

Edgar Filing: Telaria, Inc. - Form 10-K

Telaria, Inc.  
Form 10-K  
March 19, 2019

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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

Commission File No. 001-35982

TELARIA, INC.  
(Name of registrant as specified in its Charter)

Delaware 20-5480343  
(State or other jurisdiction of incorporation or organization) (I.R.S Employer Identification No.)

222 Broadway, 16th Floor  
New York, New York 10038  
(Address of Principal Executive Offices)

(646) 723-5300  
(Registrant's Telephone Number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for

Edgar Filing: Telaria, Inc. - Form 10-K

such shorter period that the Registrant was required to submit such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

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

Large accelerated filer      o Accelerated filer                      x  
Non-accelerated filer      o Smaller reporting company x  
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of the last business day of the Registrant's most recently completed second quarter was approximately \$165.8 million.

As of March 13, 2019, there were 45,561,523 shares of the Registrant's common stock, par value \$0.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, are incorporated herein by reference from the definitive proxy statement relating to our 2019 annual meeting of stockholders. The proxy statement will be filed with the U.S. Securities and Exchange Commission not later than 120 days after December 31, 2018.

Telaria, Inc.  
Form 10-K  
For the Fiscal Year Ended December 31, 2018

	Page
<u>Part I</u>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>10</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>30</u>
<u>Item 2. Properties</u>	<u>30</u>
<u>Item 3. Legal Proceedings</u>	<u>30</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>31</u>
<u>Part II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>32</u>
<u>Item 6. Selected Consolidated Financial Data</u>	<u>35</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>54</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>92</u>
<u>Item 9A. Controls and Procedures</u>	<u>92</u>
<u>Item 9B. Other Information</u>	<u>93</u>
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>93</u>
<u>Item 11. Executive Compensation</u>	<u>93</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>93</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>93</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>93</u>
<u>Part IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>94</u>
<u>Signatures</u>	<u>95</u>

Unless the context otherwise requires, we use the terms "Telaria," the "Company," "we," "us" and "our" in this Annual Report on Form 10-K, or this Annual Report, to refer to Telaria, Inc. and, where appropriate, its consolidated subsidiaries.

The Telaria logo, name and other trademarks or service marks of Telaria, Inc. appearing in this report are the property of Telaria, Inc. and its consolidated subsidiaries. This Annual Report contains additional trade names, trademarks and service marks of others, which are the property of their respective owners.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “objective,” “ongoing,” “plan,” “predict,” “project,” “potential,” “should,” “will,” or “would,” and other similar terms, or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. The forward-looking statements and opinions contained in this prospectus are based upon information available to us as of the date of this Annual Report and, while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. Forward-looking statements include statements about:

- the expansion of the online video advertising market;
- the adoption of our platform by publishers and our ability to increase the amount of video advertising inventory managed and sold through our platform;
- our ability to increase the amount of advertising spend and revenue transacted through our platform by buyers, including third party demand side platforms, or DSPs;
- our ability to develop and maintain relationships with premium video publishers on terms that are favorable to us;
- the shift in video consumption from linear TV to digital mediums such as connected TV, or CTV and over-the-top, or OTT;
- the effects of increased competition as well as innovations by new and existing competitors in our market;
  - our ability to effectively innovate and scale our technology and to continue to address the rapidly evolving requirements of our clients;
  - our ability to protect viewers’ information and adequately address privacy concerns;
- our ability to ensure a high level of brand safety for our clients and to detect “bot” traffic and other fraudulent or malicious activity;
- the effect of regulatory developments and industry standards regarding Internet privacy and other matters;
- our ability to maintain, protect and enhance our intellectual property;
- costs associated with defending intellectual property infringement, securities and other claims;
- potential acquisitions and integrations of complementary business and technologies;
- expected investments or expenditures;
- our ability to attract and retain qualified employees and key personnel; and
- future revenue or the sources of such revenue, pricing models, gross margins, take rates, net income, hiring plans, expenses, capital expenditures, capital requirements and stock performance;

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report.

You should refer to the section titled Part I, Item 1A. “Risk Factors” of this Annual Report for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You should read this report and the documents that

we reference in this report and have filed or incorporated by reference as exhibits to this report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Telaria, Inc. provides a fully programmatic software platform for publishers to manage and monetize their video advertising. Our platform is built specifically for digital video and to support the unique requirements of connected TV, mobile and over-the-top content. We provide publishers with real-time analytics, data and decisioning tools to control their video advertising business and offer a holistic monetization solution to optimize yield across a publisher's entire supply of digital video inventory.

Our technology enables publishers to manage and deliver their directly sold and programmatic video inventory through a single platform, allowing them to get a complete picture of their sales efforts and maximize revenue from ad placements

across channels. Our platform is connected with leading third-party demand-side platforms, or DSPs, through server-to-server integrations, creating a robust programmatic marketplace where publishers can seamlessly transact with buyers. These programmatic transactions fully automate the sales process and enable publishers to increase the value of their advertising inventory by using data to better segment and match their supply with demand.

In addition, publishers manage video inventory sold by their direct sales teams through our Advanced TV ad server, which was built specifically to meet the unique requirements of connected TV, or CTV, and over-the-top, or OTT, content. Publishers use our integrated ad-server and programmatic supply side platform to optimize yield by having their directly sold campaigns compete against our marketplace of programmatic demand to drive the highest value for their inventory.

We provide a full suite of tools for publishers to control their video advertising business and protect the consumer viewing experience. These controls are particularly important for our clients in CTV and OTT who need to ensure a TV-like viewing and advertising experience for consumers. For instance, our ad-pod feature provides long-form content publishers with a tool analogous to commercial breaks in traditional linear television so that they can request and manage several ads at once from different demand sources. Using this tool, publishers can establish business rules such as competitive separation of advertisers to ensure that competing brand ads do not appear during the same commercial break, audio normalization to control for the volume of an ad relative to content, and frequency capping to avoid exposing viewers to repetitive ad placements.

Publishers on our platform receive up-to-the-second reporting and diagnostics so that they can effectively monitor buying patterns and make real-time changes to take advantage of market dynamics. Our inventory intelligence dashboard provides publishers with extensive analytics that leverage billions of historical data points to drive their monetization strategy, as well as access to first and third-party data that offers valuable insights into their video advertising such as performance, viewability and audience data, which can be used to segment inventory and create incremental value.

We have built long-standing relationships with premium video publishers, in particular in the CTV and OTT space, and we believe the scale and quality of our client base makes us an important partner to video ad buyers. Buyers on our platform include some of the largest brand advertisers in the world and our platform is integrated with the leading video volume buyers in digital advertising. We provide our platform internationally in Europe, Canada, Latin America, and the Asia Pacific regions. We generate revenue when an advertising impression is sold on our platform based on a simple and transparent fee structure established with our publisher partners and do not collect any fees directly from DSPs integrated with our platform.

