GRILL CONCEPTS INC
Form 10-Q
November 10, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2004

OR

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

For the transition period from _______ to _______.

Commission File No. 0-23226

GRILL CONCEPTS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3319172 (IRS Employer Identification No.)

11661 San Vicente Blvd., Suite 404, Los Angeles, California 90049
(Address of principal executive offices)(Zip code)

(310) 820-5559
(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 the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

As of November 1, 2004, 5,650,146 shares of Common Stock of the issuer were outstanding.

GRILL CONCEPTS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)
ASSETS

	September 26, 2004	December 28, 2003 (restated)
Current assets:		
Cash and cash equivalents	$ 1,096,000	$ 1,496,000
Inventories	570,000	585,000
Receivables, net of reserve ($21,000 in 2004 and $13,000 in 2003)	560,000	658,000
Reimbursable cost receivable	529,000	580,000
Prepaid expenses	644,000	612,000
Total current assets	3,399,000	3,931,000
Furniture, equipment, & improvements, net	11,488,000	11,061,000
Goodwill, net	205,000	205,000
Restricted cash	132,000	72,000
Note receivable	100,000	111,000
Liquor licenses	355,000	350,000
Other assets	213,000	275,000
Total assets	$ 15,892,000	$ 16,005,000

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Continued)

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY

	September 26, 2004	December 28, 2003 (restated)
Current liabilities:		
Accounts payable	$ 1,643,000	$ 1,046,000
Accrued expenses	1,919,000	2,400,000
Reimbursable costs payable	529,000	580,000
Current portion of long term debt	230,000	298,000
Current portion notes payable - related parties	290,000	345,000
Total current liabilities	4,611,000	4,669,000
Long-term debt	155,000	285,000
Notes payable - related parties	865,000	969,000
Other long-term liabilities	3,665,000	2,734,000
Total liabilities	9,296,000	8,657,000
Minority interest	1,511,000	2,058,000
Stockholders' equity:		
Series I, Convertible Preferred Stock, $.001 par value; 1,000,000 shares authorized, none issued and outstanding in 2004 and 2003	-	-
Series II, 10% Convertible Preferred Stock, $.001 par value; 1,000,000 shares, authorized, 500 shares issued and outstanding in 2004 and 2003	-	-
Common stock, $.00004 par value; 12,000,000 shares authorized in 2004 and 2003, 5,650,146 shares issued and outstanding in 2004, 5,537,071 shares issued and outstanding in 2003	-	-
Additional paid-in capital	13,649,000	13,601,000
Accumulated deficit	(8,564,000)	(8,311,000)
Total stockholders' equity	5,085,000	5,290,000
Total liabilities, minority interest and stockholders' equity	$ 15,892,000	$ 16,005,000

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2004	September 28, 2003 (restated)	September 26, 2004	September 28, 2003 (restated)
Revenues:				
Sales	$ 12,169,000	$ 11,192,000	$ 38,325,000	$ 35,376,000
Cost reimbursements	2,615,000	2,330,000	8,708,000	6,614,000
Management and license fees	308,000	243,000	910,000	709,000
Total revenues	15,092,000	13,765,000	47,943,000	42,699,000
Cost of sales (exclusive of depreciation, presented separately)	3,367,000	3,135,000	10,746,000	9,772,000
Gross profit	11,725,000	10,630,000	37,197,000	32,927,000
Operating expenses:				
Restaurant operating expenses	7,752,000	7,325,000	23,931,000	22,076,000
Reimbursed costs	2,615,000	2,330,000	8,708,000	6,614,000
Gain on sale of assets	(2,000)	-	(3,000)	(11,000)
General and administrative	1,124,000	933,000	3,434,000	2,836,000
Depreciation and amortization	454,000	483,000	1,357,000	1,413,000
Pre-opening costs	-	-	148,000	187,000
Total operating expenses	11,943,000	11,071,000	37,575,000	33,115,000
Loss from operations	(218,000)	(441,000)	(378,000)	(188,000)
Interest expense, net	(59,000)	(83,000)	(191,000)	(245,000)
Loss before provision for income taxes and minority interest	(277,000)	(524,000)	(569,000)	(433,000)
Benefit (provision) for income taxes	(6,000)	13,000	(34,000)	(68,000)
Minority interest in loss of subsidiaries	84,000	161,000	350,000	445,000
Net loss	(199,000)	(350,000)	(253,000)	(56,000)
Preferred dividends accrued	(13,000)	(13,000)	(38,000)	(38,000)
Net loss applicable to common stock	$ (212,000)	$ (363,000)	$ (291,000)	$ (94,000)
Net loss per share applicable to common stock:				
Basic net loss	$ (0.04)	$ (0.07)	$ (0.05)	$ (0.02)
Diluted net loss	$ (0.04)	$ (0.07)	$ (0.05)	$ (0.02)

Weighted average shares outstanding:				
Basic	5,647,707	5,537,071	5,594,672	5,537,071
Diluted	5,647,707	5,537,071	5,594,672	5,537,071

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 26, 2004	Nine Months Ended September 28, 2003 (restated)
Cash flows from operating activities:		
Net loss	$ (253,000)	$ (56,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,357,000	1,413,000
Stock based compensation expense	(84,000)	133,000
Allowance for doubtful accounts	8,000	-
Gain on sale of assets	(3,000)	(11,000)
Minority interest in loss of subsidiaries	(350,000)	(445,000)
Changes in operating assets and liabilities:		
Inventories	15,000	(43,000)
Receivables	90,000	(117,000)
Reimbursable cost receivable	51,000	(14,000)
Prepaid expenses	(32,000)	(415,000)
Other assets	50,000	15,000
Accounts payable	597,000	325,000
Accrued liabilities	(438,000)	(311,000)
Reimbursable cost payable	(51,000)	14,000
Other long-term liabilities	(118,000)	(119,000)
Net cash provided by operating activities	839,000	369,000
Cash flows from investing activities:		
Proceeds from disposal of assets	5,000	26,000
Restricted cash for Daily Grill at Continental Park, LLC	-	544,000
Restricted cash for worker s compensation insurance	(60,000)	-
Purchase of liquor license	(5,000)	-
Advance repaid by managed outlet	-	64,000
Purchase of furniture, equipment and improvements	(1,774,000)	(553,000)
Net cash provided by (used in) investing activities	(1,834,000)	81,000
Cash flows from financing activities:		
Tenant improvement allowances	1,049,000	-
Proceeds from minority interests	35,000	30,000
Note receivable collections	15,000	10,000
Return of capital and profits to minority shareholder	(147,000)	(222,000)
Payments to related parties	(159,000)	(161,000)
Payments on long-term debt	(198,000)	(329,000)
Net cash provided by (used in) financing activities	595,000	(672,000)
Net decrease in cash and cash equivalents	(400,000)	(222,000)
Cash and cash equivalents, beginning of period	1,496,000	1,290,000
Cash and cash equivalents, end of period	$ 1,096,000	$ 1,068,000

Supplemental cash flow information:				
Cash paid during the period for:				
Interest	$	107,000	$	136,000
Income taxes		119,000		119,000

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

GRILL CONCEPTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. INTERIM FINANCIAL PRESENTATION

The interim consolidated financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. These financial statements have not been audited by our independent registered public accounting firm. The December 28, 2003 balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the Company s Form 10-K for the year ended December 28, 2003, as amended on October 15, 2004. In the opinion of management, these interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair statement of the results for the interim periods presented. The current period results of operations are not necessarily indicative of results, which ultimately will be reported for the full year ending December 26, 2004.

Restatement for Correction of Errors and Retroactive Adoption of FIN 46

The accompanying consolidated financial statements as of December 28, 2003 and for the three and nine-month periods ended September 28, 2003 were restated on May 14, 2004 from those originally issued to reflect certain adjustments related to stock compensation and other miscellaneous adjustments, and were subsequently restated on October 15, 2004 to further reflect additional adjustments to revise the accounting for certain of the Company s joint ventures, record costs and revenues associated with reimbursed costs under management agreements and make other miscellaneous corrections. Additionally, the Company has corrected its initial adoption of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, (FIN 46) which was first effective for the quarter ended March 28, 2004. (Note - Except where there is no change to diluted earnings per share, the impact of each adjustment on diluted earnings per share has been identified below.)

Retroactive Adoption of FIN 46

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. The Company has elected to retroactively adopt the provisions of FIN 46. The impact of the retroactive adoption is to consolidate The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC, the Daily Grill at Continental Park, LLC and the Universal CityWalk Daily Grill prior to fiscal year 2004. There is no impact on net income (loss) in any period as a result of the retroactive adoption. Errors in the prior accounting for these entities are discussed in the following sections. See further discussion of the adoption of FIN 46 below.

Corrections of Errors

Stock Compensation and Miscellaneous Adjustments

In May 2004, the terms of the Company s option grants were reevaluated - specifically, provisions which allow an employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash. Under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, this cashless exercise feature requires the Company to account for its option plan using a variable accounting treatment. Under variable accounting, compensation expense must be remeasured each balance sheet date based on the difference between the current market price of the Company s stock and the option s exercise price. An accrual for compensation expense is determined based on the proportionate vested amount of each option as prescribed by Financial Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. Each period, adjustments to the accrual are recognized in the income statement. Previously, the Company had accounted for its options using a fixed accounting treatment whereby compensation expense, if any, was only evaluated at the date of the option grant. The impact of this adjustment was to decrease operating expenses and net loss by $7,000 for the three months and increase operating expenses and net loss by $133,000 ($0.02 per share) for the nine months ended September 28, 2003. Results for all periods during fiscal 2004 were originally reported correctly and did not require restatement.

In addition to this change, the Company also recorded additional general and administrative expense of $28,000 in the fourth quarter of fiscal year 2003 to correctly state its liability for payroll and other costs. This adjustment increased accumulated deficit as of December 28, 2003. Lastly, the Company increased additional paid-in capital and accumulated deficit by $55,000 ($0.01 per share) as of each fiscal yearend in the period from 1998 through 2003 to properly reflect the fair value of fully vested stock options issued in connection with severance agreements arranged in fiscal year 1998 which had not been previously expensed.

Joint Venture Accounting and Miscellaneous Adjustments

Deconsolidation of The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC Pursuant to SOP 78-9

In August 2004, the Company reevaluated its consolidation policies with respect to its investments in four restaurants held by limited liability companies (LLCs). Previously, all four of the LLCs were consolidated due to the Company s majority ownership in these entities. However, the terms of three agreements gave the minority interests certain voting rights which, when evaluated under the relevant terms of Statement of Position No. 78-9, Accounting for Investments in Real Estate Ventures, precluded consolidation. Therefore, the Company restated previously reported results to show the investments in the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC under the equity method, rather than as consolidated subsidiaries. The fourth LLC, The Grill on Hollywood, LLC, remained consolidated. There was no impact on net income as a result of this change. See further discussion below regarding other errors in the accounting for the Company s joint ventures and the consolidation of all the Company s partially-owned entities upon the retroactive adoption of FIN 46.

Correction of Adoption of FIN 46

FIN 46 was first effective for the Company for the quarter ended March 28, 2004. At that time, the Company was consolidating all of its LLCs (incorrectly, in some cases, as indicated above), namely the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC, The Grill on Hollywood, LLC and the Daily Grill at Continental Park, LLC, and was accounting for its investment in the Universal CityWalk Daily Grill partnership under the equity method. Upon the initial adoption of FIN 46, the Company made no changes to its accounting for the LLCs and partnership as it believed them to already be appropriately consolidated.

As part of the restatement process undertaken in September 2004, the Company reevaluated its adoption of FIN 46, which became even more relevant given the deconsolidation of many of the LLCs pursuant to SOP 78-9. The Company assessed all entities which are not wholly owned to determine if these entities would be considered variable interest entities and whether the Company would be considered the primary beneficiary. The Company determined that all of the following entities would be considered variable interest entities: The San Jose Grill LLC, Chicago - The Grill on the Alley LLC, The Grill on Hollywood LLC, The Daily Grill at Continental Park LLC, and the Universal CityWalk Daily Grill partnership. The Company also determined that it is the primary beneficiary for all these entities which has resulted in consolidation of these entities. The Company has elected to retroactively adopt the provisions of FIN 46 and present these variable interest entities as consolidated subsidiaries for the prior periods presented in these financial statements.

Chicago - The Grill on the Alley, LLC Loss Allocation and Interest Charge

In August 2004, the Company reevaluated the accounting for its venture relating to the Chicago Grill on the Alley restaurant. The stated venture was established in 1999 and is administered under an operating agreement whereby the Company owns a 60% stated interest and the minority investor, the Michigan Avenue Group (MAG), owns the remaining interests. The venture was originally funded by an eight percent, $1.7 million loan from MAG which was used to build the restaurant and fund initial operations. GCI made no financial contribution and was not credited with any capital for the trademarks and restaurant expertise it contributed to the venture. MAG had the right to convert all or part of the loan into capital of the venture and in 2000 upon completion of the initial build-out, it converted approximately $1.2 million of the loan into Capital. There was no change in the voting, ownership or profit sharing interests as a result of this conversion. The terms of the equity interest into which the loan was converted were such that MAG was entitled to an eight percent return on its capital balance (defined as the Preferred Return) which was identical to the interest rate on the note. Additionally, the venture was obligated to repay converted original capital amounts under an identical payment/amortization schedule as the note. GCI guaranteed the venture s repayment of both the loan and MAG converted capital amounts.

Historically, the Company had consolidated the entity due to its belief that it had a controlling voting interest (see separate comment above regarding deconsolidation of this entity) and recognized a minority interest at an amount equal to MAG s capital contribution reduced by 40% of the venture s losses and any return of capital amounts. The restaurant has operated at a loss since inception and losses were allocated based on the stated 40% interest noted above.

In reviewing this accounting, it was determined that the venture s obligation to return MAG s capital should have been recognized as a liability of the joint venture rather than treated as equity. As the joint venture is a consolidated entity pursuant to FIN 46, the Company s accounts should also recognize this liability rather than reflect it as minority interest. Furthermore, interest expense should have been recorded in the statement of operations related to the Preferred Return as opposed to treating the amounts as dividends. Lastly, the Company determined that losses should not have been allocated to the minority interest member given the fact that MAG had no equity. The impact of these adjustments was to increase the minority interest in loss of subsidiary by $12,000 for the three months ended September 26, 2004 and decrease the minority interest in loss of subsidiary by $63,000 in nine month period ended September 26, 2004, and $21,000 and $85,000 ($0.02 per share) in the three and nine month periods ended September 28, 2003, respectively; and increase interest expense by $15,000 and $49,000 ($0.01 per share) in the three and nine month periods ended September 26, 2004, respectively, and $18,000 and $56,000 ($0.01 per share) in the three and nine month periods ended September 28, 2003, respectively.

Chicago Grill on the Alley Warrants

In the process of evaluating prior accounting for this joint venture, it was noted that warrants to purchase approximately 203,000 shares of GCI stock were given to MAG in connection with the issuance of the original note. In accordance with APB 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants, the Company determined that the fair value of such warrants should have been recognized as a debt discount and recorded as a reduction to the loan balance, with accretion of the discount recognized as additional interest expense using the effective interest method. The effect of this adjustment was to increase additional paid-in capital by $322,000 as of each fiscal year-end in the period from 1999 to 2003 and as of September 26, 2004. Amortization of this amount has increased interest expense by $9,000 and $27,000 in the three and nine month periods ended September 26, 2004, respectively, and $9,000 and $28,000 in the three and nine month periods ended September 28, 2003, respectively.

Other Joint Venture Loss Allocations

The Company also reviewed its accounting for its other joint ventures, specifically, those that had been generating losses. Based on the terms of these agreements, losses are typically allocated in proportion to the members capital account balances. The recorded capital balances differ from the actual ownership percentages and the method to distribute cash flows in the event of a liquidation of the venture. As noted above, while the Company usually has a majority ownership percentage, the minority partner usually contributes the majority of the capital. The venture agreements specify that the minority member is entitled to cash distributions before the Company so that its investment is returned prior to the Company s.

The Company determined that its previous loss allocations to the minority partners were incorrect because they did not reflect the underlying economics at book value of the investments. The Company determined that a hypothetical liquidation model should be utilized to allocate losses for each reporting period based on the prescribed order of cash distribution upon liquidation. The change in the amounts allocated to the individual members based on this process, as adjusted for actual contributions and distributions, determines the allocation of profits or losses each period. The impact of this adjustment was to increase the minority interest in loss of subsidiaries by $17,000 and $66,000 ($0.01 per share) in the three and nine month periods ended September 26, 2004, respectively; and increase the minority interest in loss of subsidiaries by $28,000 for the three months and by $23,000 for the nine months ended September 28, 2003.

Reimbursed Costs

The Company operates a number of restaurants under management agreements whereby it is responsible for the operation of each restaurant. For its services, the Company typically receives a management fee based on a percentage of revenue, an incentive fee which is usually a profit sharing arrangement (collectively, Fees) and a reimbursement of the Company s direct costs of operating the restaurant. Management agreements are in place for restaurants in which the Company has a non-controlling ownership percentage as well as a number of restaurants in which the Company has no ownership. For non-consolidated restaurants, the Company previously only reflected its Fees as revenue in the consolidated accounts. In August 2004, the Company reviewed these arrangements considering the primary obligor criteria as described in EITF 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred. Under the terms of the management agreements, the Company is hired as an independent contractor and is responsible for settlement of all liabilities of the restaurant. Additionally, all employees are employees of the Company, not the individual restaurant. Although payroll and other operating expenses are paid out of an agency bank account belonging to the restaurant, based on the weight of the indicators identified in EITF 01-14 and EITF 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, the Company determined it should recognize reimbursement of restaurant expenses of the unconsolidated outlets as revenues in its financial statements and the related expenses.

The impact of these adjustments was to increase revenues by $2,615,000 and $8,708,000 in the three and nine month periods ended September 26, 2004, respectively and to increase operating expenses by a similar amount for both periods. The impact on the three and nine months periods ended September 28, 2003 was to increase revenues by $2,330,000 and $6,614,000, respectively and to increase operating expenses by a similar amount for both.

In evaluating certain transactions related to the San Francisco managed outlet, the Company also determined that advances made to the restaurant in prior periods should have been expensed in the period incurred instead of capitalized and deferred. The impact of this adjustment was to increase expenses by $287,000 in 2002 and $44,000 in 2003 and to recognize revenue of $29,000 ($0.01 per share) for the nine months ended September 26, 2004 rather than a reduction of the capitalized amount.

Accounting for Lease Incentives

In 2003, the Company began recording reimbursements received for tenant improvement allowances as a liability. Consistent with the guidance set forth in SFAS No. 13, "Accounting for Leases," and FASB Technical Bulletin No. 88-1, "Issues Related to the Accounting for Leases," these lease incentives are amortized over the life of the lease as a credit to rent expense. Prior to 2003, however, the Company had recorded such reimbursements as a reduction to the value of the fixed asset. As part of this restatement process, the Company has corrected its prior accounting practice and recorded the unamortized value of previously unrecorded lease incentives as an increase to fixed assets and increase to other long-term liabilities. This adjustment totaled $835,000 and $730,000 as of December 28, 2003 and September 26, 2004, respectively. There was no impact on net income or earnings-per-share as a result of this adjustment, however, depreciation expense was increased and restaurant operating expenses were decreased by $35,000 for the three months ended September 28, 2003 and September 26, 2004 and by $105,000 for the nine months ended September 28, 2003 and September 26, 2004. Upon retroactive adoption of FIN 46, the adjustment increased fixed assets and other long-term liabilities by $1,238,000 and $1,106,000 as of December 28, 2003 and September 26, 2004, respectively, and increased depreciation expense and decreased restaurant operating expenses by $44,000 for the third quarters of fiscal year 2003 and 2004 and by $132,000 for the nine months ended September 28, 2003 and September 26, 2004.

