win-loss ratios, market price, stretch price, as well as data from traditional enterprise applications—often augmenting it with real-time and historical data and external data sources. Our high performance big data software architecture supports real-time high volume transaction processing and allows us to handle the processing and database requirements of the most sophisticated and largest customers, including customers with hundreds of simultaneous users and sub-second electronic transactions. We provide professional services to configure, integrate and customize our solutions to meet the specific pricing needs of each customer.

Many of our customers process large volumes of individually priced business-to-consumer and business-to-business transactions every day. Our high-performance, real-time, dynamic pricing products differ from static retail pricing products by delivering the relevant pricing information at the time the price is quoted, the deal is negotiated and the sale transaction is made. Our software products are also used to provide optimized price lists and goal-driven price guidance. While companies in our target industries differ in the wide range of business-to-business and business-to-customer products and services that they provide, many are similar in their need to improve pricing agility in dynamic markets, improve control of their pricing processes and optimally price each individual transaction. Since inception, we have implemented over 500 solutions across a range of industries in more than 50 countries.

Opportunities, Trends and Uncertainties

We have noted opportunities, trends and uncertainties that we believe are particularly significant to understand our financial results and condition.

- Growth opportunities. We believe the market for pricing and revenue management software is underpenetrated. Market interest for our software has increased over the past several years providing us with a growth opportunity. We are investing in our businesses to more effectively address these opportunities through significant investment in research and development, sales, marketing and back office. In addition to organic growth, we may acquire companies or technologies that can contribute to the strategic, operational and financial growth of our business. We expect to continue to explore

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both organic and other strategic growth opportunities.

- Difficult economic conditions. The current global economic conditions continue to be challenging and have had and may continue to have a negative impact on the adoption of pricing and revenue management software and may increase the volatility in our business. Due to the difficult economic conditions, we continue to experience long sales cycles, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. In addition, certain foreign countries are also facing significant economic crisis and it is possible that these crises could result in economic deterioration in the markets in which we operate. We believe our solutions provide value to our customers during periods of growth as well as in recessions, but it is uncertain the extent to which the difficult economic conditions will further affect our business.

- Variability in revenue. Our revenue recognition policy provides visibility into a significant portion of our revenue in the near-term quarters, although the actual timing of revenue recognition varies based on the nature and requirements of our contracts. For the majority of our arrangements, we have not historically recognized license revenue upon customer contract signature and software delivery. We evaluate our contract terms and conditions as well as our implementation performance obligations in making our revenue recognition determination for each contract. Our contractual performance obligations in the future may differ from historical periods impacting the timing of the recognition of revenue. For example, growth in our term, hosting, and software-as-a-service ("SaaS") offerings may result in the deferral of revenue over the contractual service period, whereas growth in perpetual license arrangements with limited or no implementation performance obligations may result in the recognition of license revenue on delivery, provided all other revenue recognition criteria are met. Our revenue could also vary based on our customer mix and customer geographic location. We sell our solutions to customers in the manufacturing, distribution, services and travel industries. From a geographical standpoint, approximately 56% and 69% of our consolidated revenues were derived from customers outside the United States for each of the three months ended September 30, 2012 and 2011, respectively, and approximately 59% and 65% of our consolidated revenues were derived from customers outside the United States for each of the nine months ended September 30, 2012 and 2011, respectively. Our contracts with customers outside the United States are predominately denominated in U.S. dollars. The economic and political environments around the world could change our concentration of revenue within industries and across geographies.

- Income taxes. During the three and nine months ended September 30, 2012, the effective income tax rate was 25% and 39% as compared to the federal rate of 34%. The decrease in the effective tax rate is due primarily to a discrete tax provision amount recorded in the third quarter of 2012 related to a favorable return-to-provision adjustment attributable to higher than expected research and experimentation (“R&E”) tax credits in 2011. We expect our effective tax rate to be higher than the federal rate in 2012 and 2013. The R&E tax credit has not been reinstated for 2012 and, accordingly, our federal income tax provision for the three and nine months ended September 30, 2012 excludes the effect of the R&E tax credit. If the R&E tax credit is reinstated during 2012, our annual effective tax rate will be favorably impacted, resulting in a reduction to our 2012 tax provision on a cumulative basis.

Results of Operations

Comparison of three months ended September 30, 2012 with three months ended September 30, 2011

Revenue:

	For the Three Months Ended September 30,					
	2012		2011			
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	Variance $	Variance %
License and implementation	$19,494	65 %	$16,560	66 %	$2,934	18 %

Maintenance and support	10,419	35	%	8,648	34	%	1,771	20	%
Total	$29,913	100	%	$25,208	100	%	$4,705	19	%

License and implementation. License and implementation revenue increased $2.9 million to $19.5 million for the three months ended September 30, 2012 from $16.6 million for the three months ended September 30, 2011, representing a 18% increase. The increase in license and implementation revenue in the three months ended September 30, 2012 was principally due to a 13% increase in the number of implementations from 75 to 85, and a 25% increase in the number of man-days expended that generated license and implementation revenue. These increases were offset by a 5% decrease in the average revenue recognized per man-day as compared to the corresponding period of 2011.

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License and implementation revenue includes revenue from both term licenses and hosting services. Revenue from term licenses represented approximately 5.6% and 4.9% of total revenue for the three months ended September 30, 2012 and 2011, respectively. Revenue from hosting services represented approximately 2.6% of total revenue for the three months ended September 30, 2012 and 2011, respectively.

Maintenance and support. Maintenance and support revenue increased $1.8 million to $10.4 million for the three months ended September 30, 2012 from $8.6 million for the three months ended September 30, 2011, representing a 20% increase. The increase in maintenance and support revenue is principally a result of an increase in the number of customers for which we are providing maintenance and support services.

Cost of revenue and gross profit:

	For the Three Months Ended September 30,									
	2012			2011						
(Dollars in thousands)	Amount	As a Percentage of Related Revenue		Amount	As a Percentage of Related Revenue		Variance $	Variance %		
Cost of license and implementation	$6,547	34	%	$4,755	29	%	$1,792	38	%
Cost of maintenance and support	2,122	20	%	1,578	18	%	544	34	%
Total cost of revenue	$8,669	29	%	$6,333	25	%	$2,336	37	%
Gross profit	$21,244	71	%	$18,875	75	%	$2,369	13	%

Cost of license and implementation. Cost of license and implementation increased $1.8 million to $6.5 million for the three months ended September 30, 2012 from $4.8 million for the three months ended September 30, 2011, representing a 38% increase. The increase in cost of license and implementation is principally attributable to an increase of $1.3 million of human resources costs. Human resources cost, which include our personnel and contractors, increased as a result of an increase in headcount needed to support the increased number of active and anticipated implementations and salary merit increases. In addition, there was an increase of $0.3 million of travel expenses, an increase of $0.2 million in the investment of our cloud infrastructure and an increase of $0.1 million of third party recruiting expenses.

License and implementation gross profit percentages were 66% for the three months ended September 30, 2012 as compared to 71% for the three months ended September 30, 2011. The decrease in the license and implementation gross profit percentage was principally the result of a 38% increase in the cost of license and implementation revenue. License and implementation gross profit percentages can vary from period to period depending on different factors, including the amount of implementation services required to deploy our products relative to the total contract price.

Cost of maintenance and support. Cost of maintenance and support increased $0.5 million to $2.1 million for the three months ended September 30, 2012 from $1.6 million for the three months ended September 30, 2011, representing a 34% increase. The increase in cost of maintenance and support in the three months ended September 30, 2012 when compared to the corresponding period in 2011 is attributable to an increase of human resources costs associated with continued growth in our customer maintenance and support function commensurate with maintenance and support revenue growth. Maintenance and support gross profit percentages were 80% for the three months ended September 30, 2012 as compared to 82% for the three months ended September 30, 2011.

Gross profit. Gross profit increased $2.4 million to $21.2 million for the three months ended September 30, 2012 from $18.9 million for the three months ended September 30, 2011, representing a 13% increase. The increase in overall gross profit was principally attributable to a 19% increase in total revenue.