In September 2017, we changed our name from "Tremor Video, Inc." to "Telaria, Inc." In connection with the name change, our NYSE ticker symbol was changed to "TLRA" and our corporate website address was changed to

www.telaria.com. Information on or accessible through our website is not incorporated by reference to this report.

#### Our Industry

Online video is among the fastest growing advertising formats worldwide. Several factors, including the availability of high-speed broadband and mobile network infrastructure, penetration of internet-connected devices, a proliferation of online content publishers and a behavioral shift towards online and video on demand viewing are driving robust growth in digital video consumption.

Consumers are rapidly shifting their viewing habits towards digital mediums and expect to be able to consume content seamlessly across multiple devices, including computers, tablets, smartphones, and CTVs whenever and wherever they want. The rapid adoption of OTT viewing and CTV has disrupted the traditional linear TV distribution model, as eMarketer estimates

## Table of Contents

that approximately 33.0 million people in the US have cut-the-cord (i.e., canceled a pay TV service and continue without it) as of the end of 2018, reflecting a 32.8% year-over-year increase. This disruption has created new options for consumers and new economic opportunities for content publishers and advertisers.

The continued growth of online video consumption is resulting in a corresponding increase in the amount of advertising dollars being spent by brands through digital video channels. According to estimates from eMarketer, the U.S. online video advertising market is forecasted to grow to \$40.1 billion in 2020, from an estimated \$27.8 billion in 2018, representing an increase of 44%. Online video advertising provides a number of advantages over traditional television advertising for both publishers and buyers. For publishers, digital advertising enables content owners to realize the greatest value of their video content by providing tools to maximize advertising yield and manage inventory allocation, while providing advanced real-time reporting and analytics that can inform the sales process. For buyers, online video advertising combines the rich “sight, sound and motion” of television with the advanced optimization, targeting and analytics of digital.

As online video advertising continues to scale and evolve, the need for software solutions that automate the process for planning, buying, selling and measuring video advertising across screens has become more pronounced. As a result, the amount of online video advertising being bought and sold programmatically has increased. Programmatic buying refers to the automated purchase and sale of digital advertising through technology, including the use of real-time bidding technology that allows for the dynamic purchase and sale of advertising inventory on an impression-by-impression basis. We believe that programmatic buying will continue to grow as a percentage of video advertising spend. A report from eMarketer estimates that programmatic digital video ad spending in the US will grow from \$22.5 billion in 2018 to \$33.6 billion in 2020, a 49% increase.

Despite the tremendous growth opportunity in the programmatic video advertising, publishers face a number of challenges that require sophisticated technology to solve. Publishers must manage a complex advertising landscape with an increasing number of buyers and technology intermediaries and multiple channels for content consumption for consumers, while protecting the value of their brand and ensuring a high quality end user experience. For instance, publishers must ensure that ads load properly and do not cause delays, are brand safe, match the quality of the premium content that is being viewed, are played at the appropriate volume, and are not overly repetitive. Publishers also need tools to ensure proper management of sales channel and advertiser conflicts, including managing the delivery of their directly sold and programmatic video inventory. These concerns are particularly pronounced for large media companies and broadcasters that are focused on growing their CTV and OTT business. All of these requirements must be executed in real-time and at scale, across multiple channels and devices.

### Our Platform

Our software platform features:

**Leadership in CTV and OTT.** We have strategically built our platform to meet the unique requirements of CTV and OTT publishers. Many of these publishers have their roots in linear television and it is important that established business practices in television advertising can be translated to programmatic CTV advertising. For instance, our ad-pod feature provides long-form content publishers with a tool analogous to commercial breaks in traditional linear television, so that they can request and manage several ads at once from different demand sources, in a single ad-pod. Using this tool, publishers can establish business rules such as competitive separation of advertisers to ensure that competing brand advertisements do not appear during the same commercial break and frequency capping to ensure that viewers do not receive repetitive ad placements.

**Holistic yield management.** Our technology enables publishers to manage and deliver their directly sold and programmatic video inventory through a single platform, allowing them to get a complete picture of their sales efforts



and maximize revenue from their ad placements across channels no matter how it is sold. Our integrated ad-server and programmatic supply side platform optimizes yield for a publisher by enabling their directly sold campaigns to compete against our marketplace of programmatic demand to drive the highest value for their inventory.

## Table of Contents

Programmatic supply side platform. Our platform is integrated with the leading DSPs, which enables publishers to seamlessly connect to buyers through our programmatic marketplace. Publishers are able to sell their inventory however they want to transact, including through: open auction, where buyers bid against each other in a real-time auction for the right to purchase a publisher's inventory; private marketplaces, where select buyers are given the opportunity to bid on a curated set of inventory; or programmatic direct, where a publisher transacts with a specific buyer often at a fixed rate and on a fully guaranteed basis. Programmatic transactions complement a publisher's direct sales force by enabling them to automate their sales process and improve workflow capabilities to increase productivity. These transactions also create incremental revenue opportunities by enabling buyers and publishers to directly communicate and share data to deliver more valuable targeted advertising.

Advanced brand safety controls. We offer publishers advanced controls to ensure the integrity of their brand and protect the consumer viewing experience. For instance, our creative review tool lets publishers review the specific creative ad unit that is being served to their inventory, including the volume of the ad relative to their content. If the creative ad unit does not align with the publisher's brand parameters or content guidelines, they can easily block the ad from serving.

Yield optimization tools. We provide publishers with essential tools to manage yield and maximize revenue opportunities, including the ability to define supply hierarchies and demand tiers, minimum price floors, and advertiser and category level black and white lists to manage potential sales channel conflicts.

Real time reporting, analytics and diagnostics. Our platform provides publishers with access to up-to-the-second reporting, which allows them to effectively monitor buying patterns and make real-time changes to take advantage of market dynamics and maximize their yield. We also offer extensive analytics that leverage billions of historical data points derived through our platform to drive long-term monetization strategy for publishers. Our real-time diagnostic tools enable publishers to discover and resolve any revenue impacting issues within seconds, as opposed to waiting days for post-campaign reporting.

Inventory Intelligence. Our inventory intelligence dashboard provides publishers with first and third-party data that offers valuable insights into their inventory such as performance, viewability and audience data. For instance, our recently launched TV Content Reporting tool provides CTV and OTT publishers with granular analytics around the bidding and buying patterns of specific show titles, episodes, content categories. This data can then be used by publishers to segment their advertising inventory so that it becomes more easily discoverable for buyers that are looking to deliver targeted, relevant advertising to consumers.