Other Equity Award Adjustments

The Company recorded additional interest expense of $5,000 in each of the first three quarters of fiscal year 2003 and 2004 to correct the amortization of the fair value of warrants issued to two principal shareholders in connection with their guarantee of the Company s credit facility. Such amortization should have been recognized over the three-year term of the guarantee but was incorrectly being amortized over the term of the warrants. Additional paid-in capital was increased by $27,000 as of each fiscal yearend from 2000 to 2003 to adjust the fair value of these warrants. The Company also increased additional paid-in capital and accumulated deficit by $45,000 as of each fiscal yearend in the period from 2000 through 2003 and as of September 26, 2004 to recognize the fair value of warrants to purchase 50,000 shares of the Company s stock, pursuant to EITF 96-18, Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Such warrants were issued to a professional advisor for services rendered in fiscal year 2000 and had not been previously recognized.

Summary

The above revisions impacted the balance sheets as of December 28, 2003 and the statements of operations and cash flows for the three and nine-month periods ended September 28, 2003. The revisions have had no impact to our income tax provisions. The impact of this restatement, which has been reflected throughout the consolidated financial statements and accompanying notes, is as follows (amounts in thousands except for per share amounts):

	December 28, 2003		
	As previously reported (1)	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46
Current assets:			
Cash and cash equivalents	$ 1,473	$ 972	$ 1,496
Inventories	570	355	585
Receivables	741	747	658
Reimbursable costs receivable	-	1,503	580
Prepaid and other current assets	608	535	612
Total current assets	3,392	4,112	3,931
Furniture, equipment and improvements	9,020	5,690	11,061
Goodwill	205	205	205
Liquor licenses	330	264	350
Restricted cash	72	-	72
Advances to managed outlets	331	-	-
Note receivable	111	111	111
Other assets	426	1,320	275
	$ 13,887	$ 11,702	$ 16,005
Current liabilities:			
Accounts payable	$ 998	$ 676	$ 1,046
Accrued expenses	2,315	1,134	2,400
Reimbursable costs payable	-	1,503	580
Current portion of debt	254	82	298
Note payable related party	269	346	345
Total current liabilities	3,836	3,741	4,669
Long term debt	283	106	285
Note payable related party	323	230	969
Other long term liabilities	1,496	1,632	2,734
Total liabilities	5,938	5,709	8,657
Minority interest	1,521	703	2,058
Stockholders' equity			
Preferred stock	-	-	-
Common stock	-	-	-
Additional paid-in capital	13,207	13,601	13,601
Accumulated deficit	(6,779)	(8,311)	(8,311)
Total stockholders' equity	6,428	5,290	5,290
	$ 13,887	$ 11,702	$ 16,005

(1) The Company previously restated its consolidated financial statements as of December 28, 2003 to reflect the accounting for employee stock options using variable accounting treatment and to make other miscellaneous

corrections. The effect of this restatement was to increase accrued liabilities by $197, increase additional paid-in capital by $55 and increase accumulated deficit by $252 as of December 28, 2003. These As previously reported amounts already reflect these adjustments and represent the amounts presented in the Company s Amended Annual Report on Form 10-K/A filed on May 27, 2004.

	Nine Months Ended September 28, 2003		
	As previously reported	As restated for correction of errors	As restated for correction of errors and retroactive adoption of FIN 46
Revenues			
Sales	$ 33,695	$ 25,107	$ 35,376
Cost reimbursements	-	17,016	6,614
Management Fees	795	1,244	709
Total Revenues	34,490	43,367	42,699
Cost of sales	9,364	6,826	9,772
Gross Profit	25,126	36,541	32,927
Operating exenses			
Restaurant and operating expenses	20,972	15,578	22,076
Reimbursed costs		17,016	6,614
General and administartive	2,750	2,836	2,836
Depreciation and amortization	1,200	899	1,413
Pre-opening costs	187	-	187
Gain on sale of assets	(12)	(11)	(11)
Total operating expenses	25,097	36,318	33,115
Income (loss) from operations	29	223	(188)
Interest expense, net	(141)	(185)	(245)
Income (loss) before provision from income taxes, minority interest and equity in loss of joint venture	(112)	38	(433)
Provision for income taxes	(68)	(57)	(68)
Loss before minorty interest and equity in loss of joint venture	(180)	(19)	(501)
Minority interest in loss of subsidiaries	425	142	445
Equity in loss of joint venture	(10)	(179)	-
Net income (loss)	235	(56)	(56)
Preferred dividends accrued	(38)	(38)	(38)
Net income (loss) available for common shareholders	$ 197	$ (94)	$ (94)
Net income (loss) per share applicable to common stock :			
Basic Net Income	$ 0.04	$ (0.02)	$ (0.02)
Diluted Net Income	$ 0.04	$ (0.02)	$ (0.02)
Average-weighted shares outstanding			
Basic	5,537	5,537	5,537
Diluted	5,614	5,537	5,537

	Three Months Ended September 28 ,2003		
	As previously reported	As restated for errors	As restated for errors and retroactive adoption of FIN 46
Revenues			
Sales	$ 10,509	$ 7,845	$ 11,192
Cost reimbursements	-	4,784	2,330
Management Fees	278	611	243
Total Revenues	10,787	13,240	13,765
Cost of sales	2,968	2,170	3,135
Gross Profit	7,819	11,070	10,630
Operating exenses			
Restaurant and operating expenses	6,930	5,329	7,325
Reimbursed costs		4,784	2,330
General and administartive	934	934	933
Depreciation and amortization	411	313	483
Total operating expenses	8,275	11,360	11,071
Loss from operations	(456)	(290)	(441)
Interest expense, net	(49)	(121)	(83)
Loss before provision for income taxes, minority interest and equity in loss of joint venture	(505)	(411)	(524)
Provision for income taxes	13	17	13
Loss before minorty interest and equity in loss of joint venture	(492)	(394)	(511)
Minority interest in loss of subsidiaries	161	42	161
Equity in loss of joint venture	1	2	-
Net loss	(330)	(350)	(350)
Preferred dividends accrued	(12)	(13)	(13)
Net loss available for common shareholders	$ (342)	$ (363)	$ (363)
Net loss per share applicable to common stock :			
Basic Net Loss	$ (0.06)	$ (0.07)	$ (0.07)
Diluted Net Loss	$ (0.06)	$ (0.07)	$ (0.07)
Average-weighted shares outstanding			
Basic	5,537	5,537	5,537
Diluted	5,537	5,537	5,537

	Nine months ended September 28, 2003		
	As previously reported	As restated for correciton of errors	As restated for correction of errors and retroactive adoption of FIN 46
Cash flows from operating activities			
Net income	$ 235	$ (56)	$ (56)
Adjustments to reconcile net income			
Depreciation and amortization	1,200	899	1,413
Minority interest in net income (loss)	(425)	(142)	(445)
Equity in loss of JV	10	179	-
Gain on sale of assets	(12)	(11)	(11)
Stock based compensation		133	133
Changes in operating assets and liabilities:			
Accounts receivable	(81)	(694)	(117)
Reimburseable costs receivable		(32)	(14)
Inventories	(40)	(38)	(43)
Prepaid expenses	(399)	(351)	(415)
Other assets	-	366	15
Accounts payable	288	257	325
Accrued expenses	(267)	225	(311)
Reimburseable costs payable	-	32	14
Other liabilites	-	11	(119)
Net cash provided by operating activities	509	778	369
Cash flows from investing activities:			
Purchases of PP&E	(550)	(273)	(553)
Advances repaid by managed outlets	64	64	64
Proceeds from sale of assets	26	26	26
Restricted cash for DGCP, LLC	544	-	544
Investment in non consolidated entity	(30)	(30)	-
Net cash provided by (used in) investing activities	54	(213)	81
Cash flows from financing activities:			
Payments to related parties	(113)	(26)	(161)
Payments on long-term debt	(299)	(191)	(329)
Proceeds from Minority interest investment in LLC			30
Proceeds from note receivable payments	10	10	10
Preferred return to minority shareholders	(132)	-	-
Return of capital to minority interests	(222)	-	(222)
Net cash used by financing activities	(756)	(207)	(672)
Net increase(decrease) in cash	(193)	358	(222)
Cash and cash equivalents at beginning	1,275	581	1,290

Cash and cash equivalents at end	$	1,082	$	939	$	1,068

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

2. RESTRICTED CASH

Restricted cash consists of $72,000 held in escrow for the Daily Grill at Continental Park in El Segundo, California and $60,000 that was placed with our insurance broker in 2004 for worker s compensation insurance.

3. WORKER S COMPENSATION LOSS RESERVE

In the first quarter of 2004, the Company obtained a large deductible worker s compensation policy for 2004 that includes a deductible per occurrence of $250,000 subject to a maximum aggregate loss of $1.7 million. The Company has established a loss reserve to cover the potential deductible amounts. The loss reserve is determined by estimating the ultimate cost to the Company utilizing information on current accidents, prior year experience and the carrier s loss development and loss trend factors.

4. OTHER LONG-TERM LIABILITIES

Construction of the Bethesda Daily Grill was paid for through a $1.8 million tenant improvement allowance of which $1,049,000 was received during the nine months ended September 26, 2004. This tenant incentive allowance has been recorded in other long-term liabilities and is being amortized against rent expense over the 15 year lease term.

5. **LONG TERM DEBT**

In June 2004, we finalized an agreement with respect to the establishment of a new bank credit facility to replace our facility that expired in October 2004. Under the terms of the new bank credit facility, we have been provided with financing in the form of a revolving line of credit in the amount of $500,000, an irrevocable standby letter of credit in the amount of $700,000 and equipment financing in the amount of $500,000. The facility has a one-year term, is secured by assets and is subject to certain standard borrowing covenants. Interest is at the bank s variable reference rate. Although we were in default of a covenant during the third quarter, the bank has granted us a waiver.

6. **OPERATING LEASES AND CONTRACTUAL OBLIGATIONS**

During the quarter ended March 28, 2004, we entered into a lease relating to a restaurant scheduled to open in the first quarter of 2005. Accordingly, at September 26, 2004, we were obligated under seventeen leases covering the premises in which our Daily Grill and Grill Restaurants are located as well as leases on our executive offices. Such restaurant leases and the executive office lease contain minimum rent provisions which provide for the payment of minimum aggregate rental payments of approximately $22.5 million over the life of those leases, with minimum annual rental payments of $3.1 million in 2004, $5.3 million between 2005 and 2006, $4.3 million between 2007 and 2008, and $9.8 million thereafter. With the exception of entering into the referenced lease, there were no material changes in our obligations under operating leases or other contracts during the nine months ended September 26, 2004 as compared to those described in the Company s Form 10-K for the year ended December 28, 2003, as amended.

7. RECENT ACCOUNTING PRONOUNCEMENTS

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. In light of the changes resulting from the recent restatement process, the Company has elected to retroactively adopt the provisions of FIN 46 so that the financial presentation in this Quarterly Report on Form 10-Q is more consistent with the presentation of the Company s ongoing financial position and results of operations.

Under FIN 46, an entity is considered to be a variable interest entity (VIE) when it has equity investors which lack the characteristics of a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor is the primary beneficiary and will absorb a majority of the VIE s expected losses or residual returns if they occur.

Management has assessed all entities which are not wholly owned by the Company to determine if these entities would be considered VIEs and whether the Company would be considered the primary beneficiary. It was determined that all of the following entities would be considered VIEs: Chicago - The Grill on the Alley, San Jose Grill, Daily Grill at Continental Park, Hollywood Grill and Universal Daily Grill. Of these entities the Company was determined to be the primary beneficiary for Chicago - The Grill on the Alley, LLC, The San Jose Grill LLC, The Daily Grill at Continental Park LLC, Hollywood Grill and the Universal CityWalk Daily Grill.

Chicago - The Grill on the Alley LLC, an Illinois limited liability company ("Chicago Grill"), was formed in February 1999 and commenced operations on June 12, 2000. The Chicago Grill was formed for the purpose of owning and operating "The Grill on the Alley" restaurant located in the Westin Hotel in Chicago, Illinois.

The members of the Chicago Grill are the Company, which holds a member's percentage interest of 60%, and The Michigan Avenue Group, a general partnership which holds the remaining member's percentage interest of 40%. The Chicago Grill is managed exclusively by the Company which has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the Chicago Grill. In return, the Chicago Grill pays the Company a management fee of 5% of gross restaurant revenues. Total assets and revenues of the Chicago Grill as of and for the nine months ended September 26, 2004 were approximately $2.2 million and $3.3 million, respectively.

San Jose Grill LLC, a California limited liability company ("San Jose Grill"), was formed in July 1997 and commenced operations on May 13, 1998. San Jose Grill was formed for the purpose of owning and operating "The Grill on the Alley" restaurant located in the Fairmont Hotel in San Jose, California.

The members of the San Jose Grill are the Company, which holds a member's percentage interest of 50.05%, and Light Tower Restaurant Associates LLC, a California limited liability company, which holds the remaining member's percentage interest of 49.95% and is an affiliate of the San Jose Fairmont Hotel. The San Jose Grill is managed exclusively by the Company which has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the San Jose Grill. In return, the San Jose Grill pays the Company a management fee of 5% of gross restaurant sales. Total assets and revenues of the San Jose Grill as of and for the nine months ended September 26, 2004 were approximately $1.2 million and $3.1 million, respectively.

Daily Grill at Continental Park, LLC, a California limited liability company (the "Daily Grill at Continental Park"), was formed on May 28, 2002 and commenced operations on January 16, 2003. The South Bay Daily Grill was formed for the purpose of owning and operating the Daily Grill at Continental Park restaurant located in the Plaza in El Segundo, California.

The members of Daily Grill at Continental Park are Grill Concepts Management Inc., a wholly owned subsidiary of the Company, which holds an ownership's percentage interest of 50.1%, and Continental Plaza Restaurant Corporation ("CPR"), a California corporation which holds the remaining ownership percentage interest of 49.9%. The operations are managed exclusively by the Company which has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the entity. In return, the Daily Grill at Continental Park pays the Company a management fee of 5% of the adjusted gross restaurant's revenues. Total assets and restaurant sales of the Daily Grill at Continental Park as of and for the nine months ended September 26, 2004 were approximately $1.6 million and $1.7 million, respectively.

The Grill on Hollywood LLC, a California limited liability company (the "Grill on Hollywood"), was formed on July 26, 2001 and commenced operations on November 9, 2001. The entity was formed for the purpose of owning and operating "The Grill on Hollywood" restaurant located in the Hollywood and Highland entertainment and shopping complex in Hollywood, California.

The members of the Grill on Hollywood are the Company which holds a member's percentage interest of 51%, and TH Grill, Inc., a Delaware corporation, which holds the remaining member's percentage interest of 49% and is an affiliate of the TrizecHahn Hollywood, LLC. The entity is managed exclusively by the Company. In return, the Grill on Hollywood pays the Company a management fee of 5% of gross restaurant revenues. Total assets and restaurant sales of the Grill on Hollywood as of and for the nine months ended September 26, 2004 were approximately $1.0 million and $2.2 million, respectively.

Universal Grill Joint Venture, a California general partnership (the "Universal Grill"), was formed in December 1998 and commenced operations on June 28, 1999. Universal Grill was formed for the purpose of owning and operating "Daily Grill Short Order" restaurant located in the retail and entertainment district of Universal CityWalk Hollywood in Universal City, California. All of the business of the entity is conducted under the name "Daily Grill Short Order," patterned after Daily Grill in Brentwood, California, owned by the Company.

The partners of the Universal Grill are Universal Grill Concepts, Inc., a wholly owned subsidiary of the Company, which holds a partner's percentage interest of 50%, and Universal Studios Development Venture Six, a California corporation which holds the remaining partnership percentage interest of 50%. The Universal Grill is managed exclusively by the Company which has full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the entity. In return, the Universal Grill pays the Company a management fee of 5.5% of the adjusted gross restaurant's revenues. Total assets and restaurant sales of the Universal Grill as of and for the nine months ended September 26, 2004 were approximately $0.8 million and $1.8 million, respectively.

In April 2004, the EITF reached final consensus on EITF 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128," which requires companies that have participating securities to calculate earnings per share using the two-class method. This method requires the allocation of undistributed earnings to the common shares and participating securities based on the proportion of undistributed earnings that each would have been entitled to had all the periods earnings been distributed. EITF 03-06 is effective for fiscal periods beginning after March 31, 2004 and earnings per share reported in prior periods presented must be retroactively adjusted in order to comply with EITF 03-06. The Company adopted EITF 03-06 for the quarter ended June 27, 2004, however there has been no impact on the Company's financial statements as the preferred shares are not participating securities.

8. DISTRIBUTION OF CAPITAL AND PREFERRED RETURNS

The Company s San Jose Grill, Chicago - Grill on the Alley, Grill on Hollywood and South Bay (Continental Park) Daily Grill restaurants are each owned by limited liability companies (the LLCs) in which the Company serves as manager and owns a controlling interest. Each of the LLCs has minority interest members, some of whom have participating rights in the joint venture such as the ability to approve operating and capital budgets and the borrowing of money. In connection with the financing of each of the LLCs, the minority members may have certain rights to priority distributions of capital until they have received a return of their initial investments (Return of Member Capital) as well as rights to receive defined preferred returns on their invested capital (Preferred Return).

The following tables set forth a summary for each of the LLCs of (1) the distributions of capital to the Members and/or the Company during the nine months ended September 26, 2004, (2) the unreturned balance of the capital contributions of the Members and/or the Company at September 26, 2004, and (3) the accrued but unpaid preferred returns due to the Members and/or the Company at September 26, 2004:

San Jose Grill LLC

Distributions of capital, preferred return and profit during the nine months ended September 26, 2004:	Members	$	147,000
	Company	$	148,000
Unreturned Initial Capital Contributions at September 26, 2004:	Members	$	0
	Company	$	0
Accrued but unpaid Preferred Returns at September 26, 2004:	Members	$	0
	Company	$	0

Chicago - Grill on the Alley LLC

Distributions of capital and note repayments during the nine months ended September 26, 2004:	Members (a)	$	189,000
	Company	$	0
Unreturned Initial Capital Contributions at September 26, 2004:	Members	$	1,000,000
	Company	$	0
Accrued but unpaid Preferred Returns at September 26, 2004:	Members	$	0
	Company	$	0

The Grill on Hollywood LLC

Distributions of capital during the nine months ended September 26, 2004:	Members	$	0
	Company	$	0
Unreturned Initial Capital Contributions at September 26, 2004:	Members	$	1,200,000
	Company	$	250,000
Accrued but unpaid Preferred Returns at September 26, 2004:	Members	$	0
	Company	$	88,000

South Bay Daily Grill (Continental Park LLC)

Distributions of capital during the nine months ended September 26, 2004:	Members	$	0
	Company	$	0
Unreturned Initial Capital Contributions at September 26, 2004:	Members	$	1,000,000
	Company	$	350,000
Accrued but unpaid Preferred Returns at September 26, 2004:	Members	$	186,000
	Company	$	65,000

(a) Distribution of capital and note repayments as of September 26, 2004 includes $91,000 of capital and loan and $98,000 of payments on interest and preferred return.

9. STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, which amends SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results of operations. As the Company has not elected to change to the fair value based method of accounting for stock based employee compensation, the adoption of SFAS No. 148 did not have a material impact on the Company s financial position or results of operations. All disclosure requirements of SFAS No. 148 have been adopted and are reflected in these financial statements.

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. Because grants under the plan require variable accounting treatment due to the cashless exercise feature of those options (described below), compensation expense is remeasured at each balance sheet date based on the difference between the current market price of the Company s stock and the option exercise price. An accrual for compensation expense is determined based on the proportionate vested amount of each option as prescribed by Financial Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. Each period, adjustments to the accrual are recognized in the income statement. The Company accounts for stock and options to non-employees at fair value in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus on Issue No. 96-18.