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Operating expenses:

	For the Three Months Ended September 30,					
	2012		2011			
(Dollars in thousands)	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue	Variance $	Variance %
Selling, marketing, general and administrative	$12,383	41 %	$9,352	37 %	$3,031	32 %
Research and development	7,049	24 %	6,843	27 %	206	3 %
Total operating expenses	$19,432	65 %	$16,195	64 %	$3,237	20 %

Selling, marketing, general and administrative expenses. Selling, marketing, general and administrative expenses increased $3.0 million to $12.4 million for the three months ended September 30, 2012 from $9.4 million for the three months ended September 30, 2011, representing a 32% increase. The increase was principally due to an increase of $2.6 million in sales, marketing, general and administrative human resources costs, which includes third party contractor expenses, as a result of an increase in headcount to support our planned growth objectives and salary merit increases for existing personnel. Included in the increase in human resources costs is an increase of $0.7 million of non-cash share based compensation as a result of the granting of equity awards. In addition, there was an increase of $0.4 million of travel expenses, an increase of $0.3 million of overhead and other expenses, an increase of $0.2 million of third party professional fees and an increase of $0.1 million in third party recruiting expenses. These increases were partially offset by a decrease of $0.9 million of sales and marketing expenses resulting from decreases in certain marketing initiatives.

Research and development expenses. Research and development expenses increased $0.2 million to $7.0 million for the three months ended September 30, 2012 from $6.8 million for the three months ended September 30, 2011, representing a 3% increase. The increase was principally attributed to an increase of $0.2 million in human resources costs, which include third party contractor expenses, as a result of increased headcount to support work on new products and initiatives and salary merit increases. Included in the human resources costs is an increase of $0.1 million of non-cash share based compensation as a result of equity awards being granted.

Other (expense) income, net:

	For the Three Months Ended September 30,					
	2012		2011			
(Dollars in thousands)	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue	Variance $	Variance %
Other (expense) income, net	$(15)	— %	$(90)	— %	$75	(83)%

Other (expense) income, net. Other (expense) income, net consists of interest income on our cash and cash equivalents, interest expense which includes debt issuance cost amortization on the credit facility we entered into in

July 2012 and foreign currency exchange gains and losses on transactions denominated in currencies other than the functional currency. The decrease was primarily attributed to an increase in interest expense from the credit facility, partially offset by a net foreign currency gain during the three months ended September 30, 2012.

Income tax provision:

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(Dollars in thousands)	For the Three Months Ended September 30, 2012		2011		Variance $		Variance %	
Effective tax rate	25	%	25	%	n/a		—	%
Income tax provision	$441		$658		$(217	)	(33	)%

Income tax provision. Our income tax provision decreased $0.2 million to $0.4 million for the three months ended September 30, 2012 from $0.7 million for the three months ended September 30, 2011. Our effective tax rate was 25% for the three months ended September 30, 2012 and 2011, respectively. The effective tax rate of 25% in 2011 was lower than the statutory tax rate due to the application of the R&E tax credit, which expired at the end of 2011. The overall effective tax rate of 25% for the three months ended September 30, 2012 was below our estimated annual effective tax rate of 45% due to a discrete tax provision amount recorded in the third quarter of 2012 related to a favorable return-to-provision adjustment attributable to higher than expected 2011 R&E tax credits.

Comparison of nine months ended September 30, 2012 with nine months ended September 30, 2011

Revenue:

	For the Nine Months Ended September 30, 2012			2011						
(Dollars in thousands)	Amount	As a Percentage of Total Revenue		Amount	As a Percentage of Total Revenue		Variance $	Variance %	
License and implementation	$55,466	65	%	$45,435	65	%	$10,031	22	%
Maintenance and support	29,602	35	%	24,964	35	%	4,638	19	%
Total	$85,068	100	%	$70,399	100	%	$14,669	21	%

License and implementation. License and implementation revenue increased $10.0 million to $55.5 million for the nine months ended September 30, 2012 from $45.4 million for the nine months ended September 30, 2011, representing a 22% increase. The increase in license and implementation revenue in the nine months ended September 30, 2012 was principally due to a 15% increase in the number of implementations from 97 to 112, a 16% increase in the number of man-days expended that generated license and implementation revenue and an increase of 5% in the average revenue recognized per man-day as compared to the corresponding period of 2011.

License and implementation revenue includes revenue from both term licenses and hosting services. Revenue from term licenses represented approximately 5.2% and 6.1% of total revenue for the nine months ended September 30, 2012 and 2011, respectively. Revenue from hosting services represented approximately 2.7% and 2.2% of total revenue for the nine months ended September 30, 2012 and 2011, respectively.

Maintenance and support. Maintenance and support revenue increased $4.6 million to $29.6 million for the nine months ended September 30, 2012 from $25.0 million for the nine months ended September 30, 2011, representing a 19% increase. The increase in maintenance and support revenue is principally a result of an increase in the number of customers for which we are providing maintenance and support services.

Cost of revenue and gross profit:

	For the Nine Months Ended September 30, 2012		2011			
(Dollars in thousands)	Amount	As a percentage	Amount	As a percentage of related revenue	Variance $	Variance %

		of related revenue							
Cost of license and implementation	$18,090	33	%	$14,221	31	%	$3,869	27	%
Cost of maintenance and support	6,017	20	%	4,931	20	%	1,086	22	%
Total cost of revenue	$24,107								

264,657

Cash and cash equivalents at beginning of period
191,410

125,347

Cash and cash equivalents at end of period
222,842

390,004

(1) In addition to the cash consideration received for the sale of the Golar Eskimo in January 2015, there was non-cash consideration in relation to Golar Partner's assumption of the bank debt of $162.8 million and a vendor loan of $220 million provided by us (See note 4). As of September 30, 2015, Golar Partners had repaid $120.0 million of the vendor loan.
(2) In relation to the sale of the Golar Viking to Equinox in February 2015, there was non-cash consideration in respect of the loan facilities provided by us (See note 13).
(3) LNG Abuja was acquired in April 2015 for $20.0 million. In July 2015, we sold the vessel to a third party for $19.0 million.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GOLAR LNG LIMITED
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of $)	Share Capital	Additional Paid in Capital	Contributed Surplus	Accumulated Other Comprehensive (loss) income	Accumulated Retained Earnings	Total before Non-Controlling Interest	Non-Controlling Interest	Total Equity
Balance at December 31, 2013	80,580	656,018	200,000	(6,757)	874,296	1,804,137	—	1,804,137
Net loss	—	—	—	—	(3,470)	(3,470)	—	(3,470)
Dividends	—	—	—	—	(114,494)	(114,494)	—	(114,494)
Exercise of share options	51	787	—	—	(325)	513	—	513
Grant of share options	—	314	—	—	—	314	—	314
Net proceeds from issuance of shares	12,650	648,297	—	—	—	660,947	—	660,947
Other comprehensive loss	—	—	—	45,858	—	45,858	—	45,858
Balance at September 30, 2014	93,281	1,305,416	200,000	39,101	756,007	2,393,805	—	2,393,805

(in thousands of $)	Share Capital	Additional Paid in Capital	Contributed Surplus	Accumulated Other Comprehensive (loss) income	Accumulated Retained Earnings	Total before Non-Controlling Interest	Non-Controlling Interest	Total Equity
Balance at December 31, 2014	93,415	1,307,087	200,000	5,171	675,179	2,280,852	1,655	2,282,507
Net (loss) income	—	—	—	—	(126,768)	(126,768)	8,138	(118,630)
Dividends	—	—	—	—	(121,359)	(121,359)	—	(121,359)
Exercise of share options	8	15	—	—	—	23	—	23
Grant of share options	—	4,891	—	—	—	4,891	—	4,891
Forfeiture of share options	—	(1,735)	—	—	—	(1,735)	—	(1,735)
Cancellation of share options	—	787	—	—	—	787	—	787
Transfer of additional paid in capital (note 2)	—	6,003	—	(4,425)	—	1,578	—	1,578
Other comprehensive income	—	—	—	(42,604)	—	(42,604)	—	(42,604)
Balance at September 30, 2015	93,423	1,317,048	200,000	(41,858)	427,052	1,995,665	9,793	2,005,458

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

GOLAR LNG LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Golar LNG Limited (the "Company" or "Golar") was incorporated in Hamilton, Bermuda on May 10, 2001 for the purpose of acquiring the liquefied natural gas ("LNG") shipping interests of Osprey Maritime Limited ("Osprey"), which was owned by World Shipholding Limited ("World Shipholding").