Out-stream solution. Our proprietary out-stream solution creates additional advertising opportunities for publishers outside of their in-stream video content. This technology automatically launches video advertising in-content on a webpage or application as the user scrolls through an article. For print publishers, this product opens up a new source of advertising revenue that can be seamlessly sold through our platform or their direct sales force.

## Our Competitive Strengths

Built exclusively for video. Our platform is focused exclusively on managing and monetizing digital video inventory. Unlike other platforms that were originally built to monetize display advertising, our platform was built from day one to address the special requirements of online video, in particular applications running on mobile or CTV devices. Online video poses a number of unique challenges compared to display such as the ability to dynamically insert ads into live streams, control for ad volume, ensure ad formats play across devices and best match the viewer's environment, and accommodate spikes in video consumption around landmark events. Any failure to address these challenges could significantly impair the user experience, which is of utmost importance to premium publishers.

Premium unique inventory. We have expended significant time and resources cultivating and building long-term relationships with premium content providers that offer high-quality unique video inventory, in particular in the OTT and CTV space. This inventory is highly sought after by advertisers looking to capitalize on the shift in video consumption from linear TV to digital and tends to be focused on a smaller number of large scale publishers. Many of our clients have limited experience with programmatic advertising and our subject matter experts often serve in consultative role within a client's organization to help establish best practices and drive their monetization strategy.

## Table of Contents

**Scaled programmatic marketplace.** We have created a scaled marketplace of programmatic video supply and demand. Buyers on our platform include some of the largest brand advertisers in the world and our platform is connected with all of the leading video demand side platforms through server-to-server integrations that significantly reduce latency and response time.

**Fully agnostic platform for publishers.** We are fully aligned with the interests of our publisher partners. Because we do not offer a buyer solution, we are able to avoid inherent conflicts of interest that exist when serving both the buy- and sell-side. In addition, because we do not own or publish content we are agnostic and have no preference towards delivering demand to any specific publisher. As a result, we are able to build trust with clients, many of whom incorporate their proprietary data into our platform. This trust provides us the benefit of long-term and stable relationships with our clients.

**Scalability and continuous innovation.** Our platform is built with a flexible architecture and an adaptable data pipeline at its center, so that we can easily expand the platform as well as integrate with ecosystem partners, enabling our clients to use our platform as a full-suite solution to serve all of their needs. Our open architecture allows us to implement rapid product cycles so that we are continuously innovating to enhance our platform for our clients and stay ahead of the curve in a rapidly evolving industry. For example, we believe that we were the first sell-side solution to deliver programmatic ads into live streaming content.

**Self-service model.** We offer a self-service model that lets publishers direct their own sale and management of video ad inventory without extensive involvement by our personnel. This model allows us to scale efficiently and grow our business at a faster pace than the growth of our sales and support organization. As a result, we are able to achieve a high degree of operating leverage, which positions our business for growing profitability.

**Transparent pricing.** We generate revenue each time an impression is monetized on our platform based on a simple and transparent fee structure established with our publisher partners and do not collect any fees directly from buyers. This allows publishers to get a true measure of the value of their inventory.

## Clients and Sales

As of December 31, 2018, we had total sales and marketing staff of 103 employees. For 2018, 2017 and 2016 our total sales and marketing expenses were \$25.4 million, \$28.1 million and \$22.3 million, respectively.

Our sales strategy is focused on serving the following core client constituencies: publishers that use our platform to manage and monetize their video inventory and buyers that purchase such inventory, including DSPs that directly purchase inventory on behalf of their clients as well as brand advertiser and advertising agencies who ultimately control and direct advertising spend through DSPs.

Our publisher sales team is responsible for increasing the number of premium publishers using our platform and deepening relationships with our existing clients. Our buyer sales team is responsible for increasing the amount of spend and bidding activity being transacted by buyers on our platform.

### Publishers

Publishers own or operate media properties, websites and applications through which video advertisements can be delivered to consumers as they navigate across screens. Publishers use our platform to monetize and manage their video inventory.

We are focused on establishing direct relationships with premium content providers that offer unique, high-quality production and viewing experiences, in particular in the OTT and CTV space. This inventory is highly sought after by brand advertisers looking to capitalize on the shift from linear TV to digital, as it combines a TV-like viewing experience with the significant advantages of online advertising, including the ability to target audiences and measure performance in real-time.

Unlike desktop or mobile video advertising which may come from disparate sources, CTV and OTT inventory tends to be focused on a smaller number of publishers. These publishers, tend to be larger and face a more sophisticated set of challenges compared to other online publishers. Accordingly, the sales cycle can be time and resource intensive. Given the limited number of CTV and OTT publishers, we are focused on building deeper, long-term strategic partnerships with these clients through a full-service business development strategy. We have invested significant resources in identifying and cultivating these relationships. Our sales executives and account managers often serve a consultative role within a client's

7

---

## Table of Contents

sales organization to help establish best practices and evangelize the benefits of programmatic CTV advertising. This team is further supported by our product and engineering team with deep technical expertise, and for larger clients, we may build-out custom features or functionality to help drive deeper adoption of our platform.

### Buyers

DSPs are technological intermediaries through which advertisers and agencies transact on our platform. DSPs provide ad delivery and targeting solutions for ad campaigns and purchase video inventory on behalf of advertiser and agency clients. These DSPs are directly connected to our technology through server-to-server integrations and are responsible for bidding on and purchasing advertising inventory on our platform pursuant to master service agreements.

We maintain close relationships with DSPs to maximize the amount of spend being transacted through our platform. For instance, our sales team collaborates with DSPs to create custom private marketplaces that fit specific targeting criteria for a given campaign. Our team of technical account managers continually monitors DSP bidding activities and provides recommendations that inform their trading practices, including insights around bidding behaviors and forecasting tools that assist in media planning.

While the DSP is directly responsible for purchasing advertising inventory, the overall direction of an advertising campaign is typically determined by the advertiser or advertising agency that has engaged the DSP. For certain private marketplace transactions, the specific parameters of a campaign may be negotiated directly with the advertiser or agency without involvement of a DSP. Accordingly, in order to increase the amount of spend transacted on our platform, we also maintain close relationships directly with brand advertisers and agencies. Our brand-focused sales strategy is to target the most “video ready” brand advertisers, including large traditional TV advertising spenders, who are looking to capitalize on the shift in video consumption from linear-TV to online. Our agency sales team is focused on establishing relationships with key decision makers within the largest advertising agencies and agency trading desks.