On June 1, 1995, the Company s Board of Directors adopted the Grill Concepts, Inc. 1995 Stock Option Plan (the 1995 Plan) and on June 12, 1998 the 1998 Stock Option Plan (the 1998 Plan) was adopted. These Plans provide for options to be issued to the Company s employees and others. The exercise price of the shares under option shall be equal to or exceed 100% of the fair market value of the shares at the date of grant. The options generally vest over a five-year period. The terms of the option grants allow the employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash, subject to the terms of the plan including the rights of the Compensation Committee to amend grants in any manner that the committee in its sole discretion deems to not adversely impact the option holders.

On June 23, 2004, the Company s Compensation Committee, as administrators of the Company s stock option plan, resolved that the cashless exercise feature in the Company s stock option plan will not be permitted, and a notification was subsequently given to all employees on July 30, 2004. Effective with this date, the Company reverted back to accounting for its options under the fixed accounting treatment.

The Company has adopted the disclosure-only provisions of SFAS No. 148 and SFAS No. 123, and will continue to use the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees, except for the awards requiring variable accounting treatment through July 30, 2004, Pro forma compensation expense for the Company's stock option plans determined based on the fair value at the grant date for awards is as follows:

	Nine Months			
		2004		2003 (restated)
Net loss, as reported	$	(253,000)	$	(56,000)
Add: stock compensation expense recorded		(84,000)		133,000
Deduct: stock compensation expense under fair value method		(144,000)		(133,000)
Net loss, pro forma		(481,000)		(56,000)
Net loss per share applicable to common stock, as reported:				
Basic	$	(0.05)	$	(0.02)
Diluted	$	(0.05)	$	(0.02)
Net loss per share applicable to common stock, pro forma:				
Basic	$	(0.09)	$	(0.02)
Diluted	$	(0.09)	$	(0.02)

10. PER SHARE DATA

Pursuant to SFAS No. 128, Earnings Per Share, basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to common shareholders by the weighted-average number of common and common equivalent shares outstanding during the period. Common share equivalents included in the diluted computation represent shares issuable upon assumed exercise of stock options, warrants and convertible preferred stocks using the treasury stock method.

A reconciliation of earnings available to common stockholders and diluted earnings available to common stockholders and the related weighted average shares for the nine and three month periods ended September 26, 2004 and September 28, 2003 follow:

	Nine months					
	2004			2003		
		Earnings	Shares		Earnings (restated)	Shares
Net loss	$	(253,000)		$	(56,000)	
Less: preferred stock dividend		(38,000)			(38,000)	
Deficit available for common stockholders		(291,000)	5,594,672		(94,000)	5,537,071
Dilutive securities:						
Stock options		-	-		-	-
Warrants		-	-		-	-
Dilutive deficit available to common stockholders	$	(291,000)	5,594,672	$	(94,000)	5,537,071

For the nine months ended September 26, 2004, 632,425 options, 1,722,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive. For the nine months ended September 28, 2003, 744,450 options, 1,912,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive.

	Three months					
	2004			2003		
		Earnings	Shares		Earnings (restated)	Shares
Net loss	$	(199,000)		$	(350,000)	
Less: preferred stock dividend		(13,000)			(13,000)	
Deficit available for common stockholders		(212,000)	5,647,707		(363,000)	5,537,071
Dilutive securities:						
Stock options		-	-		-	-
Warrants		-	-		-	-
Dilutive deficit available to common stockholders	$	(212,000)	5,647,707	$	(363,000)	5,537,071

For the three months ended September 26, 2004, 632,425 options, 1,722,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive. For the three months ended September 28, 2003, 744,450 options, 1,912,787 warrants and 500 shares of convertible preferred stock were excluded from the calculation because they were anti-dilutive.

11. LITIGATION CONTINGENCIES

In June 2004, one of our former hourly restaurant employees filed a class action lawsuit against us in the Superior Court of California of Orange County. We requested and were granted a motion to move the suit from Orange County to Los Angeles County. As of this time the suit has not been filed in Los Angeles County. The plaintiff alleged violations of California labor laws with respect to providing meal and rest breaks. The lawsuit sought unspecified amounts of penalties and other monetary payments on behalf of the plaintiffs and other purported class members. Discovery is currently continuing in these matters. We believe that all of our employees were provided with the opportunity to take all required meal and rest breaks and intend to vigorously defend our position in all of these matters although the outcome cannot be ascertained at this time.

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

The following discussion and analysis should be read in conjunction with the Company s financial statements and notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the discussion in this Form 10-Q contains certain forward looking statements that involve risks and uncertainties, such as statements of the Company s plans, objectives, expectations and intentions. The cautionary statements made in this Form 10-Q should be read as being applicable to all related forward looking statements wherever they appear in this Form 10-Q. The Company s actual results could differ materially from those discussed here. For a discussion of certain factors that could cause actual results to be materially different, refer to the Company s Annual Report on Form 10-K for the year ended December 28, 2003, as amended on October 15, 2004.

Restatement for Correction of Errors and Retroactive Adoption of FIN 46

The accompanying consolidated financial statements as of December 28, 2003 and for the three and nine-month periods ended September 28, 2003 were restated on May 14, 2004 from those originally issued to reflect certain adjustments related to stock compensation and other miscellaneous adjustments, and were subsequently restated on October 15, 2004 to further reflect additional adjustments to revise the accounting for certain of the Company s joint ventures, record costs and revenues associated with reimbursed costs under management agreements and make other miscellaneous corrections. Additionally, the Company has corrected its initial adoption of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, (FIN 46) which was first effective for the quarter ended March 28, 2004. (Note - Except where there is no change to diluted earnings per share, the impact of each adjustment on diluted earnings per share has been identified below.)

Retroactive Adoption of FIN 46

Effective December 29, 2003 (the first day of fiscal year 2004), the Company adopted the provisions of FIN 46. The Company has elected to retroactively adopt the provisions of FIN 46. The impact of the retroactive adoption is to consolidate The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC, the Daily Grill at Continental Park, LLC and the Universal CityWalk Daily Grill prior to fiscal year 2004. There is no impact on net income (loss) in any period as a result of this retroactive adoption. Errors in the prior accounting for these entities are discussed in the following sections. See further discussion of the adoption of FIN 46 below.

Corrections of Errors

Stock Compensation and Miscellaneous Adjustments

In May 2004, the terms of the Company s option grants were reevaluated - specifically, provisions which allow an employee to exercise the option by surrendering a portion of the vested shares in lieu of paying cash. Under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, this cashless exercise feature requires the Company to account for its option plan using a variable accounting treatment. Under variable accounting, compensation expense must be remeasured each balance sheet date based on the difference between the current market price of the Company s stock and the option s exercise price. An accrual for compensation expense is determined based on the proportionate vested amount of each option as prescribed by Financial Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. Each period, adjustments to the accrual are recognized in the income statement. Previously, the Company had accounted for its options using a fixed accounting treatment whereby compensation expense, if any, was only evaluated at the date of the option grant. The impact of this adjustment was to decrease operating expenses and net loss by $7,000 for the three months and increase operating expenses and net loss by $133,000 ($0.02 per share) for the nine months ended September 28, 2003. Results for all periods during fiscal 2004 were originally reported correctly and did not require restatement.

In addition to this change, the Company also recorded additional general and administrative expense of $28,000 in the fourth quarter of fiscal year 2003 to correctly state its liability for payroll and other costs. This adjustment increased accumulated deficit as of December 28, 2003. Lastly, the Company increased additional paid-in capital and accumulated deficit by $55,000 ($0.01 per share) as of each fiscal yearend in the period from 1998 through 2003 to properly reflect the fair value of fully vested stock options issued in connection with severance agreements arranged in fiscal year 1998 which had not been previously expensed.

Joint Venture Accounting and Miscellaneous Adjustments

Deconsolidation of The San Jose Grill LLC, Chicago - the Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC Pursuant to SOP 78-9

In August 2004, the Company reevaluated its consolidation policies with respect to its investments in four restaurants held by limited liability companies (LLCs). Previously, all four of the LLCs were consolidated due to the Company s majority ownership in these entities. However, the terms of three agreements gave the minority interests certain voting rights which, when evaluated under the relevant terms of Statement of Position No. 78-9, Accounting for Investments in Real Estate Ventures, precluded consolidation. Therefore, the Company restated previously reported results to show the investments in the San Jose Grill LLC, Chicago - The Grill on the Alley, LLC and the Daily Grill at Continental Park, LLC under the equity method, rather than as consolidated subsidiaries. The fourth LLC, The Grill on Hollywood, LLC, remained consolidated. There was no impact on net income as a result of this change. See further discussion below regarding other errors in the accounting for the Company s joint ventures and the consolidation of all the Company s partially-owned entities upon the retroactive adoption of FIN 46.

%
Gross profit
48,321

40,351

7,970

19.8
%
Gross margin
87.6
%

92.1
%

Cost of Revenue, Gross Profit and Gross Margin. Our cost of revenue during the year ended December 31, 2018 increased to $6.8 million from $3.4 million in the prior year period. The increase in cost of revenue is attributable to an increase in hosting fees corresponding with additional spend being transacted through our platform, as well as an increase in cost of inventory relating to transactions that we report on a gross basis.
Our gross profit during the year ended December 31, 2018 increased to $48.3 million from $40.4 million in the prior year period, reflecting an increase in our revenue of $11.4 million year-over-year, which was partially offset by a $3.4 million increase in our cost of revenue year-over-year.
Our gross margin decreased to 87.6% for the year ended December 31, 2018 compared to 92.1% for the year ended December 31, 2017. The decrease in our gross margin was largely driven by an increase in the relative contribution to revenue from transactions reported on a gross basis.

Years Ended December 31,		Change Increase / (Decrease)	
2018	2017	Amount	Percentage
(dollars in thousands)			

Technology and development expense	9,925	8,586	$ 1,339	15.6 %
% of total revenue	18.0 %	19.6 %		

Technology and Development. The increase in technology and development expense in 2018 compared to 2017 was primarily attributable to a $1.5 million increase in salaries, incentive compensation, stock-based compensation and other personnel-related costs, partially offset by a decrease of a $0.2 million in rent expense.

	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Sales and marketing expense	25,424	28,073	$ (2,649)	(9.4)%
% of total revenue	46.1 %	64.1 %		

Sales and Marketing. The decrease in sales and marketing expense of $2.6 million in 2018 compared to 2017 was primarily attributable to a $2.4 million decrease in salaries, incentive compensation, stock compensation and other personnel-related costs and $0.4 million in bad debt expense, which were partially offset by a $0.2 million increase in rent expense.

	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
General and administrative expense	20,187	20,197	$ (10)	—%
% of total revenue	36.6 %	46.1 %		

General and Administrative. General and administrative expense in 2018 compared to 2017 was relatively flat.

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	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Depreciation and amortization expense	$3,705	$4,586	$ (881)	(19.2)%
% of total revenue	6.7 %	10.5 %		

Depreciation and Amortization. The decrease in depreciation and amortization expense in 2018 compared to 2017 was primarily attributable to accelerated depreciation that began in 2017 on leasehold improvements and furniture and fixtures that were disposed of in connection with our relocation of office space.

	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Mark-to-market expense	$57	$148	$ (91)	(61.5)%
% of total revenue	0.1 %	0.3 %		

Mark-to-market expense. The mark-to-market expense in 2018 is related to contingent considerations associated with the acquisition of SlimCut. The 2017 mark-to-market expense is related to the contingent consideration associated with the acquisition of TVN in 2015. Refer to Note 7.

	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Total interest and other income (expense), net	$1,886	$1,192	$ 694	58.2 %
% of total revenue	3.4 %	2.7 %		

Total Interest and Other Income (Expense), Net. The increase in total interest and other income (expense), net in 2018 compared to 2017 was primarily attributable to an increase of $1.0 million of interest income and in $0.5 million of income related to the license of intellectual property, partially offset by increases of $0.4 million in net sublease expense, $0.3 million of expense related to transitional services provided following the sale of our buyer platform and $0.1 million in other expense.

	Years Ended December 31,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Benefit for income taxes	(10)	(347)	$ 337	97.1 %
% of total revenue	— %	(0.8)%		

Benefit for Income Taxes. Benefit for income taxes decreased compared to 2017 due to the deferred tax benefit attributable to a refundable AMT tax credit in 2017. The Company paid AMT tax during 2017 as a result of the sale of the buy side of the business.

Total Income (Loss) from Discontinued Operations, Net of Income Taxes

In August 2017, we completed the sale of our buyer platform to an affiliate of Taptica International Ltd. (“Taptica”). The consideration received was $50 million, subject to adjustment for working capital (refer to Note 3 in the consolidated financial statements). The results of our buyer platform have been recast as discontinued operations.

For the year ended December 31, 2018, loss from discontinued operations consisted of working capital adjustments reflected in loss on sale of discontinued operations net of income taxes, in the amount of $0.1 million. For the year ended December 31, 2017, total income from discontinued operations consisted of operating income net of income taxes, attributable to our buyer platform of $7.3 million and gain on sale of of discontinued operations, net of taxes of $14.6 million(refer to Note 3 in the consolidated financial statements).

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Comparison of Years Ended December 31, 2017 and 2016

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Revenue	$43,799	29,121	$ 14,678	50.4 %

Revenue. Our revenue during the year ended December 31, 2017 increased to $43.8 million from $29.1 million in the prior year period, representing a 50.4% increase year-over-year. The year-over-year increase in our revenue was primarily attributable to a significant increase in the number of ads purchased and sold through our platform, including as a result of spend transacted by our former buyer platform following its sale to Taptica in August 2017.

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Cost of revenue	$3,448	$2,211	$ 1,237	55.9 %
Gross profit	40,351	26,910	13,441	49.9 %
Gross margin	92.1 %	92.4 %		

Cost of Revenue, Gross Profit and Gross Margin. Our cost of revenue during the year ended December 31, 2017 increased to $3.4 million from $2.2 million for the same period in 2016. The increase in cost of revenue is attributable to an increase in hosting fees associated with an increase in the total number of transactions being processed through our platform.

Our gross profit during the year ended December 31, 2017 increased to $40.4 million from $26.9 million in the prior year period, reflecting an increase in our revenue of $14.7 million which was partially offset by a $1.2 million increase in our cost of revenue year-over-year.

Our gross margin remained relatively flat at 92.1% for the year ended December 31, 2017 compared to 92.4% for the year ended December 31, 2016

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Technology and development expense	$8,586	$6,961	$ 1,625	23.3 %
% of total revenue	19.6 %	23.9 %		

Technology and Development. The increase in technology and development expense in 2017 compared to 2016 was primarily attributable to a $2.2 million increase in salaries, incentive compensation, stock-based compensation and other personnel-related costs, which were partially offset by a $0.5 million increase in other overhead costs.

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	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Sales and marketing expense	$28,073	$22,297	$ 5,776	25.9 %
% of total revenue	64.1 %	76.6 %		

Sales and Marketing. The increase in sales and marketing expense in 2017 compared to 2016 was primarily attributable to a $4.4 million increase in salaries, incentive compensation, stock-based compensation, and other personnel-related costs, $1.6 million increase in marketing costs, professional development costs, software costs, and bad debt expense and a $0.2 million increase in other overhead related costs, which were partially offset by a $0.5 million decrease in consulting fees and travel and entertainment expenses.

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
General and administrative expense	$20,197	$16,069	$ 4,128	25.7 %
% of total revenue	46.1 %	55.2 %		

General and Administrative. The increase in general and administrative expense in 2017 compared to 2016 was primarily attributable to a $2.9 million increase in salaries, incentive compensation, stock-based compensation and other personnel-related costs, $1.0 million in costs related to the sale of our buyer platform in August 2017, a $0.9 million increase in consulting fees and a $0.4 million increase in other taxes and overhead costs. These costs were partially offset by a $0.9 million decrease in professional development and recruitment costs and a $0.3 million decrease in legal fees.

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Depreciation and amortization expense	$4,586	$3,754	$ 832	22.2 %
% of total revenue	10.5 %	12.9 %		

Depreciation and Amortization. The increase in depreciation and amortization expense in 2017 compared to 2016 was primarily attributable to accelerated depreciation on our current corporate office leasehold improvements due to our relocation of our corporate office during 2018.

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Mark-to-market expense	$148	$1,263	$(1,115)	(88.3)%
% of total revenue	0.3 %	4.3 %		

Mark-to-Market Expense.

The decrease in mark-to-market expense in 2017 compared to 2016 was primarily attributable to reduction in expense related to the Company's re-measurement of the estimated fair value of contingent consideration that was due in connection with the acquisition of TVN (refer to notes 4 and 7 in the notes to consolidated financial statements).

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	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
Total interest and other income (expense), net	$ 1,192	$ (252)	$ 1,444	NM
% of total revenue	2.7 %	(0.9)%		

Total Interest and Other Income (Expense), Net. The increase in total interest and other income (expense), net in 2017 compared to 2016 was primarily attributable to $1.0 million in transitional services provided to the acquirer following the sale of our buyer platform, a $0.5 million increase in sublease income net of sublease loss in 2016 and trademark license income of $0.4 million, which were partially offset by a $0.4 million loss on the disposition of assets.

	Years Ended December 31,		Change Increase / (Decrease)	
	2017	2016	Amount	Percentage
	(dollars in thousands)			
(Benefit) provision for income taxes	$ (347)	$ 164	$ (511)	NM
% of total revenue	(0.8)%	0.6 %		

(Benefit) Provision for Income Taxes. The decrease in provision for income taxes in 2017 compared to 2016 was primarily attributable to decreases in taxes incurred in our foreign jurisdictions for the federal AMT credit.

Income (Loss) from Discontinued Operations, Net of Income Taxes

In August 2017, we completed the sale of our buyer platform to Taptica. The consideration received was $50 million, subject to adjustment for working capital (refer to Note 3 in the consolidated financial statements). As a result, the results of our buyer platform have been recast as discontinued operations.

For the year ended December 31, 2017, income from discontinued operations consisted of operating income, net of income taxes, attributable to our sale of the buyer platform of $7.3 million as well as a gain on sale of $14.6 million, net of income taxes, related to the sale of our buyer platform. For the year ended December 31, 2016, income from discontinued operations consisted of operating income net of income taxes, attributable to our buyer platform of $2.9 million (refer to Note 3 in the consolidated financial statements).

Seasonality

Our revenue tends to be seasonal in nature and varies from quarter to quarter. During the first quarter, advertisers generally devote less of their budgets to ad spending and as a result we tend to generate less revenue during the first quarter of each calendar year. The fourth quarter of each calendar year tends to be our strongest revenue quarter, as advertising spend generally increases during the holiday season.

Liquidity and Capital Resources

Working Capital

The following table summarizes our cash and cash equivalents, accounts receivable and working capital for the periods indicated:

	As of December 31,	
	2018	2017
	(dollars in thousands)	
Cash and cash equivalents	$ 47,659	$ 76,320
Accounts receivable, net of allowance for doubtful accounts	104,387	59,288
Working capital	$ 42,253	$ 77,153

Our cash and cash equivalents at December 31, 2018 were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in

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investments designed to preserve the principal balance and provide liquidity. Accordingly, our cash and cash equivalents are invested primarily in demand deposit accounts and money market funds that are currently providing only a minimal return.

Sources of Liquidity

Our principal sources of liquidity are our cash and cash equivalents. Cash and cash equivalents consist primarily of cash on deposit with banks and investments in money market funds. Cash and cash equivalents were $47.7 million, and $76.3 million as of December 31, 2018 and 2017.

We are party to a loan and security agreement, which we refer to as our credit facility, with Silicon Valley Bank, which we refer to as our lender. Pursuant to the credit facility we can incur revolver borrowings up to the lesser of $25.0 million and a borrowing base equal to 80.0% of eligible accounts receivable. Any outstanding principal amounts borrowed under the credit facility must be paid at maturity. Interest accrues at a floating rate equal to the lender's prime rate and is payable monthly. We are charged a fee of 0.35% of any unused borrowing capacity, which is payable quarterly. The credit facility also includes a letter of credit, foreign exchange and cash management facility up to the full amount of available credit. The credit facility matures in January 2020. While we had no outstanding borrowings under the credit facility as of December 31, 2018 and 2017, our lender has issued standby letters of credit in favor of the landlords of our current and former headquarters and other office space totaling $3.6 million, which can be drawn down from amounts available under the credit facility.