As of September 30, 2015, we own and operate a fleet of fourteen LNG carriers, and under management agreements operate Golar LNG Partner LP's ("Golar Partners" or the "Partnership") fleet of four LNG carriers and six Floating Storage Regasification Units ("FSRUs"). In addition, we have two newbuilding commitments for the construction of FSRUs, one of which was delivered on November 25, 2015 and the other is expected to be delivered in the last quarter of 2017.

In July 2014, we ordered our first Floating Liquefaction Natural Gas Vessel ("FLNGV") based on the conversion of our existing LNG carrier, the Hilli. The Hilli is currently undergoing its FLNGV conversion with an expected completion and redelivery date in 2017. We signed agreements for the conversion of the LNG carriers, the Gimi and the Gandria to FLNGVs in December 2014 and July 2015, respectively.

As used herein and unless otherwise required by the context, the terms "Golar", the "Company", "we", "our" and words of similar import refer to Golar or anyone or more of its consolidated subsidiaries, or to all such entities.

2. ACCOUNTING POLICIES

Basis of accounting
The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The condensed consolidated financial statements do not include all of the disclosures required in the annual consolidated financial statements, and should be read in conjunction with our annual financial statements for the year ended December 31, 2014.

The nine months period ended September 30, 2015 includes an out of period correction of $1.6 million additional expense captured in other financial items in the income statement, a decrease to accumulated other comprehensive income of $4.4 million, and an increase to additional paid in capital of $6 million. Management believes this out of period correction is not material to the current period condensed consolidated financial statements or any previously issued financial statements and is not expected to be material to the annual consolidated financial statements for the year ending December 31, 2015.

Significant accounting policies
The accounting policies adopted in the preparation of the condensed consolidated financial statements for the period ended September 30, 2015 are consistent with those followed in the preparation of our audited consolidated financial statements for the year ended December 31, 2014.

Use of estimates
The preparation of financial statements in accordance with the United States Generally Accepted Accounting Principles ("US GAAP") requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables, including loans and accounts receivables, are recorded in the balance sheet at their nominal amount less an allowance for doubtful accounts. We establish reserves for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, we consider the financial condition of the customer/borrower as well as specific circumstances related to the receivable such as customer disputes. Receivable amounts determined as being irrecoverable are written off (See note 13).

During the first quarter ended March 31, 2015, we revised our assessment of the existing provision for the Golar Grand Option amounting to $7.2 million, issued in connection with the disposal of the Golar Grand to Golar Partners in November 2012, where in the event that the charterer did not renew or extend its charter beyond February 2015, Golar Partners had the option to require us to charter the vessel through October 2017. Golar Partners exercised this option in February 2015. The fair value of the Golar Grand Option was determined by discounting the difference between the guaranteed charter rate per the option agreement less the estimated market rates expected to be earned from the vessel during the duration of the lease term and taking into consideration expected utilization. The assessment was revisited by adjusting the initial period of commencement of employment of the Golar Grand which resulted in an incremental liability of $8.8 million, which was recorded in quarter ended March 31, 2015. The provision is presented in our consolidated balance sheet under "Other current liabilities" and "Other long-term liabilities" and is being released to the statement of operations over the term of the charter.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting pronouncements to be adopted

In January 2015, the Financial Accounting Standards Board ("FASB") issued guidance to simplify the income statement presentation requirements by eliminating the concept of extraordinary items. We believe the adoption of this guidance will not have a material impact on our consolidated financial position, results of operations and cash flows.

In February 2015, the FASB issued amendments to ASC 810 requiring re-evaluation of all legal entities under the revised consolidation model. Specifically, the amendments:

- modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities;
- eliminate the presumption that a general partner should consolidate a limited partnership;
- affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and
- provide a scope exception from consolidation guidance for reporting entities with interest in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

We are assessing what impact, if any, the adoption of this guidance will have on our consolidated financial position, results of operations and cash flows.

In April 2015, the FASB issued amendments to ASC 835 that would require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected by the amendments. We have chosen not to early adopt. Had we early adopted, debt issuance costs of $34.0 million as of September 30, 2015 (2014: $26.8 million) would have been reclassified from 'Deferred charges' to a direct deduction from 'Current portion of long-term debt' and 'Long-term debt'.

ASC 820, Fair Value Measurement, permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments using the practical expedient are categorized within the fair value hierarchy according to the date when the investment is redeemable. In May 2015, the FASB issued amendments to ASC 820 which have the effect of a) removing the requirement to categorize these investments and b) limiting disclosures of these investments. We believe the adoption of this guidance will not have a material impact on our consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued a new topic ASC 606, Revenue from Contracts With Customers. The intention of the topic is to harmonize revenue recognition requirements with the newly issued standard, IFRS 15, by the International Accounting Standards Board (IASB). The initial effective date for public business entities was for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015, the FASB issued an amendment to ASC deferring the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. We are assessing what impact, if any, the adoption of this guidance will have on our consolidated financial position and results of operations.

4. DISPOSAL OF SUBSIDIARIES

In January 2015 and March 2014, we sold our interests in the companies that own and operate the Golar Eskimo and Golar Igloo, respectively, to Golar Partners.

(in thousands of $)	Provisional Golar Eskimo	Golar Igloo
Consideration received	227,170	156,001
Carrying value of the assets sold to Golar Partners	(123,604)	(112,714)
Gain recognized on sale	103,566	43,287

The provisional gain from the sale of the Golar Eskimo in January 2015 was $103.6 million. The consideration for the Golar Eskimo comprised of $390.0 million for the vessel less the assumed bank debt of $162.8 million. Golar Partners financed the purchase using $7.2 million cash on hand and the proceeds of a $220 million vendor loan from us (See note 18).

The provisional gain from the sale of the Golar Igloo in March 2014 was $35.5 million. This was subsequently finalized and adjusted to $43.3 million in Q4, 2014. The cash consideration for the Golar Igloo comprised of $310.0 million for the vessel and charter less the assumed bank debt of $161.3 million plus purchase price adjustments of $7.2 million.

The gains on sale of the Golar Eskimo and the Golar Igloo were recognized at the time of the sale in the consolidated statements of income under "Gain on disposals to Golar Partners".

Pursuant to the agreement to sell the assets and liabilities of the companies that own and operate the FSRU Golar Eskimo, these were presented as assets and liabilities held for sale within our December 31, 2014 consolidated balance sheet.

5. SEGMENTAL INFORMATION

We own and operate LNG carriers and FSRUs and provide these services under time charters under varying periods, trades in physical and future LNG contracts, and are in the process of developing our first FLNGV. Since the initial public offering ("IPO") of Golar Partners, we have become a project development company. Our reportable segments consist of the primary services each provides. Although our segments are generally influenced by the same economic factors, each represents a distinct product in the LNG industry. There have not been any intersegment sales during the periods presented. Segment results are evaluated based on net income. The accounting principles for the segments are the same as for our consolidated financial statements. Indirect general and administrative expenses are allocated to each segment based on estimated use.

The split of the organization of the business into three reportable segments is based on differences in management structure and reporting, economic characteristics, customer base, asset class and contract structure. As of September 30, 2015, we operate in the following three reportable segments:

- Vessel operations – We operate and subsequently charter out LNG carriers and FSRUs on fixed terms to customers. We aggregate our vessel operations into one reportable segment as they exhibit similar expected long-term financial performance.
- LNG trading – We provide physical and financial risk management in LNG and gas markets for its customers around the world. Activities include structured services to outside customers, arbitrage service as well as proprietary trading.
- FLNGV – In 2014, we ordered our first FLNGV based on the conversion of our existing LNG carrier, the Hilli. The Hilli FLNGV conversion is expected to be completed and delivered in 2017. The costs associated with the conversion to a FLNGV has been considered as a separate segment.

The LNG trading operations meets the definition of an operating segment as the business is a financial trading business and its financial results are reported directly to the chief operating decision maker. The LNG trading segment is a distinguishable component of the business from which we earn revenues and incur expenses and whose operating results are regularly reviewed by the chief operating decision maker, and which is subject to risks and rewards different from the vessel operations segment.

FLNGV meets the definition of an operating segment as the business is a distinguishable component of the business from which once the first FLNG is delivered to us, we will earn revenues and incur expenses and whose operating results will be regularly reviewed by the chief operating decision maker, and due to its nature is subject to risks and rewards different from the vessel operations segment or the LNG trading segment.