### Technology and Development

We have incurred substantial technology and development expenses developing, maintaining and improving the technology that underlies our platform. We believe that technology innovation is key to our success and we intend to continue to invest in the development of new feature sets and functionalities as well as enhancements to our existing product suite. As of December 31, 2018, we had a total of 34 employees engaged in technology and development functions. The majority of our technology and development team is located in Mountain View, California and Paris, France.

### Competition

We operate in a dynamic and competitive market, influenced by trends in both the overall advertising market as well as the online video advertising industry. The competitive dynamics of our market are unpredictable because our market is in an early stage of development, rapidly evolving, fragmented and subject to potential disruption by new technological innovations. We compete with large internet and media companies that offer video advertising services and sell video advertising inventory as part of a larger solution, as well as advertising technology companies, advertising networks, and supply side platforms that represent publishers. Publishers that use our platform may also use other technology partners to sell their inventory or may sell a significant portion of their inventory through their own sales organizations without use of our platform. Many of our competitors have significant client relationships, much larger financial resources and longer operating histories than we have.

We believe that we compete on the basis of our ability to technologically innovate, the speed, reliability, scale and ease of use of our self-service platform, our ability to bring demand to publishers at scale, the quality of tools that we provide to publishers to manage and monetize their inventory and our real-time reporting and analytics. We believe that we compete favorably with respect to all of these factors. Other competitive strengths include our video-only focus, first mover advantage in OTT and CTV, independent business model that allows us to fully align with our publisher partners, and our emphasis on transparency in pricing and inventory quality.

## Intellectual Property

Our ability to protect our intellectual property and our technology will be an important factor in the success and continued growth of our business. We rely on a combination of trade secrets, copyrights, and trademarks, as well as contractual protections, to establish and protect our intellectual property and protect our proprietary technology. We register certain domain names, trademarks and service marks in the United States and in certain locations outside the United States. We also rely upon common law protection for certain marks. We generally enter into confidentiality and invention assignment

## Table of Contents

agreements with our employees and contractors, and confidentiality agreements with parties, with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. We also use measures designed to control access to our technology and proprietary information. We view our trade secrets and know-how as a significant component of our intellectual property assets, which we believe differentiate us from our competitors. Our efforts to preserve and protect our intellectual property, may not prevent the misappropriation of such intellectual property or technology, or deter independent development of similar intellectual property or technology by others. Policing unauthorized use of our technology and intellectual property is difficult. Third-parties may attempt to copy, reverse engineer or otherwise obtain our proprietary technology, or otherwise violate our intellectual property rights. Unauthorized disclosure by our employees, contractors or other third-parties could also occur. Effective intellectual property protection may not be available in the United States or other jurisdictions in which we operate and the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any impairment or loss of our intellectual property, or any inability to enforce our intellectual property rights effectively, could harm our business or our ability to compete. Also, protecting our technology and intellectual property is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property or technology could make it more expensive for us to do business and could harm our operating results.

Additionally, we expect that products in our industry may be subject to third-party infringement lawsuits as the number of competitors grows and the functionality of products in different industry segments overlaps. From time to time, we may face claims by third-parties that we infringe upon or misappropriate their intellectual property rights, and we may be found to be infringing upon or to have misappropriated such rights. We cannot assure you that we are not infringing on or violating any third-party intellectual property rights.

### Governmental Regulation; Industry Alliances

We are subject to numerous U.S. and foreign laws and regulations that are applicable to companies engaged in the online video advertising business. In addition, many areas of law that apply to our business are still evolving and could potentially affect our business to the extent they restrict our business practices or impose a greater risk of liability.

### Privacy and Data Protection

We are subject to or affected by federal, state and foreign laws and regulations, as well as regulatory guidance, governing the collection, use, disclosure, retention, transfer and security of personal data, such as the use of personal data for online analytics, use of online tracking technologies, or collection of precise geo-location of mobile devices. The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. Changes to these laws, regulations and guidelines may affect our ability to collect, use, and share personal data, and to provide services to customers that rely upon our ability to leverage data. The use of personal data for digital advertising is a topic of active interest among federal, state, and foreign regulatory bodies. Proposed legislation, regulations and guidelines could, if enacted or implemented, prohibit or limit our ability to use certain technologies that track individuals' activities online. Evolving global privacy and data protection requirements may create uncertainty in our business, result in liability or impose additional costs on us. The cost of compliance with these laws, regulations and standards is high and is likely to increase in the future. Any failure or perceived failure by us to comply with federal, state, or foreign laws or self-regulatory standards could result in negative publicity, diversion of management time and effort and proceedings against us by governmental entities or others. In many jurisdictions, enforcement actions and consequences for noncompliance are rising. Additionally, if we fail to follow the commitments we make in public privacy notices or applicable self-regulatory security standards we may incur significant fines or experience a significant increase in costs.

Our solutions reach devices and users throughout the world, including in Australia, North America, South America, Europe and Asia. Our operations abroad may also be subject to increased scrutiny or attention from data protection authorities. Many countries in these regions have established or are in the process of establishing privacy and data security legal frameworks with which we, our customers, or our vendors must comply. For example, the European General Data Protection Regulation, or GDPR, went into effect in May 2018. GDPR introduces strict requirements for processing personal data and increases the compliance burden on us, including by mandating documentation requirements, granting certain rights to individuals to control how we collect, use, disclose, retain and process



information about them. In addition, the GDPR provides for breach reporting requirements, more robust regulatory enforcement and fines of up to 20.0 million euros or up to 4% of annual global revenue. As we continue to expand into other foreign countries and jurisdictions, we may be subject to additional laws and regulations that may affect how we conduct business.

Information security risks have generally increased in recent years, in part because of the proliferation of new technologies and the use of the Internet, and the increased sophistication and activity of organized crime, hackers, terrorists, activists, and

## Table of Contents

other external parties, some of which may be linked to terrorist organizations or hostile foreign governments. Any person who circumvents our security measures could steal proprietary or confidential customer information or cause interruptions in our operations. Numerous state, federal and foreign laws and regulations impose requirements regarding the security and protection of personal data, as well as notification to persons whose personal data is affected by a breach. Breaches we may experience could significantly harm our reputation and business and financial results.

### Industry Alliances

Given the developmental stage of video advertising, industry practices are rapidly evolving. We participate in a wide range of Interactive Advertising Bureau committees, councils and working groups, as well as other industry groups that are focused on establishing best practices for the online video advertising industry.

### Employees

As of December 31, 2018, we had 167 employees, of which 34 were primarily engaged in technology and development functions, 103 were engaged in sales and marketing functions, and 30 were engaged in general and administrative functions. Substantially all of these employees are located in the United States. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our relationship with our employees to be favorable.