The credit facility contains customary conditions to borrowings, events of default and negative covenants, including covenants that restrict our ability to dispose of assets, merge with or acquire other entities, incur indebtedness, incur encumbrances, make distributions to holders of our capital stock, make investments or engage in transactions with our affiliates. We are also subject to a financial covenant with respect to a minimum quick ratio, tested monthly, and Adjusted EBITDA for trailing periods which vary from three to twelve months, tested quarterly. Pursuant to an amendment to the credit facility, executed in November 2018 the Adjusted EBITDA covenant will only be tested if (i) the quick ratio falls below a certain threshold and (ii) unrestricted and unencumbered cash falls below $25.0 million. Our obligations under the credit facility are secured by substantially all of our assets other than our intellectual property, although we have agreed not to encumber any of our intellectual property without the lender's prior written consent. Subject to certain exceptions, we are also required to maintain all of our cash and cash equivalents at accounts with the lender. We were in compliance with all covenants as of December 31, 2018 and through the date of this filing.

Operating and Capital Expenditure Requirements

We believe our existing cash balances will be sufficient to meet our anticipated cash requirements from issuance date of this Annual Report through at least the next 12 months. If our available cash balances and available borrowings under our credit facility are insufficient to satisfy our liquidity requirements, we will need to raise additional funds to support our operations, and such funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed, our operations and ability to execute our business strategy could be adversely affected. We may seek to raise additional funds through equity, equity-linked or debt financings. If we raise additional funds through the incurrence of indebtedness, such indebtedness would have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. Any additional equity financing may be dilutive to our stockholders.

Share repurchase

On October 2, 2018, our board of directors approved a share repurchase program under which we were authorized to purchase up to $20.0 million of common stock over the 18-month period commencing on the date of approval. As of December 31, 2018, we had purchased shares up to the maximum amount authorized under the share repurchase program, including 1,666,858 shares that were purchased in open market purchases (for a total of approximately $4.7 million), 2,000,000 shares that were purchased from Canaan Partners in a negotiated transaction (for a total of $6.1 million) and 3,651,314 shares that were purchased from W Capital Partners in a negotiated transaction (for a total of approximately $9.2 million). In addition, during the three months ended December 31, 2018, we purchased an additional 1,400,572 shares from W Capital Partners (for a total of approximately $3.5 million) outside of our share repurchase program.

On March 25, 2016 our board of directors approved a share repurchase program under which we were authorized to purchase up to $15.0 million of our common stock over the eighteen-month period commencing on the date of approval. During the year ended December 31, 2017, we made open-market purchases totaling 983,864 shares of our common stock for an aggregate purchase price of $2.4 million, and for the year ended December 31, 2016 we made open-market purchases totaling 2,861,632 of our common stock for an aggregate purchase price of $6.0 million. The share repurchase program expired on September 30, 2017.

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All share repurchases were funded from cash on hand.

Historical Cash Flows

The following table summarizes our historical cash flows for the periods indicated:

	December 31,		
	2018	2017	2016
	(dollars in thousands)		
Net cash (used in) provided by:			
Operating activities	$1,760	$(10,631)	$(6,900)
Investing activities	(7,511)	45,933	(2,933)
Financing activities	$(22,481)	$(3,317)	$(6,332)

Operating Activities

Net cash used in or provided by operating activities is primarily influenced by the revenue our business generates, our costs of revenue, and amounts of cash we invest in personnel and infrastructure to support our business. Net cash used in operating activities has been used to fund operations through changes in working capital, particularly in the areas of accounts receivable, accounts payable and accrued expenses, adjusted for non-cash expense items such as depreciation, amortization and stock-based compensation expenses.

In 2018, our net cash provided by operating activities was $1.8 million and consisted of adjustments for non-cash items of $7.7 million and cash provided by working capital of $3.4 million, which was partially offset by a loss from continuing operations and loss from discontinued operations of $9.4 million. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of $3.7 million, non-cash stock-based compensation expense of $3.8 million, and bad debt recovery and loss on disposal of fixed assets of $0.2 million. The cash provided by working capital of $3.4 million primarily consisted of an increase in accounts payable and accrued expenses of $48.8 million and an increase in deferred rent, security deposits payable and other current liabilities of $0.8 million, which was partially offset by accounts receivable of $43.3 million, an increase in prepaid expenses of $1.8 million and an increase in deferred income and other liabilities of $1.1 million.

In 2017, our net cash used in operating activities was $10.6 million and consisted of a loss from continuing operations of $19.7 million, partially offset by net income from discontinued operations of $21.9 million, $15.0 million gain on sale of discontinued operations, cash used in working capital of $13.4 million, which was partially offset by adjustments for non-cash items of $15.5 million. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of $7.8 million, non-cash stock-based compensation expense of $5.4 million, compensation expense related to acquisition contingent consideration of $1.8 million and mark to market expense of $0.1 million. The cash used in working capital of $13.4 million, primarily consisted of an increase in accounts receivable of $19.9 million and a decrease in contingent consideration of $4.8 million, which was partially offset by an increase in accounts payable of $13.8 million and an increase in prepaid expenses and other current assets and an increase in deferred rent and security deposits payable of $3.8 million.

In 2016, our net cash used in operating activities was $6.9 million and consisted of a loss from continuing operations of $23.9 million, a loss from discontinued operations of $2.9 million and cash used in working capital of $3.7 million, partially offset by adjustments for non-cash items of $17.7 million. The use of cash in working capital adjustments of $3.7 million primarily consisted of an increase in accounts receivable of $8.3 million, partially offset by an increase in accounts payable and accrued expenses of $6.7 million and an increase in deferred rent and security deposits payable of $0.6 million. Depreciation and amortization expense of $9.2 million, non-cash stock-based compensation expense of $3.9 million and non-cash stock-based long-term incentive compensation expense of $0.3 million.

Investing Activities

In 2018, our net cash used in investing activities of $7.5 million consisted of the acquisition of SlimCut for initial cash consideration of $4.8 million and the purchase of property and equipment of $2.7 million.

In 2017, our net cash provided by investing activities was $45.9 million and consisted of the sale of our buyer platform for cash proceeds of $49.0 million, offset by $2.0 million of expenses paid with respect to the sale of the buyer platform, and $1.1 million used to purchase property and equipment.

In 2016, our net cash used in investing activities was $2.9 million and consisted of $2.9 million used to purchase property and equipment.

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Financing Activities

In 2018, our net cash used in financing activities was $22.5 million and consisted of $23.5 million of purchases of common stock and $1.3 million used to pay tax withholdings on behalf of employees related to net share settlements of restricted stock unit awards, partially offset by $2.4 million in proceeds received from the issuance of common stock in connection with shares purchased under our ESPP and the exercise of stock option awards.

In 2017, our net cash used in financing activities was $3.3 million and consisted of $2.4 million of purchases of common stock pursuant to our share repurchase program, $1.8 million used to pay tax withholdings on behalf of employees related to net share settlements of restricted stock unit awards and $0.2 million of principal payments related to capital leases, partially offset by $1.1 million in proceeds received from the issuance of common stock in connection with shares purchased under our ESPP and the exercise of stock option awards.

In 2016, our net cash used by financing activities was $6.3 million and consisted of $6.0 million of purchases of common stock pursuant to our share repurchase program, $0.5 million used to pay tax withholdings on behalf of employees related to net share settlements of restricted stock unit awards and $0.4 million used to pay contingent consideration related to the purchase of TVN, partially offset by $0.7 million in proceeds received from the issuance of common stock in connection with shares purchased under our ESPP and the exercise of stock options awards.

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

Contractual Obligations

The following table discloses aggregate information about material contractual obligations and periods in which payments were due as of December 31, 2018. Future events could cause actual payments to differ from these estimates.

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(dollars in thousands)				
Operating lease obligations(1)	$42,663	$ 6,992	$12,347	$10,223	$ 13,101
Total contractual obligations	$42,663	$ 6,992	$12,347	$10,223	$ 13,101

(1) Operating lease obligations includes those contractual obligations related to our non-cancellable office space lease agreements and co-location agreements.

The amounts in the table above are associated with agreements that are enforceable and legally binding, which specify significant terms including payment terms related to services and the approximate timing of the transaction. Obligations under the contract that we can cancel without a significant penalty are not included in the table.

Critical Accounting Policies and Estimates

We prepare our audited consolidated financial statements in accordance with U.S. GAAP. The preparation of audited consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Critical accounting policies and estimates are those we consider to be the most important to the portrayal of our financial condition and results of operations because they require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates include those related to the following:

Revenue Recognition

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We primarily generate revenue on a transactional basis where we are paid by a publisher each time an advertising impression is monetized on our platform based on a simple and transparent fee structure that we establish with our publisher partners. For substantially all such transactions, we act as an agent on behalf of publishers and revenue is recognized net of any inventory costs that we remit to publishers, when a buyer purchases inventory from a publisher on our platform. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether we are acting as the principal or an agent in the transaction. In determining whether we are acting as the principal or an agent, we followed the accounting guidance for principal-agent considerations. The determination of whether we are acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of each arrangement, none of which are considered presumptive or determinative. Substantially all of the revenue generated, and costs incurred, related to publisher transactions on our platform reported on a net basis as we determined that we act as an agent for publishers and are not the primary obligor in such transactions, given that: (1) another party is primarily responsible for fulfilling the contract and we do not have discretion in establishing prices and (2) we do not generally take on inventory risk. For certain transactions, we report revenue on a gross basis, based primarily on our determination that we act as the primary obligor in the delivery of advertising campaigns for buyers with respect to such transactions.

Accounts Receivable, Net of Allowances for Doubtful Accounts

We carry our accounts receivable at net realizable value. On a periodic basis, our management evaluates our accounts receivable and determines whether to provide an allowance or if any accounts should be written down and charged to expense as a bad debt. The evaluation is based on a past history of collections, current credit conditions, the length of time the account is past due and a past history of write-downs. A receivable is considered past due if we have not received payments based on agreed-upon terms. We extend credit to customers and generally do not require any security or collateral to support our receivables

Goodwill and Intangible Assets

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives. We evaluate the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Goodwill is not amortized, but rather is subject to an impairment test.

We evaluate goodwill and other intangible assets with indefinite lives for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We adopted FASB Accounting Standards Update (“ASU”) 2011-08, “Testing Goodwill for Impairment,” which gives companies the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying value.

We operate as one operating and reporting segment and, therefore, we assess goodwill for impairment annually as one singular reporting unit, using a two-step approach. The first step is to compare the fair value of the reporting unit to the carrying value of the net assets assigned to the reporting unit. If the fair value of the reporting unit is greater than the carrying value of the net assets assigned to the reporting unit, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit’s carrying value, step two is performed to measure the amount of the impairment, if any.

We also review identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of intangible assets are measured by a comparison of the carrying amount of the asset or asset group, using an income approach, to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. As we operate as one business unit and our long-lived assets do not have identifiable cash flows that are independent of the other assets and liabilities of this business unit, the impairment testing on intangible assets is performed at the entity-level.

We did not identify any impairment of our goodwill at December 31, 2018, 2017, and 2016 and therefore, for the years ended December 31, 2018, 2017, and 2016 no impairment losses related to goodwill were recorded.

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Stock-Based Compensation

We include stock-based compensation expense as part of operating expenses in connection with the grant or modification of stock option awards, restricted stock unit awards, employee stock purchase plan awards, and other equity awards to our directors, employees and consultants. We account for stock-based compensation in accordance with the authoritative accounting guidance on stock-based payment awards. Pursuant to the fair value recognition provisions of such guidance, stock-based payment awards are measured at the grant date based on the fair value of the award and is recognized as compensation expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. During the years ended December 31, 2018, 2017 and 2016, we recorded stock-based compensation expense of $3.8 million, $4.7 million and $2.5 million in continuing operations, respectively. Information about the assumptions used in the calculation of stock-based compensation expense is set forth in “Note 15 — Stock-Based Compensation” in the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report.

Income Taxes

Our income tax expense represents amounts paid or payable (or received or receivable) for the current year and includes any changes in deferred taxes during the year. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, as well as for operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect of a change in tax rates on deferred tax assets and liabilities in the results of operations in the period that includes the enactment date.

Our deferred income tax expense represents the change during the period in deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are non-current under ASU 2015-17. We reduce the measurement of a deferred tax asset, if necessary, by a valuation allowance if it is more likely than not that we will not realize some or all of the deferred tax asset. As a result of our historical operating performance and the cumulative net losses incurred to date, we do not have sufficient objective evidence to support the recovery of the deferred tax assets. Accordingly, we have established a valuation allowance against substantially all deferred tax assets for financial reporting purposes because we believe it is more likely than not that these deferred tax assets will not be realized.

We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is “more-likely-than-not” that the position will be sustained upon examination. Potential interest and penalties associated with unrecognized tax positions are recognized in our provision for income taxes.

At December 31, 2018, we had U.S. federal and state net operating loss carryforwards, or NOLs, of $109.1 million and $63.1 million, respectively, and foreign net operating loss carryforwards of $6.8 million, $6.8 million and $0.0 million related to our international subsidiaries in United Kingdom, Germany and Brazil, respectively. The U.S. federal net operating losses will expire in various years beginning in 2028. Our foreign net operating loss carry-forwards can be carried forward without limitation in each respective country. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under Section 382 of the Internal Revenue Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We believe that we experienced an ownership change under Section 382 of the Internal Revenue Code in prior years that may limit our ability to utilize a portion of the NOLs in the future.

Recent Issued and Adopted Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, refer to “Note 2 — Summary of Significant Accounting Policies” in the notes to the consolidated financial statements included in Part II, Item 8 of this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk primarily related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into hedging arrangements to manage the risks described below.

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Interest Rate Risk

We maintain cash and a short-term investment portfolio consisting mainly of highly liquid, short-term money market funds, which we consider to be cash and cash equivalents, respectively. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash and cash equivalents have a relatively short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. These investments earn interest at variable rates and, as a result, decreases in market interest rates would generally result in decreased interest income. A 10% increase or decrease in interest rates occurring January 1, 2018 and sustained through the period ended December 31, 2018, would not have been material. We do not enter into investments for trading or speculative purposes. In future periods, we will continue to evaluate our investment policy relative to our overall objectives.

We were exposed to market risks related to fluctuations in interest rates related to our $25.0 million credit facility where an increase in interest rates may result in higher borrowing costs. Since we currently do not have any outstanding borrowings under our credit facility, the effect of a hypothetical 10% change in interest rates would not have any impact on our interest expense.

Foreign Currency Exchange Risk

Due to our international operations, we are exposed to foreign exchange risk related to foreign denominated revenues and costs, which must be translated into U.S. dollars. Our primary exposures are related to non-U.S. dollar denominated sales and operating expenses primarily in Australia, Brazil, France, Canada, Malaysia, Singapore, New Zealand, and the United Kingdom. The effect of a 10% increase or decrease in exchange rates on foreign denominated cash, receivables and payables would not have been material for the periods presented. Substantially all of our advertiser contracts are currently denominated in U.S. dollars. Therefore, we have minimal foreign currency exchange risk with respect to our revenue. These exposures may change over time as our business practices evolve and if our exposure increases, adverse movements in foreign currency exchanges rates could have a material adverse impact on our financial results.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
TELARIA, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Telaria, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Telaria, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 18, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2012.
New York, New York
March 18, 2019

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Telaria, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Telaria, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Telaria, Inc. (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of SlimCut SAS, which is included in the 2018 consolidated financial statements of the Company and constituted 6.83% and 11.11% of total and net assets, respectively, as of December 31, 2018 and 8.05% revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of SlimCut SAS.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018 of the Company and our report dated March 18, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York
March 18, 2019

Telaria, Inc.
Consolidated Balance Sheets
(in thousands, except share and per share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$47,659	$76,320
Accounts receivable, net	104,387	59,288
Prepaid expenses and other current assets	3,381	2,499
Total current assets	155,427	138,107
Long-term assets:		
Property and equipment, net	2,789	3,194
Intangible assets, net	4,379	1,307
Goodwill	9,478	6,320
Deferred tax asset	193	332
Other assets	2,440	1,168
Total long-term assets	19,279	12,321
Total assets	$174,706	$150,428
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$109,991	$59,419
Deferred rent	797	808
Contingent consideration on acquisition	1,500	—
Deferred income	69	674
Other current liabilities	817	53
Total current liabilities	113,174	60,954
Long-term liabilities:		
Deferred rent	5,759	5,260
Deferred tax liabilities	1,153	338
Other liabilities	225	737
Total liabilities	120,311	67,289
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.0001 par value: 250,000,000 shares authorized as of December 31, 2018 and 2017, respectively; 56,956,935 and 55,136,038 shares issued and 44,392,695 and 51,290,542 shares outstanding as of December 31, 2018 and 2017, respectively	4	5
Treasury stock, 12,564,240 and 3,845,496 shares at cost as of December 31, 2018 and 2017, respectively	(31,980)	(8,443)
Additional paid-in capital	293,154	288,277
Accumulated other comprehensive loss	(949)	(232)
Accumulated deficit	(205,834)	(196,468)
Total stockholders' equity	54,395	83,139
Total liabilities and stockholders' equity	$174,706	$150,428

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

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Telaria, Inc.
Consolidated Statements of Operations
(in thousands, except share and per share data)

	Years Ended December 31,		
	2018	2017	2016
Revenue	$55,165	$43,799	$29,121
Cost of revenue	6,844	3,448	2,211
Gross profit	48,321	40,351	26,910
Operating expenses:			
Technology and development	9,925	8,586	6,961
Sales and marketing	25,424	28,073	22,297
General and administrative	20,187	20,197	16,069
Restructuring costs	149	—	—
Depreciation and amortization	3,705	4,586	3,754
Mark-to-market	57	148	1,263
Total operating expenses	59,447	61,590	50,344
Loss from continuing operations	(11,126)	(21,239)	(23,434)
Interest and other income (expense), net:			
Interest expense	(89)	(78)	(129)
Other income (expense), net	1,975	1,270	(123)
Total interest and other income (expense), net	1,886	1,192	(252)
Loss from continuing operations before income taxes	(9,240)	(20,047)	(23,686)
(Benefit) provision for income taxes	(10)	(347)	164
Loss from continuing operations, net of income taxes	$(9,230)	$(19,700)	$(23,850)
Gain (loss) on sale of discontinued operations, net of income taxes	(136)	14,626	—
Income from discontinued operations, net of income taxes	—	7,301	2,903
Total income (loss) from discontinued operations, net of income taxes	$(136)	$21,927	$2,903
Net income (loss)	$(9,366)	$2,227	$(20,947)
Net income (loss) per share - basic and diluted			
Loss from continuing operations, net of income taxes	$(0.18)	$(0.39)	$(0.46)
Income from discontinued operations, net of income taxes	—	0.43	0.06
Net income (loss)	$(0.18)	$0.04	$(0.40)
Weighted-average number of shares of common stock outstanding:			
Basic and diluted	51,764,506	50,511,366	52,279,738

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

Telaria, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Net income (loss)	$(9,366)	$2,227	$(20,947)
Other comprehensive income (loss)			
Foreign currency translation adjustments	(717)	99	(276)
Comprehensive income (loss) attributable to common stockholders	$(10,083)	$2,326	$(21,223)