(in thousands of $)	Nine months ended September 30, 2015 Vessel operations	LNG Trading	FLNGV*	Total	Nine months ended September 30, 2014 Vessel operations	LNG Trading	FLNGV*	Total
Time charter revenues	70,009	—	—	70,009	62,881	—	—	62,881
Vessel and other management fees	9,671	—	—	9,671	8,003	—	—	8,003
Vessel and voyage operating expenses	(100,372)	—	—	(100,372)	(52,248)	—		(52,248)
Administrative expenses	(20,100)	—	(3,405)	(23,505)	(13,270)	(52)	(1,679)	(15,001)
Depreciation and amortization	(54,191)	—	—	(54,191)	(35,437)	(250)	—	(35,687)
Gain on disposals to Golar Partners (including amortization of deferred gains)	103,917	—	—	103,917	35,220	—	—	35,220
Loss on disposal of fixed assets	(5,824)	—	—	(5,824)		—	—	—
Impairment of vessel held-for-sale	(1,032)	—	—	(1,032)	—	—	—	—
Other operating gains and losses	—	—	—	—	—	1,317	—	1,317
Dividend income	11,409	—	—	11,409	20,029	—	—	20,029
Other non-operating (loss) income	—	—	—	—	(437)	718	—	281
Loss on sale of available-for-sale securities	(3,011)	—	—	(3,011)	—	—	—	—
Net financial expenses	(138,397)	—	—	(138,397)	(43,890)	(252)	—	(44,142)
Income taxes	2,563	—	—	2,563	765	—	—	765
Equity in net earnings of affiliates	10,133	—	—	10,133	15,112	—	—	15,112
Net (loss) income	(115,225)	—	(3,405)	(118,630)	(3,272)	1,481	(1,679)	(3,470)
Non-controlling interests	(8,138)	—	—	(8,138)	—	—	—	—
Net (loss) income attributable to Golar LNG Ltd	(123,363)	—	(3,405)	(126,768)	(3,272)	1,481	(1,679)	(3,470)
Total assets	3,473,967	—	565,002	4,038,969	3,321,329	1,353	293,647	3,617,682

*The Hilli conversion into a FLNGV commenced in July 2014.

Revenues from external customers

In time charters, the charterer, not the Company, controls the choice of which routes our vessel will serve. These routes can be worldwide except for FSRUs which operate in a specific location. Accordingly, our management, including the chief operating decision maker, does not evaluate our performance either according to customer or geographical region.

For the nine months ended September 30, 2015 and 2014, revenues from the following charterers accounted for over 10% of our time charter revenues:

(in thousands of $)	Nine months ended September 30,	Nine months ended September 30,

	2015			2014		
Nigeria LNG Ltd	29,116	42	%—	—		%
Major commodity trading company	14,871	21	%8,293	13		%
Major Japanese trading company	7,289	10	%39,104	62		%
Multinational oil and gas company	6,963	10	%—	—		%

6. EARNINGS PER SHARE

Basic earnings per share ("EPS") are calculated with reference to the weighted average number of common shares outstanding during the period. Treasury shares are not included in the calculation. The computation of diluted EPS for the nine month period ended September 30, 2015 and 2014, assumes the conversion of potentially dilutive instruments.

The components of the numerator for the calculation of basic and diluted EPS are as follows:

(in thousands of $)	Nine months ended September 30,	
	2015	2014
Net loss attributable to Golar LNG Ltd stockholders - basic and diluted	(126,768)	(3,470)

The components of the denominator for the calculation of basic and diluted EPS are as follows:

	Nine months ended September 30,	
(in thousands)	2015	2014
Weighted average number of common shares outstanding	93,419	84,883

Loss per share are as follows:

	Nine months ended September 30,	
	2015	2014
Basic and diluted	$(1.36)	$(0.04)

For the nine months ended September 30, 2015 and 2014, stock options and convertible bonds have been excluded from the calculation of diluted loss per share because the effect was anti-dilutive.

7. OTHER FINANCIAL ITEMS

Other financial items comprise of the following:

	Nine months ended September 30,	
(in thousands of $)	2015	2014
Unrealized mark-to-market losses for interest rate swaps	(28,917)	(16,360)
Interest expense on undesignated interest rate swaps	(12,162)	(15,307)
Unrealized mark-to-market losses for equity derivatives	(32,334)	—
Impairment of loan*	(15,010)	—
Others	(3,138)	(7,479)
	(91,561)	(39,146)

* This relates to the impairment of the loan due from Equinox in connection with the disposal of the Golar Viking to Equinox in February 2015 (See note 13).

8. VARIABLE INTEREST ENTITIES

In February 2014, through our wholly-owned subsidiaries, we entered into sale and leaseback agreements with ICBC Finance Leasing Co. Ltd ("ICBCL") entities for four of our vessels; the Golar Glacier, Golar Kelvin, Golar Ice and Golar Snow. The ICBCL entities are wholly-owned, newly formed special purpose vehicles ("SPVs").

In October 2014, the first vessel, Golar Glacier, was sold to an ICBCL SPV, followed by the sale of Golar Kelvin and Golar Snow in January 2015 and Golar Ice in February 2015. The vessels were simultaneously chartered back over a period of 10 years. We have several options to repurchase the vessels during the charter periods with the earliest from the fifth year of the bareboat charter, and purchase options and obligations to purchase the assets at the end of the 10 year lease period.

The table below gives a summary of the ICBCL sale and leaseback arrangements, as of September 30, 2015:

Vessel	Effective from	Sales value (in $ millions)	First repurchase option (in $ millions)	Month of first repurchase option	Last repurchase option (in $ millions)	Month of last repurchase option
Golar Glacier	October 2014	204.0	173.8	October 2019	142.7	October 2024
Golar Kelvin	January 2015	204.0	173.8	January 2020	142.7	January 2025
Golar Snow	January 2015	204.0	173.8	January 2020	142.7	January 2025
Golar Ice	February 2015	204.0	173.8	February 2020	142.7	February 2025

While we do not hold any equity investment in the above SPVs, we concluded that we have a variable interest in the SPVs, and that the SPVs are variable interest entities ("VIE"). Our evaluation under the VIE model included both quantitative and qualitative considerations. These considerations included the equity structure, our rights and obligations resulting from the agreement, the existence of repurchase option, the nature of the investment, the purpose and design of the legal entities, and the organizational structure including decision-making ability and relevant financial agreements.

As a result of this evaluation, we assessed that we are the primary beneficiary of these VIEs and accordingly, these VIEs are consolidated in our results. The equity attributable to ICBCL in the VIEs is included in non-controlling interests in our consolidated results.

As at September 30, 2015, the vessels are reported under "Vessels and equipment, net" in our consolidated balance sheet.

A summary of our payment obligations under the bareboat charters as of September 30, 2015, are shown below:

(in $ thousands)	2015	2016	2017	2018	2019
Golar Glacier	4,263	17,147	17,100	17,100	17,100
Golar Kelvin	4,310	17,147	17,100	17,100	17,100
Golar Snow	4,310	17,147	17,100	17,100	17,100
Golar Ice	4,310	17,147	17,100	17,100	17,100

In addition, included within 'Restricted cash' of our Unaudited consolidated balance sheet is a cash balance of $36.1 million (2014: $nil) arising from the consolidation of the aforementioned ICBCL VIEs.

9. NEWBUILDINGS

As of September 30, 2015, we had two FSRUs, the Golar Tundra and Golar FSRU 8, under construction. The Golar Tundra was delivered on November 25, 2015.

In July 2015, we entered into a contract with Samsung Heavy Industries Co., Ltd for the construction of a new FSRU, Golar FSRU 8, due for delivery in the fourth quarter of 2017.

As of September 30, 2015, the outstanding installment payments for these buildings was $387.3 million.

10. VESSELS AND EQUIPMENT

During the nine months ended September 30, 2015, three newbuild LNGs, Golar Kelvin, Golar Snow and Golar Ice were delivered at a total cost of $628.3 million. The Golar Eskimo was sold to Golar Partners in January 2015. In February 2015, we sold the LNG carrier, Golar Viking, to Equinox at a sale price of $135.0 million resulting in a loss on disposal of $5.8 million. Accordingly, as at December 31, 2014, the vessel was recognized as "held-for-sale" with a net book value of $132.1 million.