### Facilities

Our principal office occupies approximately 26,664 square feet of leased office space in New York, New York pursuant to a lease agreement that expires in 2029. We also lease offices in Mountain View, California; San Francisco, California; Los Angeles, California; Melbourne, Australia; Sydney, Australia; London, England; Paris, France; Toronto, Canada; Kuala Lumpur, Malaysia; São Paulo, Brazil; and Auckland, New Zealand. In addition, we utilize a third-party data center hosting facility located in New York, New York. We believe our facilities are adequate for our current and near-term needs.

### Information about Seasonal Variations

Information about seasonality is set forth in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-Seasonality.”

### Corporate Information

On September 11, 2017, we changed our name from “Tremor Video, Inc.” to “Telaria, Inc.” We were originally organized as Tremor Media, LLC under the laws of the State of Delaware in November 2005 and converted into a corporation in September 2006. We changed our name to Tremor Video, Inc. in June 2011.

### Available Information

Our website is located at [www.telaria.com](http://www.telaria.com), and our investor relations website is located at <http://investor.telaria.com>. The contents of our website are not intended to be incorporated by reference into this Annual Report or in any other report or document we file with the U.S. Securities and Exchange Commission, or SEC, and any references to our websites are intended to be inactive textual references only. The following filings are available for download free of charge through our investor relations website as soon as reasonably practicable after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as any amendments to such reports and all other filings pursuant to Section 13(a) or 15(d) of the Securities Act. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information that we file electronically with the SEC. The SEC's website address is [www.sec.gov](http://www.sec.gov).

### ITEM 1A. RISK FACTORS

The following is a summary description of some of the material risks and uncertainties that may affect our business, including our future financial and operational results. In addition to the other information in this Annual Report, the following statements should be carefully considered in evaluating us.

## Table of Contents

### Risks Relating to Our Business and Industry

We have incurred significant net losses in past periods and may never achieve or sustain profitability.

Our platform was introduced in 2015. We incurred net loss of \$9.4 million for the year ended December 31, 2018, and net loss of \$20.9 million for the fiscal year 2016. For the fiscal year 2017 we had net income of \$2.2 million and loss from continuing operations, net of income taxes of \$19.7 million. We do not know if we will be able to achieve profitability or maintain profitability on a continued basis. Although our revenue has grown significantly since the introduction of our platform, we may not be able to maintain our historical rate of growth as our business continues to mature. Furthermore, the amount of revenue we generate on our platform as a percentage of the spend transacted varies across clients and depends on the type of transaction being executed, which makes it more difficult to predict the revenue that may result from any anticipated level of spend being transacted through our platform. We anticipate that our operating expenses in respect of our platform will continue to increase in absolute dollars as we scale our business and expand our operations. In particular, we plan to continue to invest in our technology and development efforts and sales and marketing efforts. Our ability to achieve or sustain profitability is based on numerous factors, many of which are beyond our control and we may never be able to generate sufficient revenue to achieve or sustain profitability.

Because our business model has substantially changed and is continuing to develop, our past operating results may not be indicative of future performance.

Historically, we operated a buyer platform business, which enabled advertisers, agencies and other buyers of advertising to discover, buy, optimize and measure the effectiveness of their video ad campaigns across digital screens. Our business model substantially changed with the sale of our buyer platform in August 2017 and is continuing to develop. Accordingly, it may be difficult to assess our future prospects based on our historical performance and operating history.

In particular, as a result of the sale of our buyer platform we are smaller and less diversified, which may cause our cash flow and growth prospects to be more volatile and make us more vulnerable to focused competition.

The success of our business faces a number of challenges, including:

- developing market acceptance for our platform;
- continuing to innovate and improve the technology that underlies our platform;
- maintaining and expanding our existing relationships, and developing new relationships with publishers and buyers on our platform;
- increasing the amount of advertising inventory made available and bid on through our platform;
- the growth, evolution and rate of adoption of programmatic video advertising;
- the pace of adoption of connected TV, or CTV, and over-the-top, or OTT, video viewing as a substitute for traditional cable and broadcast TV;
- ensuring that our business complies with evolving industry standards;
- offering competitive rates to publishers;

• providing publishers with increased yield and monetization, and access to unique data and feature sets, compared to competitors;

• competing effectively to increase our share of advertising spend;

• ensuring that we have access to premium advertising inventory in brand-safe environments and effectively combating fraudulent activities;

• maintaining and increasing the value of our brand and goodwill with buyers and publishers;

• effectively controlling our costs as we grow our business;

Table of Contents

our ability to adjust pricing models to account for new product or service offerings or changes in client preferences or demands, without disrupting our business or revenue generations;

responding to evolving government regulations relating to the internet, telecommunications, privacy, marketing and advertising aspects of our business; and

identifying, attracting, retaining and motivating qualified personnel.

Our ability to meet these challenges will help determine whether we can successfully leverage our business model to achieve profitability and growth in the future. We cannot assure our ability to achieve this goal, to generate consistent and improving operating results, or even to maintain the same level of success that we have had to date.

Unfavorable conditions in the global economy could limit our ability to grow our business and negatively affect our operating results.

Instability in general worldwide economic and political conditions make it extremely difficult for advertisers and us to accurately forecast and plan future business activities, and unfavorable conditions could cause buyers to reduce or delay their advertising spending. Historically, economic downturns have resulted in overall reductions in advertising spending. If macroeconomic conditions deteriorate, buyers may curtail or freeze spending on advertising in general, which would impact the amount of spend transacted through our platform. Furthermore, our contracts and relationships with buyers generally do not include long-term obligations requiring them to purchase advertising on our platform and are cancelable upon short or no notice and without penalty. Any reduction in advertising spending could limit our ability to grow our business and negatively affect our operating results.

We cannot predict the timing, strength or duration of any economic slowdown or recovery. In addition, even if the overall economy improves, we cannot assure you that the market for online video advertising solutions will experience growth or that we will experience growth.

If we fail to adapt and respond effectively to rapidly changing technology and client needs, our solutions may become less competitive or obsolete.

Our future success will depend on our ability to adapt and innovate. To attract new clients and increase spend transacted through our platform, we will need to expand and enhance our solutions to meet client needs, add functionality and address technological advancements, including with respect to the sale of video advertising through new and developing mediums and platforms such as CTV and OTT. If we fail to develop new solutions that address our client's needs, or enhance and improve our solutions in a timely manner or conform to industry standards, we may not be able to achieve or maintain adequate market acceptance of our solutions, and our solutions may become less competitive or obsolete.