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

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Telaria, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Share	Capital	Share	Capital				
Balance as of December 31, 2016	53,292,956	$ 5	(2,861,632)	$(6,037)	$283,486	$ (331)	$(198,601)	$ 78,522
Exercise of stock options awards	439,791		—	—	699	—	—	699
Stock-based compensation expense	—	—	—	—	5,394	—	—	5,394
Common stock issued for settlement of restricted stock units net of 625,704 shares withheld to satisfy income tax withholding obligations	1,124,380	—	—	—	(1,842)	—	—	(1,842)
Common stock issuance in connection with employee stock purchase plan	278,911	—	—	—	446	—	—	446
Treasury stock - repurchase of stock	—	—	(983,864)	(2,406)	—	—	—	(2,406)
Retroactive application of ASU 2016-09	—	—	—	—	94	—	(94)	—
Net Income	—	—	—	—	—	—	2,227	2,227
Foreign currency translation adjustment	—	—	—	—	—	99	—	99
Balance as of December 31, 2017	55,136,038	5	(3,845,496)	(8,443)	288,277	(232)	(196,468)	83,139
Exercise of warrants and stock options awards	856,441	—	—	—	1,845	—	—	1,845
Stock-based compensation expense	—	—	—	—	3,820	—	—	3,820
Common stock issued for settlement of restricted stock units net of 308,533 shares withheld to satisfy income tax withholding obligations	786,693	—	—	—	(1,312)	—	—	(1,312)
Common stock issuance in connection with employee stock purchase plan	177,763	—	—	—	523	—	—	523
Treasury stock — repurchase of stock	—	(1)	(8,718,744)	(23,537)	1	—	—	(23,537)
Net income	—	—	—	—	—	—	(9,366)	(9,366)

Foreign currency translation adjustment	—	—	—	—	—	(717)		(717)
Balance as of December 31, 2018	56,956,935	$ 4	(12,564,240)	(31,980)	$293,154	$ (949)	$(205,834)	$ 54,395

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

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Telaria, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities, net of income taxes:			
Net loss from continuing operations, net of income taxes	$(9,230)	$(19,700)	$(23,850)
Net income (loss) from discontinued operations	(136)	21,927	2,903
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	3,705	7,760	9,173
Gain on sale of discontinued operations, before income taxes	—	(14,958)	—
Loss from sublease	—	—	246
Bad debt expense (benefit)	190	356	(66)
Mark-to-market expense	—	148	1,263
Compensation expense related to the acquisition-contingent consideration	—	1,810	3,568
Deferred tax benefit	—	(332)	(92)
Loss on disposal of property and equipment	21	392	23
Stock based compensation expense	3,820	5,394	3,900
Stock-based long-term incentive compensation expense	—	—	(300)
Net change in operating assets and liabilities:			
Increase in accounts receivable	(43,283)	(19,891)	(8,277)
Decrease in contingent consideration on acquisition	—	(4,753)	(3,406)
(Increase)/decrease in prepaid expenses, other current assets and other long-term assets	(1,781)	(3,157)	583
Increase in accounts payable and accrued expenses	48,779	13,831	6,728
Increase (decrease) in other current liabilities	322	(126)	179
Decrease in deferred tax liability	(4)	(110)	—
Increase (decrease) in deferred rent and security deposits payable	488	(629)	628
(Decrease) increase in deferred income	(619)	1,407	(103)
Decrease in other liabilities	(512)	—	—
Net cash provided by (used in) in operating activities	1,760	(10,631)	(6,900)
Cash flows from investing activities:			
Purchase of property and equipment	(2,740)	(1,113)	(2,933)
Acquisition, net of cash acquired	(4,771)	—	—
Cash received from sale of discontinued operations	—	49,000	—
Expenses paid with respect to sale of discontinued operations	—	(1,954)	—
Net cash (used in) provided by investing activities	(7,511)	45,933	(2,933)
Cash flows from financing activities:			
Proceeds from issuance of common stock under employee stock purchase plan	523	446	499
Decrease in contingent consideration on acquisition	—	—	(431)
Proceeds from the exercise of stock option awards	1,845	699	161
Principal portion of capital lease payments	—	(214)	(19)
Treasury stock — repurchase of stock	(23,537)	(2,406)	(6,037)
Tax withholdings related to net share settlements of restricted stock units	(1,312)	(1,842)	(505)
Net cash used in financing activities	(22,481)	(3,317)	(6,332)
Net (decrease) increase in cash and cash equivalents and restricted cash	(28,232)	31,985	(16,165)

Effect of exchange rate changes in cash and cash equivalents	(429)	405	(392)
Cash, cash equivalents and restricted cash at beginning of year	76,320	43,930	60,487
Cash, cash equivalents and restricted cash at end of year	$47,659	$76,320	$43,930

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

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Telaria, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share data)

4. Fair Value Measurements (Continued)

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1. Organization and Description of Business
Telaria, Inc. (the "Company") provides a fully programmatic software platform for premium publishers to manage and monetize their video advertising. The Company's platform is built specifically for digital video and to support the unique requirements of connected TV, mobile and over-the-top content. The Company provides publishers with real-time analytics and decisioning tools to optimize their video advertising business and offer a holistic video monetization solution that allows publishers to efficiently sell their inventory however they want to transact.
On June 8, 2018, the Company acquired all of the outstanding shares of SlimCut Media SAS, a joint stock company incorporated under the laws of France (“SlimCut”). Refer to Note 7 for further discussion.

On September 11, 2017, the Company filed an amendment to its Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to change its name from “Tremor Video, Inc.” to “Telaria, Inc.” In connection with the name change, the Company’s common stock began trading under a new NYSE ticker symbol, “TLRA,” and the corporate website address was changed to www.telaria.com.

On August 7, 2017, the Company announced the sale of its buyer platform to an affiliate of Taptica International Ltd. (“Taptica”) for total consideration of $50,000, subject to adjustment for working capital. Refer to Note 3 in notes to consolidated financial statements. The buyer platform enabled advertisers, agencies and other buyers of advertising to discover, buy, optimize and measure the effectiveness of their video ad campaigns across all digital screens. Following the strategic decision to sell the buyer platform, the Company is focused mainly on a platform that serves premium publishers.

On August 3, 2015 (the “TVN Acquisition Date”), the Company acquired all of the outstanding shares of The Video Network Pty Ltd., an Australian proprietary limited company (“TVN”). Refer to Note 7 for further discussion.

The Company is headquartered in the State of New York.

2. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).
Principles of Consolidation
The consolidated financial statements include the accounts of Telaria, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements.
The operating results of SlimCut and TVN have been included in the consolidated financial statements since their dates of acquisition on June 8, 2018 and August 3, 2015, respectively.
Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation with no impact on consolidated net income(loss) or cash flows.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Company's management evaluates estimates, including those related to fair values and useful lives of intangible assets, fair values of stock-based awards, income taxes, and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

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Telaria, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share data)

2. Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk
Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable.
All of the Company's cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The Company's cash and cash equivalents may exceed federally insured limits at times. The Company has not experienced any losses on cash and cash equivalents to date.
The Company determines collectability of its accounts receivable by performing ongoing credit evaluations and monitoring its customers' accounts receivable balances. For new customer and their agents, which may be advertising agencies or other third-parties, the Company performs a credit check with an independent credit agency and may check credit references to determine creditworthiness. The Company only recognizes revenue when, among other factors, collection is reasonably assured.
During the years ended December 31, 2018, and 2017 there was one publisher that accounted for more than 10% of revenue. At December 31, 2018 there was one DSPs that accounted for 32.0% of accounts receivable. At December 31, 2017, there were three DSPs that together accounted for 48.4% of outstanding accounts receivables.
Cash and Cash Equivalents
The Company considers cash deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents. The fair value of the Company's cash and cash equivalents approximates their cost plus accrued interest because of the short-term nature of the instruments.
Fair Value of Financial Instruments
The Company utilizes fair value measurements when required. The carrying amounts of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair values as of December 31, 2018 and 2017 due to the short-term nature of those instruments.
Accounts Receivable, Net
The Company extends credit to customers and generally does not require any security or collateral. Accounts receivable are recorded at the invoiced amount. The Company carries its accounts receivable balances at net realizable value. Management evaluates the collectability of its accounts receivable balances on a periodic basis and determines whether to provide an allowance or if any accounts should be written down and charged to expense as bad debt. The evaluation is based on a past history of collections, current credit conditions, the length of time the account is past due and a past history of write-downs. An accounts receivable balance is considered past due if the Company has not received payments based on agreed-upon terms.
The following table presents the changes in the allowance for doubtful accounts:

	Years Ended December 31,		
	2018	2017	2016
Allowance for doubtful accounts:			
Beginning balance	$359	$—	$ —
Add: Reserves	1,052	—	—
Less: Write-offs	(429)	359	—
Ending balance	$982	$359	$ —

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Telaria, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share data)

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment, Net
Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense on property and equipment is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Furniture and fixtures	7 years
Computer software	3 years
Office equipment	3 years

Leasehold improvements are amortized over the shorter of the remaining life of the lease or the life of the asset. The cost of additions and expenditures that extend the useful lives of existing assets, are capitalized, while repairs and maintenance costs are charged to operations as incurred.
Impairment of Long-Lived Assets
The Company periodically reviews long-lived assets, which consists of its property and equipment and intangible assets, for impairment in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 360, “Accounting for the Impairment or Disposal of Long-Lived Assets,” whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful lives are no longer appropriate. If indicators of impairment exist and the undiscounted projected cash flows associated with such assets are less than the carrying amount of the asset, an impairment loss is recorded to write the assets down to their estimated fair values.
The Company did not identify any impairment losses in continuing operations related to the Company's long-lived assets during the years ended December 31, 2018, 2017 and 2016.
Goodwill and Intangible Assets, Net
Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net tangible and intangible assets acquired. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful lives. The Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Goodwill is not amortized, but rather is subject to an impairment test.
The Company operates as one operating and reporting segment and therefore, evaluates goodwill and other intangible assets with indefinite lives for impairment impairment annually as one singular reporting unit, on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. The Company has the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is not required to be performed. If the Company determines that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, or if the Company does not elect the option to perform an initial qualitative assessment, the Company performs the two-step goodwill impairment test. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets, including identifiable intangible assets, as if the reporting unit had been acquired. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company did not identify any impairment of its goodwill at December 31, 2018, 2017 and 2016 and therefore, for the years ended December 31, 2018, 2017 and 2016 no impairment losses related to goodwill were recorded.

Telaria, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share data)

2. Summary of Significant Accounting Policies (Continued)

The Company also reviews certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of intangible assets are measured by a comparison of the carrying amount of the asset or asset group, using an income approach, to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. As the Company operates as one business unit and our long-lived assets do not have identifiable cash flows that are independent of the other assets and liabilities of this business unit, the impairment testing on intangible assets is performed at the entity-level.
Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives on a straight-line method as follows:

Technology	5 years
Customer relationships	6 to 10 years

Deferred rent liability
The Company recognizes and records rent expense related to its lease agreements, which include rent holidays, rent escalation provisions and renewal options, on a straight-line basis beginning on the commencement date over the term of the lease. The term of the lease begins on the date of possession, which is generally when the Company enters the leased premises. The Company does not assume renewal option terms in its determination of the lease term unless such renewal option is reasonably expected to be exercised upon lease inception. Any lease incentives, which may be in the form of reduced rent payments, rent holidays or landlord incentives, are considered in determining the straight-line rent expense to be recorded over the lease term.
Differences between straight-line rent expense and actual rent payments are recorded as a deferred rent liability and presented as either a current or long-term liability in the consolidated balance sheets based on the term of the respective lease agreements.
Revenue Recognition
The Company primarily generates revenue on a transactional basis where it is paid by a publisher each time an advertising impression is monetized on its platform based on a simple and transparent fee structure that the Company establishes with its publisher partners. For substantially all such transactions, the Company acts as an agent on behalf of publishers and revenue is recognized net of any inventory costs that the Company remits to publishers, when a buyer purchases inventory from a publisher on the Company's platform. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company is acting as the principal or an agent, the Company followed the accounting guidance for principal-agent considerations. The determination of whether the Company is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of each arrangement, none of which are considered presumptive or determinative. Substantially all of the revenue generated, and costs incurred, related to publisher transactions on the Company's platform reported on a net basis as the Company determined that it acts as an agent for publishers and is not the primary obligor in such transactions, given that: (1) another party is primarily responsible for fulfilling the contract and the Company does not have discretion in establishing prices and (2) the Company does not generally take on inventory risk. For certain transactions, the Company reports revenue on a gross basis, based primarily on its determination that the Company acts as the primary obligor in the delivery of advertising campaigns for buyers with respect to such transactions.
Cost of Revenue
The Company's cost of revenue primarily consists of third party hosting fees, licensing fees and cost of inventory for third party data and certain publisher costs which we record on a gross basis.
Technology and Development Expenses

Technology and development costs primarily consist of salaries, incentive compensation, stock-based compensation and other personnel-related costs for development and engineering personnel. Additional expenses in this category include costs

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2. Summary of Significant Accounting Policies (Continued)

related to development, quality assurance and testing of new technology, maintenance and enhancement of the Company's existing technology and infrastructure as well as consulting, travel and other related overhead. Due to the rapid development and changes in the Company's business and underlying technology to date, the Company has expensed development costs in the same period that those costs were incurred.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of salaries, incentive compensation, stock-based compensation and other personnel-related costs for our marketing and sales and sales support employees. Additional expenses in this category include marketing programs, travel and other related overhead. These costs are expensed when incurred and are included in sales and marketing expenses.

Advertising costs, which are comprised of print and internet advertising, were $75, $183 and $17 for the years ended December 31, 2018, 2017 and 2016, respectively.

Stock-Based Compensation Expenses

The Company accounts for stock-based compensation expense under FASB ASC 718, "Compensation—Stock Compensation," which requires the measurement and recognition of stock-based compensation expense based on estimated fair values, for all stock-based payment awards made to employees, and FASB ASC 505-50, "Equity-Based Payments to Non-Employees," which requires the measurement and recognition of stock-based compensation expense based on the estimated fair value of services or goods being received, for all stock-based payment awards made to other service providers and non-employees.

The Company measures its stock-based payment awards based on its estimate of the fair value of such award using an option-pricing model, for stock option awards, and the fair value of the Company's common stock on the date of grant, for restricted stock unit awards. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statements of operations.

The Company recognizes compensation expenses for the value of its stock-based payment awards, which have graded vesting criteria based on service and market conditions, using the straight-line method, over the requisite service period of each of the awards, net of actual forfeitures.

In the event of modification of the conditions on which stock-based payment awards were granted, an additional expense is recognized for any modification that increases the total fair value of the stock-based payment arrangement or is otherwise beneficial to the employee, other service provider or non-employee at the modification date.

Income Taxes

Income taxes represents amounts paid or payable (or received or receivable) for the current year and includes any changes in deferred taxes during the year. The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carry-forwards. The Company measures deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which the Company expects to recover or settle those temporary differences. The Company recognizes the effect of a change in tax rates on deferred tax assets and liabilities in the results of operations in the period that includes the enactment date. Deferred income tax expense represents the change during the period in deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as non-current. The Company reduces the measurement of a deferred tax asset, if necessary, by a valuation allowance if it is more likely than not that the Company will not realize some or all of the deferred tax asset. As a result of the Company's historical operating performance and the cumulative net losses incurred to date, the Company does not have sufficient objective evidence to support the recovery of the deferred tax assets. Accordingly, the Company has established a valuation allowance against substantially all of its deferred tax assets for financial reporting purposes because the Company believes it is more likely than not that these deferred tax assets will not be realized. The

Company accounts for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is “more-likely-than-not” that the position will be sustained upon examination. Potential interest and penalties associated with unrecognized tax positions are recognized in its provision for income taxes in the consolidated statements of operations.

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2. Summary of Significant Accounting Policies (Continued)

On December 22, 2017, the U.S. President signed the Tax Cuts and Jobs Act (the “Act”) into law. Effective January 1, 2018, among other changes, the Act (1) reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, (2) changes the rules relating to net operating loss ("NOL") carryforwards and carrybacks, (3) eliminates the corporate alternative minimum tax ("AMT") and changes how existing AMT credits can be realized; and (4) requires companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries.

Given the significance of the legislation, the U.S. Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No.118 ("SAB 118"), which allows registrants to record provisional amounts during a one-year "measurement period". During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed. As of December 31, 2018, we have not recorded incremental accounting adjustments related to the Act as we continue to consider interpretations of its application.

The Tax Act did not have a material impact on our financial statements since our deferred temporary differences in the United States are fully offset by a valuation allowance and we do not have any significant off shore earnings from which to record the mandatory transition tax. We did not record any provision for federal income taxes for the period ended December 31, 2018.

Net Income (Loss) Per Share Attributable to Common Stockholders

Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

Diluted net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, adjusted to reflect potentially dilutive securities using the treasury stock method for the purchase of the Company's common stock, stock option awards and restricted stock unit awards. Due to the Company’s loss from continuing operations, net of income taxes: (i) stock option awards; and (ii) restricted stock unit awards were not included in the computation of diluted net loss per share attributable to common stockholders, as the effects would be anti-dilutive. Accordingly, basic and diluted net loss per share attributable to common stockholders is equal for the years presented.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of foreign currency translation adjustments. Total comprehensive income (loss) and its component is presented in the accompanying consolidated statements of comprehensive income (loss).

Foreign Currency Translation Adjustments

The functional currency of the Company’s international subsidiaries is their local currency. The Company translates the financial statements of these subsidiaries to U.S. dollars using period-end exchange rates for assets and liabilities, and average exchange rates for revenue and expenses. Translation gains and losses are recorded in accumulated other comprehensive (loss) income as a component of stockholders’ equity. During the years ended December 31, 2018, 2017 and 2016, foreign currency translation adjustment gain and losses of $(717), $99, and $(276) respectively, were recorded as a component of comprehensive income (loss) in the consolidated financial statements. Net (losses) gain resulting from transactions denominated in foreign currencies were accounted for in the Company’s consolidated statements of operations and totaled $4, $44, and $(21) during the years ended December 31, 2018, 2017 and 2016, respectively.

Recently Issued Accounting Pronouncements

FASB Accounting Standards Update No. 2018-15 - Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)

In August 2018, Financial Accounting Standards Board, ("FASB") issued an Accounting Standards Update, ("ASU") No. 2018-15 Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the

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2. Summary of Significant Accounting Policies (Continued)

requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2019 with early adoption permitted, including interim periods. The Company does not believe the adoption of this amendment will have a material impact prospectively to the Company's consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2018-13 - Fair Value Measurement (Topic 820)

In August 2018, FASB issued ASU No. 2018-13 Fair Value Measurements (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in the update modify the disclosure requirements on fair value measurements in Topic 820, including the removal, modification and additions of certain disclosure requirements for Level 3 fair value measurements and for transfers between Level 1 and Level 2 of the fair value hierarchy. The requirement is for all entities that are required to make disclosures about recurring or nonrecurring fair value measurements to apply the guidance to annual reporting periods beginning after December 15, 2019 with early adoption permitted for any modified or removed disclosures only. The Company does not believe adoption of this amendment will have a material impact prospectively to the Company's consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2018-07 - Improvements to Nonemployee Share-Based Payment Accounting (Topic 718)

In June 2018, FASB issued an ASU No. 2018-07 Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendment simplifies the accounting for equity based payments to nonemployees by expanding the scope of Topic 718 to include nonemployees. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2018 with early adoption permitted, including interim periods. The Company does not believe adoption of this amendment will have a material impact prospectively to the Company's consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220)

In February 2018, FASB issued an ASU No. 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2018 with early adoption permitted, including the interim periods. The Company is currently evaluating the impact the update will have on its consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2017-09 - Compensation - Stock Compensation (Topic 718)

In September 2017, Financial Accounting Standards Board, ("FASB") issued an Accounting Standards Update, ("ASU") No. 2017 - 09 Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies and eliminates the diversity of practice as to when a Company must account for the effects of a stock modification. In accordance with the guidance an entity should account for the effects of a modification unless all the following criteria are met: 1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. 2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. 3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The requirement is for public business entities to apply the guidance prospectively to annual reporting periods beginning after December 15, 2017 with early adoption permitted, including in the interim periods. The Company adopted this update in the first quarter of 2018 on a prospective basis. The adoption of this update did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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2. Summary of Significant Accounting Policies (Continued)

FASB Accounting Standards Update No. 2017-04 - Intangibles and Other (Topic 350)

In January 2017, FASB issued ASU No. 2017-04, Intangibles and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this ASU during the third quarter of 2018 and did not have a material impact on its consolidated financial statements.