Impairment on vessel held-for-sale
In April 2015, we purchased the vessel LNG Abuja for a consideration of $20.0 million. In June 2015, we agreed the sale of the vessel to a third party for $19.0 million. Accordingly, as of June 30, 2015, the vessel was classified as "held-for-sale" resulting in an impairment loss of $1.0 million recognized during the quarter then ended. The sale was completed in July 2015.

11. ASSET UNDER DEVELOPMENT

(in thousands of $)	September 30, 2015	December 31, 2014
Purchase price installments (including other shipyard costs)	432,343	344,386
Interest costs capitalized	2,537	443
Other costs capitalized	908	376
	435,788	345,205

In May 2014, we entered into agreements for the conversion of the Hilli to a FLNGV. The primary contract was entered into with Keppel. Following the payment of the initial milestone installment, these agreements became fully effective on July 2, 2014. The Hilli was delivered to Keppel in Singapore in September 2014 for the commencement of her conversion. We expect the conversion will require in total 31 months to complete, followed by mobilization to a project for full commissioning.

Accordingly, upon commencement of conversion, the carrying value of the Hilli of $31.0 million was reclassified from "Vessels and equipment, net" to "Asset under development". The total estimated conversion, vessel and site commissioning cost for the Hilli is approximately $1.3 billion. Additional interest costs capitalized in connection with the Hilli conversion for the nine months ended September 30, 2015 were $2.1 million (December 31, 2014: $0.4 million).

As at September 30, 2015, the estimated timing of the firm outstanding payments in connection with the Hilli conversion are as follows:

(in thousands of $)	
Payable within 3 months to December 31, 2015	37,186
Payable within 12 months to December 31, 2016	242,107
Payable within 12 months to December 31, 2017	223,428
	502,721

In addition, we signed agreements for the conversion of the LNG carriers, the Gimi and the Gandria to FLNGVs in December 2014 and July 2015, respectively. However, as we have not lodged the final notices to proceed on the Gimi or Gandria conversion contracts, we have excluded these costs from the capital commitments in the above table.

12. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

(in thousands of $)	September 30, 2015	December 31, 2014
Golar Partners	27,992	275,307

The investment in Golar Partners represents our interest in the common units, which includes an unrealized loss of $26.2 million as of September 30, 2015 (December 31, 2014: gain of $15.8 million). On January 8, 2015, we completed a secondary offering of 7,170,000 common units held in Golar Partners, at a price of $29.90 per unit, which generated net proceeds of approximately $207.4 million. In the quarter ended September 30, 2015 we purchased a total of 240,000 common units held in Golar Partners in a series of transactions, at a combined total cost of $5.0 million. Following these transactions, our ownership interest (including subordinated units, common units and general partner units) in Golar Partners as of September 30, 2015 is 30.4% (December 31, 2014: 41.4%).

13. OTHER NON-CURRENT ASSETS

(in thousands of $)	September 30, 2015	December 31, 2014
Loan receivables	123,600	—
Mark to market interest rate swaps valuation	—	12,603
Deferred tax asset	260	260
Other long-term assets	57,218	55,579
	181,078	68,442

Loan receivables refers to facilities granted to PT Perusahan Pelayaran Equinox (or Equinox) in March 2015, in connection with their acquisition of the vessel, the Golar Viking (renamed the Salju). This initially comprised of:

•a $80.0 million bridging loan facility with a maturity date of March 2016;
•a $53.0 million, 10 year term loan; and
•a $5.0 million revolving credit facility.

The loan facilities bear interest at 1.15% per annum, with repayments on maturity or earlier at the discretion of both the lender and borrower.

Given Equinox’s difficulties in realizing any short-haul cabotage trade opportunities in Indonesia as originally envisaged, we reassessed the recoverability of the loans receivable as of September 30, 2015 and concluded Equinox would not have the means to satisfy its obligations under the loans. This was further corroborated in November 2015, when we agreed to repossess the Salju (based on a current vessel market valuation of $125.0 million) in consideration for extinguishment of the total outstanding balance on the loan receivables of $138.5 million. Accordingly, as of September 30, 2015, we recognized an impairment provision (including repossession costs) of $15.0 million.

As of September 30, 2015, given the pending repossession of the Salju from Equinox and our intention to refinance and retain her for future employment opportunities, we classified the aggregate balance (net of the impairment) outstanding on the loans receivable of $123.6 million to non-current assets. In December 2015, we completed the repossession and refinancing of the Salju.

Other long-term assets include $51.0 million of payments made relating to long lead items ordered in preparation for the conversion of the Gimi to a FLNGV following agreements to convert her were made effective in December 2014. These agreements include certain cancellation provisions, which if exercised prior to December 2015, will allow the termination of the contracts and the recovery of previous milestone payments, less a cancellation fee. We agreed with our contractors to extend the cancellation provision of the Gimi to February 2016.

Except for the loan impairment on the Equinox loan, we have not recorded further provision against any outstanding loan receivables or other receivables, as we believe that the carrying amounts are fully recoverable.

14. INVESTMENT IN AFFILIATES

(in thousands of $)	September 30, 2015	December 31, 2014
Golar Partners	310,332	328,853
ECGS	5,366	5,942
Golar Wilhelmsen	—	577
	315,698	335,372

On September 4, 2015, we acquired the remaining 40% equity interest in our joint venture, Golar Wilhelmsen, for $0.2 million. The purchase price of the acquisition was allocated to total assets of $0.5 million and total liabilities of

$0.2 million.

15. DEBT

As of September 30, 2015 and December 31, 2014, our debt was as follows:

(in thousands of $)	September 30, 2015	December 31, 2014
Golar Arctic facility	82,025	87,500
Golar Viking facility	—	82,000
Convertible bonds	242,005	238,037
Hilli shareholder loans	58,066	40,572
$1.125 billion facility	704,080	747,078
ICBC VIE loans	729,588	185,600
	1,815,764	1,380,787

During the nine months ended September 30, 2015, we entered into the following new loan facilities:

GoFLNG Hilli Facility

In July 2015, we received an underwritten financing commitment from CSSC (Hong Kong) Shipping Co. Ltd ("CSSCL") relating to the conversion financing and sale and leaseback transaction for the Hilli. The financing structure will fund up to 80% of the expected project cost and is split into two phases. The first phase enables us to drawdown $700 million from the facility upon satisfaction of certain conditions precedent. The final condition precedent was the issuance of letters of credit from the contracting parties, which was satisfied in November 2015. Accordingly, as of September 30, 2015, we had not drawn down on this facility.

ICBC VIE loans

The following loans relate to ICBCL entities that we consolidate in our financial statements as VIEs. Refer to note 8 to our unaudited condensed consolidated financial statements included herein for more information.

Golar Kelvin facility

In January 2015, the SPV, Hai Jiao 1405 Limited, which owns the Golar Kelvin, entered into a secured financing agreement for $184.2 million consisting only of a junior loan facility. The junior loan facility is provided by a related party of ICBCL. In June 2015, $157.9 million of the junior loan facility was reclassified to a senior loan facility following the expected refinancing of the junior loan. The senior facility will be a 10 year loan, with a first priority mortgage on the Golar Kelvin. The senior loan facility is denominated in USD and bears interest at LIBOR plus margin and is repayable in quarterly installments with a balloon payment on maturity. The remaining junior loan of $26.3 million will be a short-term facility with a fixed interest rate, renewed annually and denominated in USD.

Golar Snow facility

In January 2015, the SPV, Hai Jiao 1402 Limited, which owns the Golar Snow entered into secured financing agreements for $184.2 million consisting of senior and junior loan facilities provided by related parties of ICBCL. The senior facility of $158.6 million is a 10 year term loan with a first priority mortgage on the Golar Snow. The facility is denominated in USD and bears interest at LIBOR plus margin and is repayable in semi-annual installments with a balloon payment on maturity. The junior loan facility of $25.6 million is a short-term facility with a fixed interest rate, renewed annually and denominated in USD.