Our ability to grow is also subject to the risk of future disruptive technologies. If new technologies emerge that are able to deliver to publishers increased yield and monetization more efficiently or effectively than our solutions, such technologies could adversely impact our ability to compete. Programmatic technologies are continuously evolving; for instance, some publishers of digital advertising, have begun to embrace header bidding solutions, a programmatic technique that enables publishers to offer inventory to multiple demand sources simultaneously through a tag in the header of the publisher's website. Although we work in conjunction with providers of header-bidding solutions, we do not currently offer a proprietary header bidding solution.

The market in which we participate is intensely competitive and fragmented, and we may not be able to compete successfully with our current or future competitors.

We operate in a dynamic and competitive market, influenced by trends in both the overall advertising market as well as the online video advertising industry. The competitive dynamics of our market are unpredictable because our market is in an early stage of development, rapidly evolving, fragmented and subject to potential disruption by new technological innovations. We compete with large internet companies such as Google, Inc. and Facebook, Inc. that offer video advertising services and sell video advertising inventory as part of a larger solution, as well as advertising technology companies, advertising networks, and supply side platforms that represent publishers. Publishers that utilize our platform may use other technology partners to sell their inventory, integrate directly with buyers, or sell a significant portion of their inventory through their own sales organizations without use of our platform.

## Table of Contents

Many of our competitors and potential competitors have significant client relationships, much larger financial resources and longer operating histories than we have and may be less severely affected by changes in consumer preferences, regulations or other developments that may impact the online video advertising industry as a whole. They, or other companies that offer competing advertising solutions, may establish or strengthen cooperative relationships with buyers or publishers, thereby limiting our ability to promote our solutions and generate revenue. Many of these companies are also providers of content, and have access to large amounts of first party data, which are not available to us.

Our business may suffer to the extent that buyers and publishers purchase and sell online video advertising directly from each other without the use of our platform, including through direct integrations between publishers and demand side platforms. New technologies and methods of buying advertising present a dynamic competitive challenge, as market participants offer multiple new products and services aimed at capturing advertising spend such as analytics and bundled offline and online video advertising. If the market shifts towards such new technologies and we are unable to either provide such solutions in a compelling manner or otherwise compete with such shift in ad spending, we may incur increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share.

We believe that we compete primarily on the basis of the speed, reliability, scale and ease of use of our self-service platform, the quality of tools that we provide to publishers to control their inventory, our real-time reporting and analytics, our ability to continuously innovate and our ability to provide and attract demand to publishers at scale. Historically, our buyer platform was a source of demand for our platform and the sale of our buyer platform may impact our ability to provide demand at scale to our publisher clients. If we are unable to compete favorably with respect to any of these factors our business could suffer.

In addition, we compete based on our pricing or take rates with publishers. Our competitors may reduce their take rates, which could create additional pricing pressure and cause us to lower our take rates. If our take rates are higher than our competitors, we may have difficulty attracting new publishers to our platform and existing publishers may choose to monetize a smaller percentage of their inventory through our platform. Many of our publisher clients also work with our competitors and they may seek to monetize the same advertising impression through multiple platforms at different floor prices depending on their negotiated take rate. If a buyer identifies the same advertising inventory on multiple platforms and the floor price on our platform is higher than a competitor platform, they may divert spend to that platform resulting in a lost opportunity for us to monetize the impression.

Our competitors or potential competitors may adopt certain aspects of our business model, which could reduce our ability to differentiate our solutions. As market dynamics change, or as new and existing competitors introduce more competitive pricing or new or disruptive technologies, we may be unable to maintain or attract new buyers or publishers or increase spend transacted through our platform. As a result, we may be required to change our business model and incur additional expenses in response to competitive pressures, which could harm our revenue, profitability and operating results. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

We operate in a new and rapidly evolving industry. If the online video advertising industry, or programmatic solutions in particular, do not develop or develop more slowly than we expect, our operating results and growth prospects could be harmed.

Online video advertising is an emerging industry, and future demand and market acceptance for online video advertising is uncertain. The online video advertising industry is in the midst of shifting, in part, towards programmatic solutions that automate the sales process and allow for the purchase of inventory through dynamic

marketplaces. Many buyers and publishers have limited experience with programmatic buying and selling of video advertising. Our platform is a fully-programmatic self-service solution. Accordingly, if buyers and publishers of video inventory are slow to adopt programmatic solutions our operating results and growth prospects could be harmed.

If the market for our platform develops more slowly than we expect then our operating results and growth prospects may be adversely affected.

Our platform is still developing, and the future demand and acceptance for it is uncertain and will likely depend on its perceived effectiveness by publishers. The growth of our platform is, in part, dependent on the continued proliferation of digital video content, including the pace of adoption of CTV and OTT as a substitute for traditional cable and broadcast TV. If the market for our platform or the CTV and OTT market generally develops more slowly than we expect, or fails to develop, our operating results and growth prospects could be harmed.



## Table of Contents

Our business depends in part on the success of our strategic relationships with third parties.

Our business depends in part on our ability to continue to successfully manage and enter into successful strategic relationships with third parties. We currently have and are seeking to establish new relationships with third parties, including with respect to the development of integrations with complementary technologies and data vendors.

Our results are dependent, in part, on our ability to integrate our technology with third party demand side platforms, or DSPs. These DSPs bid on and purchase ad inventory on our platform on behalf of their advertiser and agency clients. Accordingly, we are reliant on third party DSPs, to access buyer demand and increase the amount of spend that is transacted through our platform. We do not have exclusive relationships with DSPs and they are generally free to stop transacting on our platform with little or no notice. Moreover, a DSP may reduce its spending on our platform for reasons outside of our control, including a loss of their clients or adjustment in strategy. As a result, we may have limited visibility as to our future advertising revenue streams from our buyers. DSPs often control significant amounts of advertising spend across a broad spectrum of buyers; therefore, any material reduction in spending on our platform by a DSP could materially impair our operating results. As of December 31, 2018, one of our DSPs accounted for an aggregate of 32.0% of our outstanding accounts receivables. In some instances, the DSPs that transact on our platform are also our competitors. As a result, they may be more likely to decrease or eliminate their spending on our platform. Integrations with third parties are often costly and time consuming, and can present technological challenges. If there are delays in our integration efforts or we are unable to attract new strategic third parties with whom to integrate our technology, it could impact the efficacy of our solutions and hurt our ability to compete in the marketplace. Furthermore, if we experience connectivity or other technical problems with our integrations with DSPs they may be unable to transact on our platform, and any such technical difficulties could lead to a negative perception of our product that could impact future spend decisions.

We may be unable to maintain or expand our relationships with key advertisers and agencies, or attract new advertisers and agencies.