FASB Accounting Standards Update No. 2017-01 - Business Combinations (Topic 805)

In January 2017, FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendment was issued to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU provide a screen to determine when a set (inputs and processes that produce an output) is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2017. The Company adopted this update on a prospective basis in the first quarter of 2018 with no material impact to the Company's consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2016-18 - Statement of Cash Flows (Topic 230)
In November 2016, FASB issued Accounting Standards Update ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash. This update requires that a Statement of Cash Flow explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash should be included with cash & cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statement of Cash Flows. Public business entities should apply the guidance to annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this update in the first quarter of 2018 and included restricted cash in cash and cash equivalents in the Company's 2018 consolidated financial statements and a $770 increase in cash used in operating activities on the Company's condensed and consolidated statements of cash flows for 2017.
FASB Accounting Standards Update No. 2016-15 — Classification of Certain Cash Receipts and Cash Payments
In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. This update is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this update in the first quarter of 2018 with no material impact to the Company's consolidated financial statements and related disclosures.
FASB Accounting Standards Update No. 2016-02 — Leases (Topic 842)
In February 2016, the FASB issued ASU No. 2016-02, This ASU will require the recognition of lease assets and liabilities for operating leases with terms of more than 12 months. The presentation of leases within the consolidated statement of operations and cash flows will be substantially consistent with current accounting guidance. This ASU,

which is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, will have a material impact on our consolidated balance sheets. We have completed the implementation of a lease accounting system. We plan to adopt the ASU effective January 1, 2019 using the modified retrospective transition method and will not restate comparative periods. The modified retrospective transition method requires the cumulative effect, if any, of initially applying the guidance to be recognized as an adjustment to our accumulated deficit as of that adoption date. We plan to elect the package of practical expedients permitted under the transition guidance within the ASU, which allows us to carry forward prior conclusions about lease identification, classification and initial direct costs for leases entered into prior to adoption of Topic 842. Additionally we plan to not separate lease and non-lease components of our leases. For leases with a term of 12 months or

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2. Summary of Significant Accounting Policies (Continued)

less, we plan to elect the short-term lease exemption, which allows us to not recognize right-of-use assets or lease liabilities for qualifying leases existing at transition and new leases we may enter into in the future. While the Company continues to assess all impacts of adoption, the Company expects to recognize additional lease liabilities of approximately $31,000 to $35,000 and right-of-use assets of approximately $25,000 to $28,000. See Note 12, Commitments and Contingencies, for information about our lease commitments.
FASB Accounting Standards Update No. 2014-09 — Revenue from Contracts with Customers
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers that provides a comprehensive model for recognizing revenue with customers. This update clarifies and replaces all existing revenue recognition guidance within U.S. GAAP and may be adopted retrospectively for all periods presented or adopted using a modified retrospective approach. In August 2015, The FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date, which deferred the effective date by one year to December 15, 2017 (beginning with the Company's first quarter in 2018) and permitting early adoption of the standard, but not before the original effective date of December 15, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers, Principal vs. Agent Consideration (Reporting Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The Company adopted the new standard in the first quarter of 2018 using the modified retrospective approach, with no material impact to the Company's consolidated financial statements and related disclosures.
3. Disposition of Buyer Platform

On August 7, 2017, the Company announced the sale of its buyer platform to Taptica for total consideration of $50,000, subject to adjustment for working capital. The proceeds include $1,000 for the right to use the name, "Tremor Video, DSP," for a period of 18 months following the closing. The Company will recognize the $1,000 in other income within the Consolidated Statements of Operations ratably over the 18-month period. The sale of the buyer platform represented a strategic change to shift the focus of the Company's business exclusively on offering its sell-side video management platform. Accordingly, the results of the buyer platform have been classified as a discontinued operation in the consolidated financial statements for all periods presented. Following the disposition, the Company entered into an arms-length commercial agreement with Taptica pursuant to which they may purchase video inventory on the platform. In connection with the transaction, we entered into a transition services agreement, pursuant to which we provided certain services to Taptica through June 15, 2018.

The Company transferred full title and interest in the name "Tremor Video" to Taptica during the second quarter of 2018, in consideration for Taptica reaching certain payment milestones under a commercial agreement between the parties. As a result of the title transfer, the remaining balance of $566 related to the transfer of the trademark was recorded in other income during the second quarter of 2018.

In connection with the closing of the transaction, the Company recognized a gain on sale of discontinued operations, net of tax of $14,924 in the third quarter of 2017. Included in the measurement of the gain were estimates for the income taxes due on the gain and the additional cash consideration expected from the buyer related to a closing date net working capital sales price adjustment. The Company recognized losses on the sale of discontinued operations for the year-ended December 31, 2018 as a result of net working capital adjustments in the amount of $136.

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the income (loss) from discontinued operations, net of income taxes, presented separately in the Consolidated Statements of Operations:

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3. Disposition of Buyer Platform (Continued)

	Years Ended		
	2018	2017	2016
Revenue	$—	$88,255	$137,640
Cost of revenue	—	53,486	88,277
Gross profit	—	34,769	49,363
Operating expenses:			
Technology and development	—	7,594	14,084
Sales and marketing	—	16,149	26,064
General administrative	—	547	941
Depreciation and amortization	—	3,174	5,419
Impairment charges	—	—	—
Total operating expenses	—	27,464	46,508
Income from discontinued operations	—	7,305	2,855
Interest and other (expense), net	—	—	—
Income from discontinued operations before income taxes	—	7,305	2,855
Provision (benefit) for income taxes	—	4	(48)
Income from discontinued operations, net of income taxes	—	7,301	2,903
(Loss) gain on sale of discontinued operation before income taxes	(136)	14,958	—
Provision for income taxes	—	332	—
Gain on sale of discontinued operation, net of income taxes	(136)	14,626	—
Income (loss) from discontinued operations, net of income taxes	$(136)	$21,927	$2,903

The following table presents supplemental cash flow information of the discontinued operations:

	Years Ended		
	2018	2017	2016
Non-cash adjustments to net cash from operating activities:			
Depreciation and amortization	$—	$3,174	$5,419
Stock based compensation expense	—	673	1,414
Cash used in investing activities:			
Capital expenditures	$—	$475	$—

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4. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation. The three-tiers are defined as follows:

- Level 1. Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs for which there is little or no market data requiring the Company to develop its own assumptions.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	December 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds(1)	$28,671	—	—	28,671	$53,853	$ —	$ —	$53,853
Total assets	$28,671	—	—	28,671	$53,853	$ —	$ —	$53,853
Liabilities:								
Contingent consideration on acquisition liability(2)	—	—	1,500	1,500	$—	$ —	$ —	$—
Total liabilities	$—	$ —	$1,500	$1,500	$—	$ —	$ —	$—

(1) Money market funds are included within cash and cash equivalents in the Company's consolidated balance sheets. As short-term, highly liquid investments readily convertible to known amounts of cash, the Company's money market funds have carrying values that approximates its fair value. Amounts above do not include the $18,987 and $22,467 of operating cash balances as of December 31, 2018 and 2017, respectively.

(2) On June 8 2018, the Company acquired all of the outstanding shares of Slimcut. In connection with the acquisition, the former stockholders of SlimCut were eligible to receive future cash payments up to $1,500 contingent on the operating performance of SlimCut in reaching certain financial milestones for the year ended December 31, 2018. In estimating the fair value of the contingent consideration on the date of acquisition, the Company used a Monte-Carlo valuation model based on future expectations on reaching financial milestones, other management assumptions (including operating results, business plans, anticipated future cash flows, and marketplace data), and the weighted-probabilities of possible payments. These assumptions were based on significant inputs not observed in the market and, therefore, represent a Level 3 measurement. Based on the operating results as of December 31, 2018, contingent consideration of $1,500 was fully earned.

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4. Fair Value Measurements (Continued)

Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)
The following table represents the changes in the Company's Level 3 instruments measured at fair value on a recurring basis for the years ended December 31, 2018 and December 31, 2017:

	2018	2017
Beginning balance at January 1,	$—	$2,483
Contingent consideration on acquisition(1)	1,443	(4,753)
Compensation expense	—	1,810
Mark-to-market expense(2)	57	148
Foreign currency translation adjustment	—	312
Ending balance at December 31,	$1,500	$—

(1) Represents contingent consideration attributable to the SlimCut and TVN Employee Sellers (as defined below see Note 7) that has been recorded during the years ended 2018 and 2017, respectively. Refer to note 7 for further discussion of contingent consideration payments paid in connection with the Company's acquisitions of SlimCut and TVN.
(2) Reflects expense incurred based on the Company's re-measurement, at December 31, 2018, and December 31, 2017, respectively, of the estimated fair value of the contingent consideration relating to the SlimCut acquisition and TVN Sellers (as defined below, see Note 7) that were not required to remain employed with the Company. Amounts recorded as mark-to-market expense relating to Level 3 instruments are recorded in operating expense. Refer to the table above regarding assumptions used for Level 3 instruments, and Note 7 for further discussion of contingent consideration payments paid in connection with the Company's acquisition of SlimCut and TVN.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of:

	December 31,	
	2018	2017
Prepaid expenses and other current assets	$3,105	$2,231
Prepaid rent	106	127
Deferred rental income	170	141
Total prepaid expenses and other current assets	$3,381	$2,499

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6. Property and Equipment, Net

Property and equipment, net consisted of:

	December 31,	
	2018	2017
Leasehold improvements	$3,009	$8,324
Computer hardware	1,045	884
Furniture and fixtures	539	1,523
Computer software	800	1,389
Office equipment	92	184
Total	5,485	12,304
Less: accumulated depreciation	(2,696)	(9,110)
Total property and equipment, net	$2,789	$3,194

The depreciation expense related to property and equipment was $3,087, $4,228, and $3,417 for the years ended December 31, 2018, 2017 and 2016, respectively. The Company disposed of assets with a cost basis of $9,528 and accumulated depreciation of $9,490 during the year ended December 31, 2018. For the year ended December 31, 2017 the Company disposed of assets with a cost basis of $3,085 and accumulated depreciation of $2,693.

7. Acquisition

On June 8, 2018, the Company acquired all of the outstanding shares of SlimCut, a video technology solutions company, pursuant to a stock purchase agreement between the Company and the sellers identified therein. As consideration for the acquisition, the Company made an initial payment to the sellers of $5,458, subject to certain adjustments set forth in the purchase agreement. In addition, the sellers were eligible to receive future cash payments up to $1,500 based on achieving certain financial milestones, which they have achieved as of year end.

The fair value of the contingent consideration as of June 8, 2018 was $1,443 (see Note 4) and is included in the purchase price of SlimCut. The Company re-measured the estimated fair value of the contingent consideration as of June 30, 2018, September 30, 2018 and December 31, 2018, with no material change in fair value as of June 30 or September 30, 2018. As of December 31. 2018 the fair value of the contingent consideration was changed to $1,500, which resulted in $57 in mark-to-market expense.

The results of operations of SlimCut have been included in the Company’s consolidated statements of operations since the acquisition. The financial effects of this acquisition, individually and in the aggregate, were not material to the Company’s consolidated condensed balance sheet and statement of operations as of December 31, 2018 and, therefore, proforma results are not presented.

On August 3, 2015, the Company acquired all of the outstanding shares of The Video Network Pty, Ltd, an Australian limited liability company, ("TVN"). As consideration for the acquisition, the Company made an initial payment to the former stockholders of TVN (“TVN Sellers”) of $3,040 Australian dollars ($2,217 U.S. dollars based on the currency exchange rate on the date of the acquisition). In addition, the TVN Sellers were eligible to receive cash payments over a term of two years contingent on the operating performance of TVN in reaching certain financial milestones in each of the periods from July 1, 2015 to June 30, 2016 and the period from July 1, 2016 to June 30, 2017, a portion of which was also contingent on continued employment of certain TVN Sellers (the “TVN Employee Sellers”). Subsequent to the date of acquisition, the Company re-measured the estimated fair value of the contingent consideration at each reporting date with any changes in fair value recorded in the Company’s statements of operations.

For the years ended December 31, 2018 and December 31, 2017, the Company recorded $0 and $148, respectively, in mark-to market expense related to the change in contingent consideration for TVN Sellers that were not required to remain employed with the Company and $0 and $1,810, respectively, of compensation related expense in connection with contingent consideration payments that were contingent on continued employment of the TVN Employee Sellers. Compensation related expense in connection with the continued employment of the TVN Employee Sellers is recorded in sales and marketing expense in the condensed consolidated statement of operations. As of December 31, 2017 and 2018, all contingent consideration related to the purchase of TVN had been paid.

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8. Goodwill and Intangible Assets, Net

Goodwill includes the cost of the acquired business in excess of the fair value of the tangible net assets recorded in connection with the acquisitions of SlimCut and TVN (see Note 7 – Acquisitions). Goodwill is tested annually for impairment or more frequently if impairment indicators are present. The Company operates as one operating and reporting segment and, therefore, the Company assesses goodwill for impairment annually as one singular reporting unit. The Company has the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then the two-step goodwill impairment test is not required to be performed. During the third quarter of 2018, the Company performed qualitative assessment of the reporting unit's fair value which included assessing the impact of certain factors such as general economic conditions, limitations on accessing capital, changes in forecasted operating results, and fluctuations in foreign exchange rates. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of Telaria Inc.'s reporting unit exceeded its carrying value.
The Company did not identify any impairment in continuing operations of goodwill at December 31, 2018, 2017 and 2016 and therefore, for the years ended December 31, 2018, 2017 and 2016 no impairment losses related to goodwill were recorded.
The changes in the carrying amount of goodwill as of December 31, 2018, 2017, 2016 were as follows:

	2018	2017	2016
Beginning balance as of January 1,	$6,320	$6,228	$6,242
Acquisition-related goodwill	3,424	—	—
Foreign exchange impact	(266)	92	(14)
Ending balance as of December 31,	$9,478	$6,320	$6,228

The Company also reviews certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of intangible assets are measured by a comparison of the carrying amount of the asset or asset group, using an income approach, to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. As the Company operates as one business unit and the Company's long-lived assets do not have identifiable cash flows that are independent of the other assets and liabilities of this business unit, the impairment testing on intangible assets is performed at the entity-level.
The Company did not identify any impairment of intangible assets at December 31, 2018, 2017 and 2016.
Information regarding the Company's acquisition-related intangible assets, net is as follows:

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships(1)	$4,797	$ (1,283)	$ 3,514
Technology(2)	973	(108)	865
	$5,770	(1,391)	4,379

December 31, 2017

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$2,188	$ (881)	$ 1,307
Technology	—	—	—
	$2,188	$ (881)	$ 1,307

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8. Goodwill and Intangible Assets, Net

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$2,022	$ (478)	$ 1,544
Technology	—	—	—
	$2,022	$ (478)	$ 1,544

(1) The increase in gross carrying amount for customer relationships from December 31, 2017 to December 31, 2018, is primarily due to an increase of $2,900 relating to the acquisition of SlimCut, which was partially offset by a decrease of $291 from the foreign exchange impact for the same period. From December 31, 2017 to December 31, 2018, accumulated amortization expense increased by $508, partially offset by foreign exchange impact over the same period of $106.

(2) At December 31, 2017, the Company did not record any carrying amounts for technology acquisition-related intangible assets. The gross carrying amount for technology includes an increase of $1,000 due to the acquisition of SlimCut which was partially offset by foreign exchange decrease of $27 for the year-ended December 31, 2018. Accumulated amortization increased by $109 over the same period due to the acquisition of SlimCut, partially offset by foreign exchange impact

Amortization expense amounted to $619 and $358 for the years ended December 31, 2018 and 2017, respectively. The estimated future amortization expense of customer relationships for the next five years and thereafter are as follows:

2019	$806
2020	806
2021	669
2022	477
2023	368
2024 and thereafter	1,253
Total	$4,379

9. Income Taxes

The components of the Company’s loss before income tax provision for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Years Ended December 31,		
	2018	2017	2016
Loss from continuing operations before income taxes:			
Domestic	$(9,034)	$(18,147)	$(17,365)
Foreign	(206)	(1,900)	(6,321)
Total loss from continuing operations before income taxes	$(9,240)	$(20,047)	$(23,686)

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9. Income Taxes (Continued)

The Company's income tax provision, which is comprised of minimum U.S. federal, state and local taxes and taxes from foreign jurisdictions, consists of the following:

	Years Ended December 31,		
	2018	2017	2016
Provision for current income taxes:			
U.S. federal	$10	$—	$—
U.S. state and local	91	(2)	22
Foreign	97	154	234
Total provision for current income taxes	198	152	256
Benefit for deferred income taxes:			
U.S. federal	(10)	(332)	—
U.S. state and local	—	—	—
Foreign	(198)	(167)	(92)
Total benefit for deferred income taxes	(208)	(499)	(92)
Total (benefit) provision for income taxes	$(10)	$(347)	$164

A reconciliation between the U.S. federal statutory income tax rate to the effective tax rate, by applying such rates to loss before income tax provision, for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Years Ended December 31,		
	2018	2017	2016
U.S. federal statutory income tax rate	(21.00)%	(34.00)%	(34.00)%
State income tax rate, net of U.S. federal tax benefit	0.77	(0.01)	0.06
Stock-based compensation expense	(6.45)	—	1.23
Acquisition related costs	—	3.11	5.08
Mark-to-market expense	—	0.25	1.80
Change in income tax rates	(6.33)	(1.03)	2.89
Change in deferred tax asset valuation	34.08	29.03	22.52
Trademark income	(1.54)	—	—
Goodwill impairment charge	—	1.46	—
AMT credit	—	(1.65)	—
Meals and Entertainment	0.55	1.10	—
Other	(0.20)	0.01	1.11
Effective tax rate	(0.12)%	(1.73)%	0.69 %

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9. Income Taxes (Continued)

Significant components of the Company's deferred tax assets and liabilities reported on a net cross jurisdictional basis are summarized as follows:

	December 31,		
	2018	2017	2016
Deferred tax assets:			
Net operating losses and tax credits	$29,322	$27,474	$46,336
Stock-based compensation expense	4,118	2,440	3,883
Deferred rent	1,049	881	1,483
Depreciation and amortization expense	1,585	672	61
Accrued expenses	583	316	192
Intangible assets	—	294	—
Deferred revenue	—	166	2
Allowance for doubtful accounts	283	89	1
Unrealized gains and losses	51	88	94
Total deferred tax assets before valuation allowance	36,991	32,420	52,052
Less: valuation allowance	(36,692)	(32,028)	(50,211)
Total deferred tax assets, net of valuation allowance	299	392	1,841
Deferred tax liabilities:			
Intangible assets	(1,243)	(392)	(2,277)
Unrealized gains and losses	(16)	—	—
Other	—	(6)	(11)
Total deferred tax liabilities	(1,259)	(398)	(2,288)
Total deferred tax liabilities, net	$(960)	$(6)	$(447)

For financial and tax reporting purposes, the Company incurred net operating losses in each period since its inception, except for 2017 and, therefore, a significant portion of the deferred tax assets recognized relate to such net operating losses. In determining whether the Company may realize the benefits from these deferred tax assets, the Company considers all available objective and subjective evidence, both positive and negative. Based on the weight of such evidence, a valuation allowance on a jurisdiction by jurisdiction basis is necessary for some portion, or all, of the deferred tax assets since the Company cannot be assured that, more likely than not, such amounts will be realized. Based on the available objective and subjective evidence, including the Company's history of net operating losses, management believes it is more likely than not that the deferred tax assets will not be fully realizable at December 31, 2018 and 2017. Accordingly, the Company provided a valuation allowance on substantially all of its deferred tax asset balance to reflect the uncertainty regarding the realizability of these assets for the periods presented, with the exception of a deferred tax asset related to AMT credits.