Golar Ice facility

In February 2015, the SPV, Hai Jiao 1406 Limited, which owns the Golar Ice entered into secured financing agreements for $184.2 million consisting only of a junior loan facility. In June 2015, $157.9 million of the junior loan facility was reclassified to a senior loan facility following the expected refinancing of the junior loan. The senior facility will be a 10 year loan, with a first priority mortgage on the Golar Ice. The senior loan facility is denominated in USD and bears interest at LIBOR plus margin and is repayable in quarterly installments with a balloon payment on maturity. The remaining junior loan of $26.3 million will be a short-term facility with a fixed interest rate, renewed annually and denominated in USD.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) consisted of the following:

(in thousands of $)	Unrealized gain (loss) on available-for-sale securities	Pension and post-retirement benefit plan adjustments	Gains (losses) on cash flow hedges	Share of affiliates' comprehensive income	Total accumulated comprehensive income (loss)
Balance at December 31, 2013	7,796	(12,731)	(2,676)	854	(6,757)
Other comprehensive income before reclassification	39,508	—	2,928	135	42,571
Amounts reclassified from accumulated other comprehensive income	—	—	3,287	—	3,287
Net current-period other comprehensive income	39,508	—	6,215	135	45,858
Balance at September 30, 2014	47,304	(12,731)	3,539	989	39,101
Balance at December 31, 2014	15,751	(15,251)	4,042	629	5,171
Other comprehensive income before reclassification	(28,992)	—	—	(1,089)	(30,081)
Amounts reclassified from accumulated other comprehensive (loss) income [1]	(12,906)	—	383	—	(12,523)
Net current-period other comprehensive (loss) income	(41,898)	—	383	(1,089)	(42,604)
Transfer of additional paid in capital [2]	—	—	(4,425)	—	(4,425)
Balance at September 30, 2015	(26,147)	(15,251)	—	(460)	(41,858)

[1] The reclassification of $12.9 million relates to the recycling of unrealized gains on the part disposal of our interest in Golar Partners (See note 12). The reclassification of $0.4 million relates to recycling of unrealized gains on termination of hedging instruments.

[2] Refer to 'Basis of accounting' in note 2.

17. FINANCIAL INSTRUMENTS

Fair values

We recognize our fair value estimates using a fair value hierarchy based on the inputs used to measure fair value. The fair value of hierarchy has three levels based on reliability of inputs used to determine fair value as follows:

Level 1: Quoted market prices in active markets for identical assets and liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

The carrying values and estimated fair values of our financial instruments at September 30, 2015 and December 31, 2014 are as follows:

(in thousands of $)	Fair value Hierarchy	September 30, 2015 Carrying Value	September 30, 2015 Fair value	December 31, 2014 Carrying Value	December 31, 2014 Fair Value
Non-Derivatives:					
Cash and cash equivalents	Level 1	222,842	222,842	191,410	191,410
Restricted cash	Level 1	108,442	108,442	74,587	74,587
Investment in available-for-sale securities	Level 1	27,992	27,992	275,307	275,307
Cost method investments (1)	Level 3	204,172	107,419	204,172	248,314
Short-term debt due from a related party (2)	Level 2	—	—	20,000	20,000
Long-term debt due from a related party (3)	Level 2	100,000	100,000	—	—
Short-term loans receivable (2)	Level 2	7,656	7,656	8,141	8,141
Long-term loans receivable (3)	Level 2	123,600	123,600	—	—
Short-term debt (2)	Level 2	224,865	224,865	116,431	116,431
Long-term debt - convertible bonds (3)	Level 2	242,005	253,347	238,037	251,555
Long-term debt - floating (3)	Level 2	1,348,894	1,348,894	1,026,319	1,026,319
Derivatives:					
Interest rate swaps asset (4) (5)	Level 2	—	—	12,603	12,603
Interest rate swaps liability (4) (5)	Level 2	15,385	15,385	3,038	3,038
Total return equity swap liability (6) (7)	Level 2	45,990	45,990	13,656	13,656

1. The carrying value of our cost method investments includes our holdings in OLT Offshore LNG Toscana S.p.A (or OLT-O), but principally relates to our investments in Golar Partners (representing the general partner units and incentive distribution rights, or IDRs). The fair value of our IDRs held in Golar Partners is determined using a Monte Carlo simulation method, which takes into account the historical volatility, dividend yield and share price of their publicly traded common units. Similarly the general partner units' fair value is based on the share price of their common units, but adjusted for restrictions over the transferability and reduction in voting rights. Accordingly, due to a fall in the share price of Golar Partners common units during the quarter, the fair value of our investments were lower than the carrying value.

We consider this decline temporary due to the significant volatility in the share price of the common units, which as of September 30, 2015 was $14.67. Since the quarter end, the closing market share price of the common units on NASDAQ increased to a high of $18.66 and experienced a low of $8.66. We consider the volatility and the decline in share price is driven by industry trends and not a reflection of Golar Partners' financial position as all of Golar Partners' vessels operate under medium to long-term charters with fixed charter rates, which has contributed to stable operating cash flows and increasing cash distributions for all their unitholders, the economic fundamentals of which have not changed over the last 9 months. Accordingly, as of September 30, 2015, notwithstanding the above, we did not identify any events or changes in circumstances that would result in a conclusion that the carrying values of our investments in both Golar Partners and OLT-O are not recoverable and the diminution in share price is other than temporary.

With respect to our investment in OLT-O, as we have no established method of determining the fair value of this investment, we have not estimated its fair value as of September 30, 2015, but have not identified any changes in circumstances which would alter our view of fair value as disclosed in the Form 20-F for the year ended December 31, 2014.

2. The carrying amounts of our short-term debts and loans receivable approximate their fair values because of the short maturity of these instruments.
3. Our debt obligations are recorded at amortized cost in the consolidated balance sheets.
4. Derivative liabilities are captured within other current liabilities and derivative assets are captured within long-term assets on the balance sheet.
5. The fair value of our derivative instruments is the estimated amount that we would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, foreign exchange rates, closing quoted market prices and our creditworthiness and that of our counterparties. The fair value/carrying value of interest rate swap agreements that qualify and are designated as cash flow hedges for accounting purposes as of December 31, 2014 was $0.4 million (with a notional amount of $100.9 million). We had no designated cash flow hedges for accounting purposes as of September 30, 2015.
6. The fair value of total return equity swaps is calculated using the closing prices of the underlying listed shares, dividends paid since inception and the interest rate charged by the counterparty.
7. The fair values of the equity derivatives are classified as other current liabilities in the balance sheet.

The carrying values of accounts receivable, liabilities held-for-sale, accounts payable and accrued liabilities, excluded from the table above, approximate fair values because of the short maturity of these instruments.

As of September 30, 2015, we had entered into the following interest rate swap transactions involving the payment of fixed rates in exchange for LIBOR as summarized below:

Instrument (in thousands of $)	Notional value	Maturity Dates	Fixed Interest Rates
Interest rate swaps:			
Receiving floating, pay fixed	1,250,000	2018 to 2021	1.13% to 1.94%

As of September 30, 2015, the notional principal amount of the debt outstanding subject to interest rate swap agreements was $1,250.0 million (December 31, 2014: $1,475.9 million).

The credit exposure of our interest rate and equity swap agreements are represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements. It is our policy to enter into master netting agreements with the counterparties to derivative financial instrument contracts, which give us the legal right to discharge all or a portion of amounts owed to the counterparty by offsetting them against amounts that the counterparty owes to us. We have elected not to offset the fair values of derivative assets and liabilities executed with the same counterparty that are generally subject to enforceable master netting arrangements. However, if we were to offset and record the asset and liability balances of derivatives on a net basis, the amounts presented in our consolidated balance sheets as of September 30, 2015 and December 31, 2014 would be adjusted as detailed in the following table:

	September 30, 2015			December 31, 2014		
(in thousands of $)	Gross amounts presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet subject to netting agreements	Net amount	Gross amounts presented in the consolidated balance sheet	Gross amounts not offset in the consolidated balance sheet subject to netting agreements	Net amount
Total asset derivatives	—	—	—	12,603	(292)	12,311
Total liability derivatives	61,375	—	61,375	16,694	(292)	16,402

18. RELATED PARTY TRANSACTIONS

a) Transactions with Golar Partners and subsidiaries:

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Net (expenses) revenues:

	Nine months ended September 30,	
(in thousands of $)	2015	2014
Management and administrative services revenue (a)	2,040	2,172
Ship management fees revenue (b)	5,482	5,757
Charterhire expenses (c)	(33,278)	—
Interest income on Eskimo vendor loan	3,776	—
	(21,980)	7,929

a) Management and administrative services agreement - On March 30, 2011, the Partnership entered into a management and administrative services agreement with Golar Management, a wholly-owned subsidiary of ours, pursuant to which Golar Management will provide to the Partnership certain management and administrative services. The services provided by Golar Management are charged at cost plus a management fee equal to 5% of Golar Management's costs and expenses incurred in connection with providing these services. The Partnership may terminate the agreement by providing 120 days written notice.

b) Ship management fees - Golar and certain of its affiliates charged ship management fees to the Partnership for the provision of technical and commercial management of the vessels. Each of the Partnership's vessels is subject to management agreements pursuant to which certain commercial and technical management services are provided by certain affiliates of Golar, including Golar Management and Golar Wilhelmsen AS ("Golar Wilhelmsen"), a partnership that was jointly controlled by Golar and by Wilhelmsen Ship Management (Norway) AS. On September 4, 2015, Golar Wilhelmsen became a wholly owned subsidiary of Golar as a result of our acquisition of the remaining 40% interest owned by Wilhelmsen Ship Management (Norway) AS.

c) Charterhire expenses - This consists of the charterhire expenses that we incurred for the charterback of the Golar Eskimo and the Golar Grand from Golar Partners. In February 2015, Golar Partners exercised its option requiring us to charter in the Golar Grand for the period from February 16, 2015 until October 31, 2017 at approximately 75% of the hire rate paid by BG Group. For the nine months ended September 30, 2015, our costs in chartering the Golar Grand amounted to $20.4 million. We have excluded net expense of $5.0 million for the nine months ended September 30, 2015, relating to the release of the Golar Grand guarantee provision (See note 2).

In connection with the disposal of the Golar Eskimo in January 2015, we entered into an agreement with Golar Partners to charter back the vessel for the period from January 20, 2015 to June 30, 2015. Accordingly, we incurred total charter-hire expenses of $12.9 million in relation to the agreement in 2015 (See note 4).

Receivables (payables): The balances with Golar Partners and its subsidiaries as of September 30, 2015 and December 31, 2014 consisted of the following:

(in thousands of $)	September 30, 2015	December 31, 2014
Trading balances due from Golar Partners (a)	21,705	13,337
Methane Princess security lease deposit movement (b)	(2,923)	(3,486)
$20.0 million revolving credit facility (c)	—	20,000
Long-term loan to Golar Partners (d)	100,000	—
	118,782	29,851

a) Trading balances - Receivables and payables with Golar Partners and its subsidiaries are comprised primarily of unpaid management fees, charter hire expenses, advisory and administrative services and may include working capital adjustments in respect of disposals to the Partnership. In addition, certain receivables and payables arise when we pay an invoice on behalf of a related party and vice versa. Receivables and payables are generally settled quarterly in arrears. Trading balances due from Golar Partners and its subsidiaries are unsecured, interest-free and intended to be settled in the ordinary course of business. They primarily relate to recharges for trading expenses paid on behalf of Golar Partners, including ship management and administrative service fees due to us.

b) Methane Princess Lease security deposit movements - This represents net advances from Golar Partners since its IPO, which correspond with the net release of funds from the security deposits held relating to the Methane Princess Lease. This is in connection with the Methane Princess tax lease indemnity provided to Golar Partners under the Omnibus Agreement. Accordingly, these amounts will be settled as part of the eventual termination of the Methane Princess Lease.

c) $20 million revolving credit facility - In April 2011, we entered into a $20 million revolving credit facility with Golar Partners. As of December 31, 2014, Golar Partners had fully drawn down the $20.0 million facility. This facility matured in April 2015 and was unsecured and interest-free. This facility was extended but was repaid on June 24, 2015.

d) Long-term loan to Golar Partners - On January 20, 2015, we sold our interests in the company that owns and operates the Golar Eskimo to Golar Partners for $390.0 million. In connection with the disposal, we provided a $220.0 million vendor loan to the Partnership. The vendor loan granted had a two year term and bore interest at LIBOR plus a blended margin of 2.84%. Of this loan, $120 million was repaid in June 2015. The remaining balance of $100 million was repaid in November 2015.

Other transactions

Disposals to Golar Partners

In January 2015, we completed the disposal of our interests in the companies that own and operate the Golar Eskimo. The consideration was $390 million for the vessel, less the assumed bank debt of $162.8 million and purchase price adjustments of $7.2 million. In connection with the disposal, we also entered into an agreement to pay Golar Partners an aggregate amount of $12.9 million between January 2015 and June 2015 for the right to use the Golar Eskimo and receive all revenues earned from the vessel during this period. This included the right to receive any fees and any hire received under the ten-year time charter with the Government of the Hashemite Kingdom of Jordan for that period.

In December 2013, we entered into an agreement to sell our interest in the company that owns and operates the Golar Igloo. The sale was completed in March 2014. The cash consideration was $310.0 million for the vessel and charter less the assumed bank debt of $161.3 million and purchase price adjustments of $7.2 million (See note 4).

Golar Grand Guarantee

In connection with the disposal of the Golar Grand to Golar Partners in November 2012, we issued an option where in the event that the charterer did not renew or extend its charter for the Golar Grand beyond February 2015, Golar Partners had the option to require us to charter the vessel through to October 2017. The option was exercised in February 2015. Our re-assessment consequently resulted in a revised increased liability of $15.2 million from $7.2 million in December 31, 2014. For the nine months ended September 30, 2015, $3.8 million of the liability has been amortized, reducing our obligation to $12.2 million as of September 30, 2015 (See note 2).

Debt Guarantee

We issued debt guarantees to third party banks in respect of the Golar Igloo and the Golar Eskimo debt facilities but these were assumed by Golar Partners pursuant to the acquisitions of the Golar Igloo and the Golar Eskimo.

b) Net income (expenses) from (due to) other related parties (excluding Golar Partners):

	Nine months ended September 30,	
(in thousands of $)	2015	2014
Frontline Ltd. and subsidiaries ("Frontline")	—	34

Ship Finance AS ("Ship Finance")	—	116
Seatankers Management Company Limited ("Seatankers")	—	(112)
Seadrill Ltd and subsidiaries ("Seadrill")	—	(5)
Golar Wilhemsen	(2,246)	(4,951)
	(2,246)	(4,918)

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Payables to related parties (excluding Golar Partners):

(in thousands of $)	September 30, 2015	December 31, 2014
Golar Wilhemsen	—	(1,394)
	—	(1,394)

We used to transact business with the following parties, being companies in which World Shipholding, a major shareholder of Golar until September 2014, and companies associated with World Shipholding had a significant interest: Frontline, Ship Finance, Seatankers and Seadrill.

Net expense/income from Frontline, Seatankers and Ship Finance comprised fees for management support, corporate and insurance administrative services, net of income from supplier rebates and income from the provision of serviced offices and facilities. Receivables and payables with these related parties comprised primarily of unpaid management fees, advisory and administrative services.

As of September 4, 2015, pursuant to the acquisition of the remaining 40% interest, we held 100% ownership interest in Golar Wilhemsen, thus making it a controlled and fully consolidated subsidiary from that date. Previous to that we held a 60% ownership interest in Golar Wilhelmsen, which we accounted for using the equity method. Golar Wilhelmsen recharges management fees in relation to provision of technical and ship management services.

19. OTHER COMMITMENTS AND CONTINGENCIES

Assets pledged

(in thousands of $)	As of September 30, 2015	As of December 31, 2014
Book value of vessels secured against long-term loans	2,170,175	1,997,657

Legal proceedings and claims

We may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. A provision will be recognized in the financial statements only where we believe that a liability will be probable and for which the amounts are reasonably estimable, based upon the facts known prior to the issuance of the financial statements.

Douglas Channel LNG Assets Partnership claim

In May 2013, we provided a short-term loan of $12.0 million to Douglas Channel LNG Assets Partnership ("DCLAP") as part of the potential FLNG project in Douglas Channel, British Columbia. The General Partner of DCLAP is a company wholly owned by LNG Partner LLC ("LNGP"). The loan had an original maturity date of September 30, 2013 and is secured by a general security agreement over the pipeline transportation capacity on the pipeline system that delivers natural gas to the area where the FLNG project is intended to operate.