Advertisers and agencies generally transact on our platform through third party DSPs that are integrated with our platform. While the DSP is responsible for purchasing ad inventory, the overall direction of the advertising spend is typically determined by the advertiser or advertising agency. Accordingly, our ability to increase spend transacted through our platform requires us to maintain and expand our relationships with brand advertisers, including the ad agencies that represent them, in addition to servicing DSPs directly. A buyer's willingness to purchase inventory through our platform depends on a number of factors, including our ability to secure sought after high performing inventory, our access to inventory across multiple screens and devices, our client support and sales efforts, seasonal pattern in buyers' spending, and reductions in spending levels or changes in strategies. In addition, an advertiser or agency may direct its advertising campaigns through a DSP that is not integrated with our technology, in which case we would not be able to attract such spend through our platform. We cannot assure that buyers will continue to transact through our platform or that we will be able to replace departing buyers with new buyers from whom we generate comparable revenue.

We may be unable to provide access to inventory in a brand safe environment, which could harm our reputation and cause our business to suffer.

It is important to buyers that advertisements not be placed in or near content that is unlawful or would be deemed offensive or inappropriate by their customers. Unlike advertising on other mediums, online content can be more unpredictable, and we cannot guarantee that advertisements will appear in a brand safe environment. If we are not successful in providing inventory in a brand environment, our reputation could suffer and our ability to attract potential buyers and retain and expand business with existing buyers could be harmed, or our customers may seek to avoid payment or demand refunds, any of which could harm our business and operating results.

If we fail to detect fraud or other actions that impact video ad campaign performance, we could lose the confidence of buyers, which would cause our business to suffer.

The success of our platform depends in part on our ability to assure buyers access to quality, high performing inventory. We have in the past, and may in the future, be subject to fraudulent and malicious activities with respect to publisher inventory offered through our platform. An example of such activities would be the use of bots, non-human traffic delivered by machines that are designed to simulate human users and artificially inflate user traffic on websites. These activities could overstate the performance of any given video ad campaign and could harm our reputation. It may be difficult to detect fraudulent or malicious activity because we do not own content and rely in part on our publisher partners for controls with respect to such activity. These risks become more pronounced when programmatic buying is in place. If fraudulent or other malicious activity is perpetrated by others, and we fail to detect or prevent it, the affected buyers may experience or perceive a reduced return on

## Table of Contents

their investment and our reputation may be harmed. Fraudulent or malicious activity could lead to dissatisfaction with our solutions, refusals to pay, refund demands or withdrawal of future business. If we fail to detect fraud or other actions that impact the performance of our video ad campaigns, we could lose the confidence of our buyers, which could cause our business to suffer.

Activities of our publisher clients with which we do business could damage our reputation or give rise to legal claims against us.

Failure of our platform clients to comply with federal, state, local or foreign laws or our policies could damage our reputation and expose us to liability under these laws. We may also be liable to third-parties with respect to the content of the video inventory in which an ad is served if the content violates intellectual property rights of third-parties or if the content is in violation of applicable laws. A third-party or regulatory authority may file a claim against us even if our client has represented that its use of the content is lawful and that they have the right to use the intellectual property. In addition, we rely on publishers to provide us with accurate information regarding the details of their inventory and any inaccuracy may subject us to third party claims. Any of these claims could be costly and time-consuming to defend and could also hurt our reputation. Further, if we are exposed to legal liability, we could be required to pay substantial fines or penalties, redesign our business methods, discontinue some of our solutions or otherwise expend significant resources.

If we fail to maintain or increase our access to premium advertising inventory, our operating results may be harmed.

Our success requires us to maintain and expand our access to premium video advertising inventory. We do not own or control the video ad inventory upon which our business depends and do not own or create content. Publishers are generally not required to offer a specified level of inventory on our platform, and we cannot be assured that any publisher will continue to make their ad inventory available on our platform. Publishers may seek to change the terms on which they offer inventory on our platform, including with respect to pricing, or may elect to make advertising inventory available to our competitors who offer more favorable economic terms. Furthermore, publishers may enter into exclusive relationships with our competitors, which preclude us from offering their inventory. These risks are particularly pronounced in CTV, where publishers tend to be larger and enjoy more negotiating leverage. In addition, we review our publishers on an on-going basis and have ceased, and may in the future cease, doing business with publishers based on the quality of their inventory. As a result of these factors, we may have limited visibility as to our future access to inventory from publishers or the terms on which such inventory will be made available.

Publishers have a variety of channels in which to sell their video ad inventory, including direct sales forces. Any increase in a publisher's direct sales efforts may negatively impact our access to that inventory.

If we are unable to maintain or increase our access to premium video ad inventory or if publishers seek to change the terms on which they offer such inventory, our operating results may be harmed.

We may not be able to provide publishers with sufficient access to buyer demand with respect to inventory they make available through our platform

Publishers use our platform, in part, in order to access demand generated by DSPs and other buyers that are integrated with our platform. One of the primary factors by which a publisher judges our platform is the ability to increase their yield and monetization opportunities. We do not have exclusive relationships with buyers and they are generally free to stop transacting, or reduce their spending, on our platform with little or no notice. Moreover, we do not control the bid price for any inventory submitted by a buyer, or the floor price that a publisher sets for such inventory. If we are unable to fill ad inventory that publishers make available through our platform with suitable bids from buyers, publishers may negatively view our platform compared to competitive offerings and our results may be harmed.

Our sales efforts with buyers and publishers require significant time and expense.

Attracting new buyers and publishers to our platform requires significant time and expense, and we may not be successful in establishing new relationships or in maintaining or advancing our current relationships. Our platform is relatively new and we are often required to spend substantial time and effort educating potential clients about our solutions, including providing demonstrations and comparisons against other available services. Some clients undertake a significant evaluation process that frequently involves not only our platform but also the offerings of our competitors. This process can be costly and time-consuming. As a result, it is difficult to predict when we will obtain new customers and begin generating revenue from these new customers. As part of our sales cycle, we may incur significant expenses. We have no assurance that the substantial time and money spent on our sales efforts will generate significant revenue.

15

---

Table of Contents

We are focused on increasing adoption by publishers of our platform. As a result, we invest significant time in cultivating relationships with our publishers to ensure they understand the potential benefits of our platform. The relationship building process can take many months and may not result in us winning an opportunity with any given publisher.

Because of competitive market conditions and the negotiating leverage enjoyed by large publishers, we are sometimes forced to choose between losing the opportunity or contracting on terms that allocate more risk to us than or are otherwise less favorable than we prefer to accept.

If we are not successful in streamlining our sales processes with buyers and publishers, our ability to grow our business may be adversely affected.

We have experienced and may continue to experience fluctuations in our operating results due to a number of factors, which make our future results difficult to predict and could cause our operating results to fall below expectations.