On December 22, 2017, the U.S. President signed the Tax Cuts and Jobs Act (the "Act") into law. Effective January 1, 2018, among other changes, the Act (1) reduces the U.S. federal corporate tax rate from 35 percent to 21 percent, (2) changes the rules relating to net operating loss ("NOL") carryforwards and carrybacks, (3) eliminates the corporate alternative minimum tax ("AMT") and changes how existing AMT credits can be realized; and (4) numerous modifications creating a territorial tax system and broadening the income tax base. The impact on the Company's financial statements for the period ended December 31, 2018 is immaterial, primarily because the Company has a valuation allowance on deferred tax assets in the U.S. In addition, the Act makes the AMT credit refundable in tax

years beginning after 2017. As a result of this change, the Company does not have a valuation allowance on its AMT credit.
Given the significance of the legislation, the staff of the U.S. Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 118 (SAB 118), which allowed registrants to record provisional amounts during a one year measurement period similar to that used when accounting for business combinations. The Company applied the guidance in SAB 118 when accounting for the enactment-date effects of the Act in 2017 and throughout 2018.

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9. Income Taxes (Continued)

For the year ended December 31, 2017, amounts recorded principally related to the reduction in the U.S. corporate income tax rate to 21%, which resulted in the Company reducing its net deferred tax asset and associated valuation allowance. Additionally, the new law included a one-time mandatory repatriation transition tax on the net accumulated earnings and profits of a U.S. taxpayer's foreign subsidiaries. As a result of accumulated losses since inception, there was no income tax effect. At December 31, 2018, the Company completed its accounting of SAB 118 for all of the enactment-date income tax effects of the Act. The Company has not made any measurement-period adjustments and there were no additional material adjustments related to the Act.

As a result of the adoption of ASU 2016-09, the Company no longer excludes tax benefits that arose directly from equity compensation in excess of compensation recognized for financial reporting in its U.S. federal and U.S. state net operating loss carryforwards.

For the year ended December 31, 2018, the Company's valuation allowance has increased to $36,692 compared to $32,028 as of December 31, 2017, largely due to the increase in deferred tax assets for net operating losses and stock based compensation for which the Company does not believe it will be able to utilize in future periods.

As of December 31, 2018, the Company has U.S. federal and state net operating loss carry-forwards of approximately $109,111 and $63,125, respectively, and foreign net operating loss carry-forwards of $6,764, $6,787, $18, $213, $89 related to its international subsidiaries in the United Kingdom, Germany, Brazil, Australia, and Canada respectively, which are available to reduce future taxable income in those jurisdictions. The U.S. federal net operating losses will expire in various years beginning in 2028 through 2037. The Company's foreign net operating loss carry-forwards can be carried forward without limitation in each respective country. The U.S. federal net operating losses includes acquired tax loss carry-forwards of Transpera, Inc. ("Transpera") and ScanScout, Inc. ("ScanScout"), and net operating losses from Telaria, Inc. ("Telaria") which experienced an ownership change in 2010 which are subject to limitation on future utilization under Section 382 of the Internal Revenue Code of 1986 ("Section 382"). Section 382 imposes limitations on the availability of a company's net operating losses after a more than 50 percentage point ownership change occurs. It is estimated that the effect of Section 382 will generally limit the amount of the net operating loss carry-forwards of Transpera, ScanScout and Telaria that are available to offset future taxable income to approximately $161, $2,060 and $7,550, respectively, annually.

Telaria's U.S. federal and U.S. state net operating loss carryforwards include approximately $9,234 of excess tax benefits related to tax deductions from stock-based compensation. As a result of the adoption of ASU 2016-09, the Company no longer excludes tax benefits that arose directly from equity compensation in excess of compensation recognized for financial reporting in its U.S. federal and U.S. state net operating loss carryforwards.

The Company did not record any amounts related to uncertain tax positions or tax contingencies at December 31, 2018 and 2017. As of December 31, 2018 and 2017, the primary tax jurisdictions in which the Company is subject to tax were the U.S. federal and state jurisdictions, Australia, Canada, Singapore, Malaysia, New Zealand, Brazil, France and United Kingdom. Since the Company is in an overall net operating loss position, the Company is generally subject to U.S. federal and state income tax examinations by tax authorities for all years for which a net operating loss carry-forward is available. The Company's open tax years extend back to 2005. In the event that the Company concludes that it is subject to interest or penalties arising from uncertain tax positions, the Company will record interest and penalties as a component of provision for income taxes. no amounts of interest or penalties were recognized in the consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016.

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of:

December 31,

	2018	2017
Trade accounts payable	$95,028	$48,736
Accrued compensation, benefits and payroll taxes	5,468	4,288
Accrued cost of revenue	7,127	5,576
Other payables and accrued expenses	2,368	819
Total accounts payable and accrued expenses	$109,991	$59,419

11. Credit Facility

The Company is party to a loan and security agreement, which we referred to as the credit facility, with Silicon Valley Bank, referred to as our lender. Pursuant to the credit facility, the Company we can incur revolver borrowings up to the lesser of $25.0 million and a borrowing base equal to 80.0% of eligible accounts receivable. Any outstanding principal amounts borrowed under the credit facility must be paid at maturity. Interest accrues at a floating rate equal to the lender's prime rate and is payable monthly. The Company is charged a fee of 0.35% of any unused borrowing capacity, which is payable quarterly. The credit facility also includes a letter of credit, foreign exchange and cash management facility up to the full amount of available credit. The credit facility matures in January 2020. While the Company had no outstanding borrowings under the credit facility as of December 31, 2018 and December 31, 2017, the lender has issued standby letters of credit in favor of the landlords of our current and former headquarters and other office space totaling $3.6 million, which can be drawn down from amounts available under the credit facility.

The credit facility contains customary conditions to borrowings, events of default and negative covenants, including covenants that restrict the Company's ability to dispose of assets, merge with or acquire other entities, incur indebtedness, incur encumbrances, make distributions to holders of its capital stock, make investments or engage in transactions with our affiliates. The Company is also subject to a financial covenant with respect to a minimum quick ratio, tested monthly, and Adjusted EBITDA for trailing periods which vary from three to twelve months, tested quarterly. Pursuant to an amendment to the credit facility, executed in November 2018 the Adjusted EBITDA covenant will only be tested if (i) the quick ratio falls below a certain threshold and (ii) unrestricted and unencumbered cash falls below $25.0 million. The Company's obligations under the credit facility are secured by substantially all of its assets other than its intellectual property, although the Company has agreed not to encumber any of its intellectual property without the lender's prior written consent. Subject to certain exceptions, the Company is also required to maintain all of its cash and cash equivalents at accounts with the lender. The Company was in compliance with all covenants as of December 31, 2018 and through the date of this filing.

12. Commitments and Contingencies

Operating Commitments

The Company leases office space under non-cancellable operating lease agreements that expire at various dates and have contracts for other marketing services under various non-cancellable agreements that expire in 2019. Effective December 2017, the Company entered into a lease for its current headquarters at 222 Broadway, New York, New York. The commencement date for the sublease was January 2018 and it expires in July 2029. In June 2018, the Company entered into an agreement to sublease its former headquarters at 1501 Broadway, New York, NY, with a commencement date of August 1, 2018 and an expiration date of January 31, 2025.

As of December 31, 2018, future minimum payment commitments required under the Company's non-cancellable office space leases, including the lease for its current headquarters, (which the Company relocated to during the second quarter of 2018), and for its former headquarters (which the Company subleases), co-location agreements and third-party licenses, net of aggregate future sublease income, for the next five years and thereafter are as follows:

2019	$6,992
2020	6,749
2021	5,598
2022	5,077
Thereafter	18,247
Total minimum operating commitments	42,663
Less: non-cancelable sublease income	(21,989)
Total operating commitments	$20,674

Total rent expense recorded within operating income in the consolidated statements of operations for the years ended December 31, 2018, 2017, 2016 were $3,484, $3,033, and $3,008 respectively. In addition, the Company recorded expense of $3,109, $1,908, and $1,292 and income of $2,998, $2,107 and $1,686 related to subleases for the years ended December 2018, 2017, and 2016 respectively, within other income, net in the consolidated statements of operations.

Letters of Credit

At December 31, 2018 and 2017, the Company had the following outstanding letters of credit:

- $300 and $450 as of December 31, 2018 and 2017, respectively, related to its former headquarters at 52 W 23rd St, New York, New York
- $320 as of December 31, 2018 and 2017 related to new office space in Mountain View, California
- $2,332 as of December 31, 2018 and 2017 related to its former headquarters at 1501 Broadway, New York, New York
- $633 as of December 31, 2018 related to its current headquarters at 222 Broadway, New York, New York

Legal Contingencies

The Company is occasionally involved with various claims and litigation during the normal course of business. Reserves are established in connection with such matters when a loss is probable and the amount of such loss can be reasonably estimated. As of December 31, 2018 and 2017, no reserves were recorded. The determination of probability and the estimation of the actual amount of any such loss are inherently unpredictable, and it is therefore possible that the eventual outcome of such claims and litigation could exceed the estimated reserves, if any. Based upon the Company's experience, current information and applicable law, it generally does not believe it is reasonably probable that any proceedings or possible related claims will have a material effect on its financial statements. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

13. Stockholders' Equity

Stock Repurchases

On October 2, 2018, the Company's board of directors approved a share repurchase program under which the Company was authorized to purchase up to $20,000 of common stock over the 18-month period commencing on the date of approval. For the three months ended December 31, 2018, the Company purchased 7,318,172 shares for the maximum amount originally approved under the share repurchase program of $20,000. The Company's board of directors subsequently approved additional purchases of 1,400,572 shares for an additional $3,536.

On March 29, 2016 the Company announced that the Company's Board of Directors had approved a share repurchase program, under which the Company was authorized to purchase up to $15,000 of common stock over an eighteen month period commencing March 25, 2016. As of September 30, 2017, the share repurchase program expired with $6,557 remaining of our authorized $15,000.

For accounting purposes, common stock repurchased is recorded based upon the purchase date of the applicable trade. Such repurchased shares are held in treasury and are presented using the cost method.

Warrants to Purchase Common Stock

Prior to the Company's IPO in 2013, the Company issued certain warrants to purchase preferred stock in connection with its financing arrangements. These warrants to purchase preferred stock were exercisable at any time prior to expiration. The Company concluded that freestanding warrants and other similar instruments on shares that are redeemable (either put-able or mandatorily redeemable) were accounted for as liabilities, regardless of the timing of the redemption feature or price, even though the underlying shares may be classified as equity.

On July 2, 2013, in connection with the closing of the Company's IPO, all of the Company's outstanding warrants to purchase preferred stock were converted into warrants to purchase common stock in the aggregate of 142,534 shares of common stock. This conversion resulted in the warrants to purchase common stock being reclassified to additional paid-in capital.

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13. Stockholders' Equity (Continued)

On June 30, 2017, Venture Lending & Leasing IV, LLC exercised, in full, the remaining warrants to acquire 31,130 shares of common stock at an exercise price of $2.46 per share, pursuant to a cashless net exercise. In connection with the exercise, the Company issued 406 shares of common stock. As of December 31, 2017 and 2018, there are no warrants outstanding to purchase the Company's common stock.

14. Changes in Accumulated Other Comprehensive Income (Loss)

The following table provides the components of accumulated other comprehensive (loss) income from continuing operations:

	Foreign Currency Translation Adjustment	Total
Beginning balance at January 1, 2018	$ (232)	$ (232)
Other comprehensive loss[1]	(717)	(717)
Ending balance at December 31, 2018	$ (949)	$ (949)

	Foreign Currency Translation Adjustment	Total
Beginning balance at January 1, 2017	$ (331)	$ (331)
Other comprehensive income[1]	99	99
Ending balance at December 31, 2017	$ (232)	$ (232)

(1) For the year ended December 31, 2018, and December 31, 2017 there were no foreign currency translation adjustments reclassified from accumulated other comprehensive income (loss) to the Company's Consolidated Statements of Operations.

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15. Stock-Based Compensation
The Company included stock-based compensation expense related to all of the Company's stock-based payments awards in various operating expense categories for the years ended December 31, 2018, 2017 and 2016 as follows:

	Years Ended December 31,		
	2018	2017	2016
Stock-based compensation expense:			
Technology and development	$492	$615	$459
Sales and marketing	1,470	2,062	476
General and administrative	1,858	2,044	1,551
Total in continuing operations	$3,820	$4,721	$2,486
Discontinued operations	—	673	1,414
Total stock-based compensation expense	$3,820	$5,394	$3,900

In August 2017, in connection with the consummation of the sale of the Company's buyer platform, the Company modified certain restricted stock unit awards held by employees of the buyer platform to provide for pro-rated vesting of such awards for the current year vesting cycle, based on the number of days elapsed from the last vesting date through the date of the transaction. The incremental expense arising from this modification was $45. Additionally, as a result of the sale of the buyer platform, the Company reclassified stock-based compensation expense relating to the employees of the buyer platform of $673 for the year-ended December 31, 2017 and $1,414 for the year-ended December 31, 2016, which was recorded in Net Income from discontinued operations in the Consolidated Statement of Operations.

On September 20, 2017, the Company entered into an agreement with the Company's President, Publisher Platforms that resulted in a separation date of October 6, 2017. The agreement provided acceleration of 100% of the unvested shares subject to any stock option or restricted stock unit award issued to him by the Company. The expense arising from this modification was $729.

Stock-Based Incentive Plans
On June 26, 2013, the Company adopted the 2013 Equity Incentive Plan (the "2013 Plan"). The Company has stock option awards outstanding under five stock-based incentive plans as of December 31, 2018, including two plans that were assumed as part of the acquisition of ScanScout. The Company has restricted stock unit awards outstanding, under its 2013 Plan, as of December 31, 2018.
The Company's initial share reserve under the 2013 Plan upon adoption was 1,333,333 shares of common stock. The number of shares reserved for issuance under the 2013 Plan increases automatically on the first day of January of each year, for a period of ten years, continuing through and including January 1, 2023, by the lesser of 4% of the total number of shares of common stock on the immediately preceding December 31st, or a lesser number of shares determined by the Company's board of directors. The maximum term for stock option awards granted under the 2013 Plan may not exceed ten years from the date of grant. The 2013 Plan will terminate ten years from the date of approval unless it is terminated earlier by the compensation committee of the board of directors.
Stock Option Awards Outstanding
The following table presents summary information of the Company's stock option awards outstanding and exercisable under all plans as of December 31, 2018:

(in thousands, except share and per share data)

15. Stock-Based Compensation (Continued)

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Options Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share
$1.11 - $1.94	881,120	4.65	$ 1.69	719,557	5.69	$ 1.69
$2.36 – $2.88	1,320,000	6.44	2.38	451,041	3.91	2.38
$3.73 – $4.83	3,246,531	6.32	4.20	2,178,359	1.74	4.27
$5.01 – $5.90	735,937	0.65	5.34	735,937	0.72	5.34
$8.15 – $9.64	164,663	4.04	8.18	164,663	4.04	8.18
	6,348,251	4.42	$ 3.97	4,249,557	3.22	$ 3.97

The following table presents summary information of the Company's stock option awards outstanding and exercisable under all plans as of December 31, 2018:

	Number of Stock Option Awards Outstanding	Weighted Average Exercise Price Per Share
December 31, 2017[(1)]	6,311,059	$ 3.63
Stock option awards granted[(2)]	1,780,672	3.89
Stock option awards forfeited	(887,039)	4.89
Stock option awards exercised	(856,441)	2.16
Stock option awards outstanding as of December 31, 2018	6,348,251	$ 3.73
Stock option awards vested and exercisable as of December 31, 2018[(3)]	4,249,557	$ 3.97

(1) Includes certain employment inducement stock option awards granted outside of the Company's stockholder approved equity compensation plans. These grants are generally subject to the same terms and conditions as applied to awards granted under the Company's 2013 Plan. Stock option awards are generally granted at the fair market value of the Company's common stock on the date of grant, generally vest over periods up to four years, have a one year cliff with monthly vesting thereafter, and have terms not to exceed 10 years.

(2) Includes employment inducement stock option awards granted to the Company's Chief Executive Officer ("CEO") outside of the Company's stockholder approved equity compensation plans including the Performance Option (as defined below). These awards were comprised of stock options for purchase of 450,000 shares of the Company's common stock at an exercise price of $2.36. The exercise price represents the closing price of the Company's common stock on the date of the grant. These grants are generally subject to the same terms and conditions as applied to awards granted under the Company's 2013 Plan.

(3) Includes the vested portion of each employment inducement stock option award.

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15. Stock-Based Compensation (Continued)

Other selected information is as follows:

	Years Ended December 31,		
	2018	2017	2016
Aggregate fair value of stock option awards vested	$374	$644	$1,418
Aggregate intrinsic value of outstanding stock option awards	1,270	5,503	1,969
Aggregate intrinsic value of stock option awards exercised	1,713	748	155
Weighted-average grant-date fair value per share of stock option awards granted	1.91	1.13	0.57
Cash proceeds received from stock option awards exercised	$1,845	$699	$161

The fair value for stock option awards was estimated at the date of grant using a Black-Scholes option pricing model (other than with respect to the Performance Option (as defined below)). Calculating the fair value of the stock option awards requires subjective assumptions, including, but not limited to, the expected term of the stock option awards and stock price volatility. The Company estimates the expected life of stock option awards granted based on the simplified method, which the Company believes, is representative of the actual characteristics of the awards. The Company estimates the volatility of its common stock on the date of grant based on the historic volatility of the Company. Risk-free interest rates are based on yields from United States Treasury zero-coupon issues with a term consistent with the expected term of the awards in effect at the time of grant. Forfeitures are based on actual forfeitures in the given period. The Company has never declared or paid any cash dividends and has no current plan to do so. Consequently, it used an expected dividend yield of zero.

The following table presents the assumptions for stock option awards granted during the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Volatility	49% - 55%	49% - 50%	32% - 33%
Risk-free interest rate	2.37% - 3.01%	1.85% to 2.02%	1.24% - 1.57%
Expected life (in years)	5.32 - 5.58	5.65 - 5.67	5.80 - 6.03
Dividend yield	0.00 %	0.00 %	0.00 %

There was $2,542 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company’s equity incentive plans as of December 31, 2018. This cost is expected to be recognized over a weighted-average period of 2.87 years.

Non-vested Restricted Stock Unit (RSU) Awards Outstanding

The following table presents a summary of the Company’s non-vested restricted stock unit award activity under all plans and related information for the year ended December 31, 2018:

	Number of Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value Per Share
Non-vested restricted stock unit awards outstanding as of December 31, 2017	2,518,375	$ 2.19
Restricted stock unit awards granted(1)	1,345,153	3.94

Restricted stock unit awards forfeited	(418,248	)	3.17
Restricted stock unit awards vested	(1,095,226	)	2.23
Non-vested restricted stock unit awards outstanding as of December 31, 2018	2,350,054		3.00

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(in thousands, except share and per share data)

15. Stock-Based Compensation (Continued)

(1) Includes employment inducement restricted stock unit awards granted to the Company's CEO outside of the Company's stockholder approved equity compensation plans. The award comprised of 186,440 restricted stock units. The award is generally subject to the same terms and conditions as applied to awards granted under the Company's 2013 Plan.

	Years Ended December 31,		
	2018	2017	2016
Aggregate grant date fair value of restricted stock unit awards outstanding	$7,050	$5,515	$7,763

Restricted stock unit awards are generally granted at the fair market value of the Company's common stock on the date of grant and vest on an annual basis over periods up to four years. Forfeitures are based on actual forfeitures in the given period.

As restricted stock unit awards vest, they are settled on a net-share basis. Upon settlement, certain shares underlying each restricted stock unit award are withheld to satisfy income tax withholding obligations, which is based on the value of the restricted stock unit award on the settlement date as determined by the closing fair market value of the Company's common stock, relating to the employees' minimum statutory obligation.