In September 2013, LNGP filed for bankruptcy. We commenced legal proceedings against LNGP seeking to have a receiver appointed over the secured assets. As court proceedings progressed during 2014, the parties negotiated a reorganization plan where we were no longer a participant in the project but became a creditor. The reorganization plan, comprised of a new consortium of parties involved in the project, was finalized and approved by the Supreme Court of British Columbia in quarter ended December 31, 2014. We retain security of the assets until the project reaches final investment decision. Of the $12.0 million short-term loan, $5.0 million has been repaid to date. Accordingly, as of September 30, 2015, we have a balance of $6.7 million recorded within other receivables under current assets.

We continue to believe that we have strong arguments regarding our claim and the outstanding loan is recoverable, accordingly, as of September 30, 2015, we have not recorded any provision against the outstanding loan receivable.

Golar Viking related claim

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In January 2011, Qatar Gas Trading Company Limited ("Nakilat") chartered the Golar Viking from us for a period of 15 months. In April 2012, the time charter party agreement was terminated early. On February 15, 2013, Nakilat formally commenced arbitration proceedings against us claiming damages of $20.9 million for breach of contract, including that of early termination of the charter. In December 2013, we did not record any provision as we believed that we had strong arguments to defend ourselves against such claims. Arbitration proceedings commenced in 2014, which included the completion of the exchange of disclosure, witness statements and expert reports in December 2014.
Following this and our legal counsel’s advice, we entered into compromise settlement discussions with the other parties. The compromise settlement was agreed in January 2015 for an amount of $14.5 million. We maintain defence and indemnity insurance for these types of claims. A contribution of $0.6 million was made by our insurers in relation to the claim. Accordingly, as of December 31, 2014, we recorded a provision of $13.9 million related to the claim of which $3.5 million was previously recognized in prior years. The claim was settled in January 2015.
UK tax lease benefits
As described under note 38 in our audited consolidated financial statements filed with our Annual Report on form 20-F for the year ended December 31, 2014, during 2003 we entered into six UK tax leases. Under the terms of the leasing arrangements, the benefits are derived primarily from the tax depreciation assumed to be available to the lessors as a result of their investment in the vessels. As is typical in these leasing arrangements, as the lessee we are obligated to maintain the lessor’s after-tax margin. Accordingly, in the event of any adverse tax changes or a successful challenge by the UK Tax Authorities (HMRC) with regard to the initial tax basis of the transactions, or in relation to the 2010 lease restructurings, or in the event of an early termination of the Methane Princess lease, we may be required to make additional payments to HMRC or the UK vessel lessor, which could adversely affect our earnings or financial position. We would be required to return all, or a portion of, or in certain circumstances significantly more than, the upfront cash benefits that we received in respect of our lease financing transactions, including the 2010 restructurings and subsequent termination transactions. The gross cash benefit we received upfront on these leases amounted to approximately £41 million British Pounds (before deduction of fees).

Of these six leases we have since terminated five, with one lease remaining, being that of the Methane Princess lease. Pursuant to the deconsolidation of Golar Partners in 2012, Golar Partners is no longer considered a controlled entity but an affiliate and therefore as at September 30, 2015, the capital lease obligation relating to this remaining UK tax lease is not included on our consolidated balance sheet. However, under the indemnity provisions of the Omnibus Agreement or the respective share purchase agreements, we have agreed to indemnify Golar Partners in the event of any tax liabilities in excess of scheduled or final scheduled amounts arising from the Methane Princess leasing arrangements and termination thereof.

HMRC has been challenging the use of similar lease structures and has been engaged in litigation of a test case for some years. In August 2015, following an appeal to the Court of Appeal by the HMRC which set aside previous judgments in favor of the tax payer, the First Tier Tribunal (UK court) ruled in favor of HMRC. The tax payer in this particular ruling has the election to appeal the courts’ decision, but it is unclear whether such an appeal has been filed since that information is not currently publicly available. The judgments of the First Tier Tribunal do not create binding precedent for other UK court decisions and therefore the ruling in favor of HMRC is not binding in the context of our structures. Further, we consider there are differences in the fact pattern and structure between this case and our 2003 leasing arrangements and therefore is not necessarily indicative of any outcome should HMRC challenge us and we remain confident that our fact pattern is sufficiently different to succeed if we are challenged by HMRC. Nevertheless, we are continuing the process of reviewing the details of the case and the basis of the judgment with our legal and tax advisers to ascertain what impact, if any, the judgment may have on us.

20. SUBSEQUENT EVENTS

In October 2015, the Board authorized the issue of up to 500,000 share options to Directors and employees of the Company and its subsidiaries under the Company's existing share option scheme. The 500,000 issued options have a strike price of $56.70 per share which will be adjusted for each time the Company pays dividends. Fifty percent of recipients' allotted options will vest on October 21, 2018 and the remaining fifty percent on October 21, 2019. The exercise period is five years.

As previously disclosed, we entered into a Pool Agreement with Dynagas Ltd., or Dynagas, GasLog Carriers Ltd., or GasLog, and a pool manager equally owned by Dynagas, GasLog and Golar, or the Pool Manager, to form a LNG carrier pooling arrangement, or the Cool Pool, to market LNG carriers (154,000 - 162,000 cbm) that are currently operating in the LNG shipping spot market. In October 2015, the Cool Pool successfully commenced its operations.

In November 2015, we entered into a memorandum of agreement with a subsidiary of China Merchant Bank Financial Leasing, or CMBL, under which we agreed to sell, and the subsidiary of CMBL agreed to buy, the Golar Tundra upon satisfaction of certain conditions precedent on or before December 31, 2015, for the purchase price of the lower of $203.6 million or the Golar Tundra's fair market value. Simultaneously in November 2015, we entered into a bareboat charter party agreement with the subsidiary of CMBL, pursuant to which, as part of the sale and leaseback transaction, we agreed to charter the Golar Tundra from the subsidiary of CMBL for a 10 year period beginning upon delivery of the Golar Tundra from the subsidiary of CMBL to us. The bareboat charter provides us with several options to purchase the Golar Tundra during the charter period, with the earliest from the end of the third year of the bareboat charter, and requires us to purchase the Golar Tundra at the end of the 10 year charter if we have not previously exercised a purchase option. We drew down on the financing arrangement upon delivery of the vessel in November 2015. The financing arrangement is provided by CMBL on a charter-free basis and has a 16 year amortization profile. The financing arrangement resulted in excess cash of approximately $50 million over and above the final delivery payment to the shipyard. As part of this financing commitment CMBL also provided a parallel facility to refinance the Golar Partners owned FSRU, Golar Eskimo. Golar Partners drew down on the facility in November 2015, using $100.0 million of the proceeds to settle the remaining balance on the vendor bridging loan granted by us in connection with the disposal of the Golar Eskimo to Golar Partners.

In November 2015, we entered into a contract to provide West African Gas Limited, or WAGL, with FSRU services to support their LNG import operations in Ghana. WAGL is jointly owned by subsidiaries of the Nigerian National Petroleum Corporation with 60% and Sahara Energy Resource Ltd with 40%. The joint venture is developing an LNG import project at the port of Tema on the coast of Ghana, West Africa with a planned start up in the second quarter of 2016. The FSRU will be moored inside the port at a new jetty being built by WAGL. The contract is for an initial period of five years with the option for WAGL to extend for a further five years. The contract is for the provision of the newbuild FSRU Golar Tundra, which we took delivery of in November 2015.

In November 2015, we declared a dividend of $0.45 per share in respect of the quarter ended September 30, 2015 to holders of record on December 10, 2015, which is due to be paid on or about January 6, 2016. In addition, Golar Partners made a cash distribution of $0.5775 per unit in November 2015 in respect of the quarter ended September 30, 2015, of which we received $13.3 million of dividend income in relation to our ownership of Golar Partners' common, subordinated and general partner units and incentive distribution rights, or IDRs, held at the relevant record date.

In November 2015, we agreed to repossess the Salju (formerly the Golar Viking) (based on a current vessel market valuation of $125 million) in consideration for extinguishment of the total outstanding balance on the loan from us of $138.5 million. Accordingly, as of September 30, 2015, we recognized an impairment provision (including repossession costs) of $15.0 million. In December 2015, we completed the repossession of the Salju from Equinox. Furthermore, in December 2015, we entered into a five year secured amortizing term loan facility with certain financial institutions to refinance the Salju. The loan is repayable in five years and is interest bearing at LIBOR plus a margin.