There were $2,350 of total unrecognized compensation cost related to non-vested restricted stock unit awards granted under the Company's equity incentive plans as of December 31, 2018. This cost is expected to be recognized over a weighted-average period of 3.0 years.

Employee Stock Purchase Plan

On April 22, 2014, the Company's board of directors adopted the 2014 Employee Stock Purchase Plan ("2014 ESPP"), which was approved by the Company's stockholders at the 2014 annual meeting of stockholders on June 16, 2014.

The 2014 ESPP allows eligible participants to purchase shares of the Company's common stock generally at six-month intervals, or offering periods, at a price equal to 85% of the lower of (i) the fair market value at the beginning of the offering period or (ii) the fair market value at the end of the offering period, or the purchase date.

Employees purchase shares of common stock through payroll deductions, which may not exceed 15% of their total base salary. The 2014 ESPP imposes certain limitations upon an employee's right to purchase shares, including the following: (1) no employee may purchase more than 5,000 shares on any one purchase date and (2) no employee may purchase shares with a fair market value in excess of $25 in any calendar year.

No more than 2,000,000 shares of common stock are reserved for future issuance under the 2014 ESPP. As of December 31, 2018, the Company had 823,895 shares of common stock reserved for future issuance under the 2014 ESPP.

The fair value for each award under the 2014 ESPP was estimated at the date of grant, at the beginning of the offering period, using a Black-Scholes option pricing model. Calculating the fair value of the ESPP awards requires subjective assumptions, including, but not limited to, the expected term of the ESPP award and stock price volatility. The Company estimates the expected life of the awards granted under the 2014 ESPP based on the duration of the offering periods, which is six months. The Company estimates the volatility of its common stock on the date of grant based on the Company's historic volatility. Risk-free interest rates are based on yields from United States Treasury zero-coupon issues with a term consistent with the expected term of the awards in effect at the time of grant. Forfeitures are recognized as they occur. The Company has never declared or paid any cash dividends and has no current plan to do so. Consequently, it used an expected dividend yield of zero.

For the years ended December 31, 2018 and 2017, the following assumptions were used for awards issued under the 2014 ESPP:

	2018	2017	2016

Volatility	36% - 42%	42% - 52%	32% - 35%
Risk-free interest rate	1.13% - 2.28%	0.70% - 1.1%	0.46% - 0.49%
Expected life (in years)	0.50	0.50	0.50
Dividend yield	0.00 %	0.00 %	0.00 %

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Telaria, Inc.
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(in thousands, except share and per share data)

15. Stock-Based Compensation (Continued)

There was $34 of total unrecognized compensation cost related to awards under the 2014 ESPP as of December 31, 2018. This cost is expected to be recognized over a weighted-average period of less than one year.
Stock-Option Compensation Award with Market Conditions:
On July 10, 2017, the Company granted certain employment inducement awards to its newly appointed CEO. This grant included a performance option award for 450,000 shares of the Company's common stock, which provides that 50% of the shares subject to the option will vest as of the date on which the 30-day moving average of Company's common stock exceeds $4.00 per share (as adjusted to account for any stock splits or other adjustments), and 50% of the shares subject to the option will vest as of the date on which the 30-day moving average of Company's common stock exceeds $5.00 per share (as adjusted to account for any stock splits or other adjustments), provided, in each case that he continues to provide services to the Company on each such vesting date.

With respect to this performance option award, stock-option expense will be recorded over the vesting period for each tranche's vesting period based on the expected achievement of the vesting condition. For these purposes, the vesting period for the $4.00 stock-option market condition is 1.27 years and the vesting period for the $5.00 market condition is 1.75 years.

Fair value of the stock option award was calculated using the Monte-Carlo Simulation with the following assumptions:

	2018	
Exercise price	$2.36	
Volatility	50	%
Risk-free interest rate	2.38	%
Maturity	10.00	
Milestone 1	$4.00	
Milestone 2	$5.00	
Cost of equity	17	%
Dividend yield	—	%

Fair value of the 450,000 stock options is $501, with $133 in stock compensation expense recorded for the year-ended December 31, 2018 and $37 of unamortized expense as of December 31, 2018.

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16. Restructuring Costs

The Company divested its buyer platform on August 7, 2017. See Note 3, Disposition of Buyer Platform for more information regarding the sale of the buyer platform. As a result of the divestiture and corresponding reduction in number of employees, the Company relocated its corporate headquarters in New York as well as its office in Santa Monica, California. The Company ceased using its former corporate headquarters and Santa Monica location as of May 31, 2018. The leases associated with these offices will expire on January 31, 2025 and June 30, 2020, respectively.
As a result of the Company's Santa Monica relocation, the Company incurred one-time costs of $117 during June of 2018. As a result of a change in term used in calculating the one-time costs, an additional $32 was recorded July of 2018. The company recorded the costs of $149 as restructuring costs in the Company's consolidated statements of operations for the year ended December 31, 2018.
The following table sets forth details regarding the activities described above during the year ended December 31, 2018.

	Balance as of July 1, 2018	Expenses, Net	Cash	Non-Cash	Balance as of December 31, 2018
Restructuring liability	$ —	$ 149	$(73)	$ 7	$ 83

17. Net Income (Loss) Per Share Attributable to Common Stockholders
The following table presents the calculation of basic and diluted net loss per share attributable to common stockholders:

	Years Ended December 31,		
	2018	2017	2016
Numerator:			
Loss from continuing operations, net of income taxes	$(9,230)	$(19,700)	$(23,850)
Total income (loss) from discontinued operations, net of income taxes	(136)	21,927	2,903
Net income (loss)	$(9,366)	2,227	(20,947)
Denominator:			
Weighted-average number of shares of common stock outstanding for basic and diluted net loss per share attributable to common stockholders	51,764,506	50,511,366	52,279,738
Basic and diluted net income (loss) per share:			
Loss from continuing operations	$(0.18)	$(0.39)	$(0.46)
Income from discontinued operations	—	0.43	0.06
Net income (loss)	$(0.18)	$0.04	$(0.40)

The following securities were outstanding during the years presented below and have been excluded from the calculation of diluted net loss per share attributable to common stockholders per share because the effect is anti-dilutive:

Years Ended
December 31,

	2018	2017	2016
Warrants to purchase common stock	—	—	31,130
Stock option awards	6,348,251	6,311,059	6,425,832
Restricted stock unit awards	2,349,429	2,518,375	3,750,292
Total anti-dilutive securities outstanding	8,697,680	8,829,434	10,207,254

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18. Employee Benefit Plan

The Company maintains a defined contribution retirement plan available to all eligible U.S. employees pursuant to Section 401(k) of the U.S. Internal Revenue Code (the "401(k) Plan"). Pursuant to the Company's 401(k) Plan, participating U.S. employees may defer a portion of their pre-tax earnings, subject to annual IRS contribution limits. The Company began a discretionary contribution matching of employee's contributions in February 2014. The Company matched 50% of each participant's eligible contributions, up to a maximum employer matching contribution of 3% of each participant's eligible base salary. Participants will vest in such discretionary employer matching contributions over a 3-year graded vesting period.

Total employer matching contributions to the Company's 401(k) Plan for the year ended December 31, 2018, 2017 and 2016 were $333, $250, and $211, respectively.

19. Supplemental Disclosure of Cash Flow Information

	Years Ended December 31,		
	2018	2017	2016
Supplemental disclosure of cash flow activities:			
Cash paid for income taxes	$93	$416	$941
Cash paid for interest expense	$—	$101	$12
Supplemental disclosure of non-cash investing and financing activities:			
Common stock issued for settlement of restricted stock unit awards	$1,312	$3,206	$1,020
Purchase of property and equipment in accounts payable and accrued expenses	$6	$13	$158
Cash holdback related to acquisition	$472	$—	$—
Deferred tax liability related to acquisition	$1,015	$—	$—
Contingent consideration on acquisition	$1,500	$—	$—

20. Segment and Geographic Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer ("CEO"). The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company has concluded that its operations constitute one operating and reportable segment.

Substantially all assets were held in the United States as of each December 31, 2018 and 2017, and substantially all revenue was generated through sales personnel in the United States for the years ended December 31, 2018, 2017 and 2016.

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Telaria, Inc.
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21. Quarterly Results of Operations

Unaudited	Three Months Ended			
2018	March 31,	June 30,	September 30,	December 31,
Revenue	$9,601	$ 12,430	$ 13,478	$ 19,656
Gross profit	8,573	11,294	11,610	16,844
Income (loss) from continuing operations, net of income taxes	(6,127)	(2,960)	(1,581)	1,438
Total income (loss) from discontinued operations, net of income taxes	26	(161)	—	(1)
Net income (loss)	$(6,101)	$ (3,121)	$ (1,581)	1,437
Net earnings (loss) per share - basic:				
Income (loss) from continuing operations, net of income taxes[(1)]	$(0.12)	$ (0.06)	$ (0.03)	$ 0.03
Income from discontinued operations, net of income taxes[(1)]	—	—	—	—
Net income (loss)[(1)]	$(0.12)	$ (0.06)	$ (0.03)	$ 0.03
Net earnings (loss) per share - diluted:				
Income (loss) from continuing operations, net of income taxes[(1)]	$(0.12)	$ (0.06)	$ (0.03)	$ 0.03
Income from discontinued operations, net of income taxes[(1)]	—	—	—	—
Net income (loss)[(1)]	$(0.12)	$ (0.06)	$ (0.03)	$ 0.03
Weighted-average number of shares of common stock outstanding:				
Basic	51,827,68	52,241,605	52,716,626	50,278,668
Diluted	51,827,68	52,241,605	52,716,626	51,266,321

Unaudited	Three Months Ended			
2017	March 31,	June 30,	September 30,	December 31,
Revenue	$6,139	$ 9,934	$ 12,715	$ 15,011
Gross profit	5,375	9,017	11,951	14,008
Income (loss) from continuing operations, net of income taxes	(9,561)	(6,803)	(3,273)	(63)
Total income (loss) from discontinued operations, net of income taxes	2,701	4,503	15,567	(844)
Net income (loss)	(6,860)	(2,300)	12,294	(907)
Net earnings income (loss) per share - basic				
Loss from continuing operations, net of income taxes[(1)]	(0.19)	(0.14)	(0.06)	—
Income (loss) from discontinued operations, net of income taxes[(1)]	0.05	0.09	0.30	(0.02)
Net income loss[(1)]	$(0.14)	$ (0.05)	$ 0.24	$ (0.02)
Basic and diluted weighted-average number of shares outstanding[(2)]	49,998,54	50,205,913	50,642,344	51,195,402

(1) Basic and diluted loss from continuing operations, net of income taxes; income (loss) from discontinued operations, net of income taxes and net income (loss) is computed independently for each of the quarters presented. Therefore, the sum of all quarterly basic and diluted loss from continuing operations, net of income taxes; income (loss) discontinued operations, net

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21. Quarterly Results of Operations

of income taxes and net income (loss) per share may not equal the annual basic and diluted earnings (loss) per share calculations.

(2) Due to the Company's losses from loss from continuing operations, net of income taxes, all potentially dilutive securities are anti-dilutive and, therefore, basic and diluted weighted average common shares outstanding are equal for all periods presented.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal controls over financial reporting are designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with the U.S. GAAP, including those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We have excluded from the scope of our assessment of internal control over financial reporting the operations and related assets of SlimCut Media SAS, which we acquired in June 2018 and was included in the 2018 consolidated Financial Statements. SlimCut Media SAS constituted 6.83% and 11.11% of total and net assets as of December 31, 2018 and 8.05% of revenues for the year then ended.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. As noted above, management's evaluation of the effectiveness of internal controls over financial reporting did not include an evaluation fot he internal control over financial reporting of SlimCut Media SAS. The assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on these assessments, we concluded that our internal control over financial reporting was effective as of December 31, 2018.

Ernst & Young LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and, as part of the audit, has issued a report on the effectiveness of our internal control over financial reporting as of December 31, 2018, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of December 31, 2018, Ernst & Young, LLP, has issued a report on the effectiveness of our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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While our management, including our Chief Executive Officer and Chief Financial Officer, designs our disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance of achieving their objectives at a reasonable assurance level, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Code of Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at http://investor.telaria.com/corporate-governance. The nominating and corporate governance committee of our board of directors is responsible for overseeing the Code of Conduct and must approve any waivers of the Code of Conduct for employees, executive officers and directors. We expect that any amendments to the Code of Conduct, or any waivers of its requirements, will be disclosed on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference from the sections titled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" into our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from the sections titled "Information Regarding the Board and Corporate Governance" and "Transactions with Related Persons" into our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference from the section titled "Principal Accounting Fees and Services" in our Proxy Statement for our 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)
1. Consolidated Financial Statements: Our consolidated financial statements are listed in the "Index to Consolidated Financial Statements" included in Part II, Item 8 of this Annual Report on Form 10-K.
2. Financial Statement Schedules: All financial statement schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.
3. Exhibits: See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on March 18, 2019.

TELARIA, INC.

By: /s/ Mark Zagorski
Mark Zagorski
Chief Executive Officer

Date: March 18, 2019

By: /s/ John Rego
John Rego
Chief Financial Officer

Date: March 18, 2019

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mark Zagorski, John Rego and Aaron Saltz, and each of them, as his true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said agents, proxies and attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said agents, proxies and attorneys-in-fact, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Mark Zagorski Mark Zagorski	Chief Executive Officer and Director (Principal Executive Officer)	March 18, 2019
/s/ John Rego John Rego	Chief Financial Officer (Principal Accounting and Financial Officer)	March 18, 2019
/s/ Paul Caine Paul Caine	Director	March 18, 2019
/s/ Rachel Lam Rachel Lam	Director	March 18, 2019
/s/ Warren Lee Warren Lee	Director	March 18, 2019
/s/ James Rossman James Rossman	Director	March 18, 2019
/s/ Robert Schechter Robert Schechter	Director	March 18, 2019
/s/ Kevin Thompson Kevin Thompson	Director	March 18, 2019
/s/ Doug Knopper Doug Knopper	Director	March 18, 2019

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Exhibit Index

The agreements set forth on this Exhibit Index may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified in such agreements by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of "materiality" that are different from "materiality" under the applicable security laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

The Company acknowledges that notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Form 10-K not misleading. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See "Available Information" under Item 1 of Part I.

		Incorporated by Reference				Filed
Exhibit No.	Description of Exhibit	Form	File No.	Exhibit	Filing Date	Herewith
2.1	Asset Purchase Agreement, among Telaria, Inc., Scanscout, Inc., Taptica Ltd. and Taptica International Ltd, dated as of August 4, 2017	8-K	001-35982	2.1	8/8/2017	
3.1	Composite copy of Amended and Restated Certificate of Incorporation, as amended to date and as currently in effect.	S-3	333-221374	3.1	11/6/2017	
3.2	Bylaws, as amended to date and as currently in effect.	S-1/A	333-188813	3.4	6/14/2013	
4.1	Specimen stock certificate evidencing shares of common stock.	S-3	333-188813	4.2	11/6/2017	
10.1	Amended and Restated Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated as of January 27, 2017	10-K	001-35982	10.2	3/10/2017	
10.2	First Amendment to the Amended and Restated Loan and Security Agreement, dated January 26, 2018, by and between the Registrant and the Silicon Valley Bank.	10-Q	001-35982	—	5/8/2018	
10.3	Second Amendment to the Amended and Restated Loan and Security Agreement, dated November 7, 2018, by and between the Registrant and the Silicon Valley Bank					X
10.4+	Tremor Media, Inc. 2006 Stock Incentive Plan, as amended.	S-1	333-188813	10.4	5/23/2013	

10.5+	Form of Stock Option Agreement under Tremor Media, Inc. 2006 Stock Incentive Plan.	S-1	333-188813	10.5	5/23/2013
10.6+	Tremor Media, Inc. 2008 Stock Plan, as amended.	S-1	333-188813	10.6	5/23/2013
10.7+	Form of Stock Option Agreement under Tremor Media, Inc. 2008 Stock Plan.	S-1	333-188813	10.7	5/23/2013
10.8+	ScanScout, Inc. 2006 Stock Plan.	S-1	333-188813	10.8	5/23/2013

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10.9+	Form of Stock Option Agreement under ScanScout, Inc. 2006 Stock Plan.	S-1	333-188813	10.9	5/23/2013
10.10+	ScanScout, Inc. 2009 Equity Incentive Plan.	S-1	333-188813	10.10	5/23/2013
10.11+	Form of Stock Option Agreement under ScanScout, Inc. 2009 Equity Incentive Plan.	S-1	333-188813	10.11	5/23/2013
10.12+	Form of 2013 Equity Incentive Plan as amended.	Proxy	001-35982	App. A	4/15/2013
10.13+	Form of Incentive Stock Option Agreement under 2013 Equity Incentive Plan.	S-1/A	333-188813	10.13	6/14/2013
10.14+	Form of Nonqualified Stock Option Agreement under 2013 Equity Incentive Plan.	S-1/A	333-188813	10.14	6/14/2013
10.15+	Form of Restricted Stock Unit Award Agreement under 2013 Equity Incentive Plan.	S-1/A	333-188813	10.15	6/14/2013
10.16+	Form of Restricted Stock Unit Grant Notice under 2013 Equity Incentive Plan.	S-1/A	333-188813	10.16	6/14/2013
10.17+	Non-Employee Director Compensation Plan.	10-K	001-35982	10.17	3/10/2017
10.19+	Tremor Video, Inc. 2014 Employee Stock Purchase Plan	S-1	333-188813	10.19	5/23/2013
10.24*	Agreement of Lease by and between the Company and Paramount Leasehold, L.P., dated as of October 27, 2014 (as amended by the First Amendment of Lease dated as of December 15, 2014).	10-K	001-35982	10.25	3/16/2015
10.25*	Second Amendment to the Agreement of Lease, by and between the Company and Paramount Leasehold, L.P., dated as of October 27, 2014	10-Q	001-35982	10.1	5/10/2016
10.26*	Sublease Agreement, between Advance Magazine Publishers Inc. and Telaria, Inc., effective December 14, 2017	10-K	001-35982	10.26	3/1/2018
10.27+	Employment Offer Letter by and between the Company and Mark Zagorski, dated May 31, 2017.	10-Q	001-35982	10.1	8/9/2017
10.28+	Employment Offer Letter by and between the Company and John Rego, dated August 3, 2015	10-Q	001-35982	10.1	11/9/2015
10.29+	Amendment to the Employment Offer Letter by and between the Company and John Rego, dated February 7, 2017	10-Q	001-35982	10.2	5/10/2017

10.30+	Amended and Restated Employment Offer Letter by and between the Company and Katie Evans, dated March 6, 2017	10-Q	001-35982	10.5	5/10/2017	
10.31+	Employment Offer Letter by and between the Company and Paul Caine, dated October 6, 2017	10-K	001-35982	10.32	3/1/2018	
10.32+	Employment Offer Letter by and between the Company and Adam Lowy, dated October 19, 2019					X
10.33	Agreement of Lease by and between the Registrant and Twenty-Three R.P. Associates, dated as of July 26, 2010 (as modified by the First Amendment to Lease dated November 1, 2010).	S-1	333-188813	10.3	5/23/2013	
21.1	List of subsidiaries.	10-Q	001-35982	21.1	8/9/2018	

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23.1	Consent of Independent Registered Public Accounting Firm.	X
24.1	Power of Attorney (included in signature page).	X
31.1	Certification of the Chief Executive Officer of Telaria, Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934.	X
31.2	Certification of the Chief Financial Officer of Telaria, Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934.	X
32.1	Certification of the Chief Executive Officer of Telaria, Inc. pursuant to18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2	Certification of the Chief Financial Officer of Telaria, Inc. pursuant to18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X
101.LAB	XBRL Taxonomy Extension Labels Linkbase.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X

+ Indicates management contract or compensatory plan.

† In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purpose of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

* Certain portions of this exhibit omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to a request for confidential treatment.