Our operating results have historically fluctuated and our future operating results may vary significantly from quarter to quarter due to a variety of factors. Period-to-period comparisons of our operating results should not be relied upon as an indication of our future performance. Given our relatively short operating history, the rapidly evolving online video advertising industry and our 2017 sale of the buyer platform, our historical operating results may not be useful in predicting our future operating results.

Factors that may affect our operating results include the following:

- changes in demand for our platform from publishers or buyers of video advertising;
- changes in the amount and quality of available video advertising inventory from publishers;
- the timing and amount of sales and marketing expenses incurred to attract new clients;
- changes in the economic prospects of buyers or the economy generally, which could reduce current or prospective buyers' spend for online video advertising;
- changes in our pricing policies, the pricing policies of our competitors or the pricing of online video advertising inventory generally; and
- costs related to acquisitions of other businesses or dispositions of assets.

Our operating results may fall below the expectations of market analysts and investors in some future periods. If this happens, even just temporarily, the market price of our common stock may fall.

Our revenue tends to be seasonal in nature.

Our revenue and the spend transacted through our platform 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, which impacts the amount of revenue we generate through our platform. Our operating cash flows could also fluctuate materially from period to period as a result of these seasonal fluctuations.

Our take rates may be difficult to forecast and may decrease in future periods; any decrease in our take rates may result in a decrease in our revenue notwithstanding an increase in the amount of spend transacted through our

platform.

We generate revenue on a transactional basis where we are paid by a publisher each time an impression is monetized on our platform. Typically, this fee is structured as a percentage of advertising spend that the publisher receives for its inventory.

Our take rate, or the revenue that we receive from a publisher for each advertising impression monetized through our platform as a percentage of the sale price for the impression, varies by publisher and transaction type. For instance, we may receive a different take rate with respect to a transaction executed via open auction compared to a private marketplace transaction. Even if we are able to accurately forecast the anticipated total ad spend transacted by buyers across our platform, we may have limited visibility regarding our overall take rate and the revenue we will generate because we do not control the type of transaction or publisher inventory that will be purchased.

16

---

## Table of Contents

For substantially all transactions executed through our platform, we act as an agent of behalf of our publisher clients and our revenue is recognized net of any inventory costs that we remit to publishers. As a result, a decreases in our take rate could cause our revenue to decrease notwithstanding an increase in the total spend transacted through our seller platform. In 2018 our average take rate declined compared to 2017, and our average take rate may decline further in future periods. There are a number of factors that influence our take rate, including the composition of our publisher inventory and competitive pricing pressures. Our strategic focus is to partner with large premium publishers that create TV-like content, in particular in the CTV and OTT markets. This inventory is highly sought after and these publishers tend to enjoy increased negotiating leverage. We may lower our take rates to attract these publishers to our platform and to secure access to unique inventory on a preferred or exclusive basis.

Acquisitions or dispositions could entail significant execution, integration and operational risks.

As part of our business strategy, we may acquire or dispose of certain businesses, assets or technologies. Acquisitions and dispositions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the technologies, solutions, operations, existing contracts and personnel of a target company or business unit;
- difficulties in supporting and transitioning clients, if any, of a target company or business unit;
- diversion of financial and management resources from existing operations or alternative opportunities;
- failure to realize the anticipated benefits or synergies of a transaction;
- potential loss of synergies resulting from a disposition;
- failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company, technology, or solution, including issues related to intellectual property, solution quality or architecture, regulatory compliance practices, revenue recognition or other accounting practices or employee or client issues;
- risks of entering new markets, including international markets, in which we have limited or no experience;
- potential loss of key employees, customers or suppliers;
- increased potential for litigation;
- inability to generate sufficient revenue to offset acquisition or divestiture costs; and
- possible write-offs or impairment charges relating to acquired or divested businesses.

In addition, we may incur indebtedness to complete an acquisition, which may impose operational limitations, or issue equity securities, which would dilute our stockholders' ownership. We may also unknowingly inherit liabilities from acquired businesses or assets that arise after the acquisition and are not adequately covered by indemnities.

Additionally, acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results and dispositions may result in an immediate impairment of goodwill.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic political and

regulatory risks associated with specific countries. The failure to successfully evaluate and execute acquisitions, divestitures or investments or otherwise adequately address the risks described above could materially harm our business and financial results.



Table of Contents

Our international operations and any future international expansion may expose us to several risks, such as difficulty adapting our solutions for international markets.

We have offices outside of North America in Australia, Brazil, France, Canada, Malaysia, New Zealand and the United Kingdom.

Our current international operations and any future international expansion of our business will involve a variety of risks, including:

- localization of our solutions, including translation into foreign languages and adaptation for local practices;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations where labor laws may be more advantageous to employees as compared to the United States;
- more stringent regulations relating to data security and the unauthorized use of, or access to, commercial and personal information, particularly in the European Union;
- reluctance to allow personally identifiable data related to non-U.S. citizens to be stored in databases within the United States;
- changes in a specific country's or region's political or economic conditions;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- risks resulting from changes in currency exchange rates;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- different or lesser intellectual property protection; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions.

Operating internationally requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing and expanding our international operations will produce desired levels of revenue or profitability. If we invest substantial time and resources to establish and expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.

We have not engaged in currency hedging activities to limit risk of exchange rate fluctuations. Changes in exchange rates affect our costs and earnings, and may also affect the book value of our assets located outside the United States and the amount of our stockholders' equity.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, the U.K. Bribery Act of 2010, and other anti-corruption, anti-bribery, and anti-money laundering laws in various jurisdictions both domestic and abroad. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly and generally prohibit companies and their employees and agents from promising, authorizing, making or offering improper payments or other benefits to government officials and others in the private sector. While we have policies and procedure to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, significant diversion of management's resource's attention, loss of export privileges, severe criminal

Table of Contents

or civil sanctions, or suspension, or debarment, any of which may have a material adverse effect on our reputation, business, results of operations, and financial condition.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to expand our marketing and sales and technology development efforts or to make acquisitions. Additional financing may not be available on favorable terms, if at all. Our credit facility matures in January 2020, and we may be unable to renew the credit facility on terms that are acceptable to us. If adequate funds are not available on acceptable terms, we may be unable to fund the expansion of our marketing and sales and technology development efforts or take advantage of acquisition or other opportunities, which could harm our business and results of operations. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. As a result, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

Provisions of our credit facility and any future debt instruments may restrict our ability to pursue our business strategies.

Our credit facility requires us, and any future debt instruments we may enter into in the future may require us, to comply with various covenants that limit our ability to, among other things:

- dispose of assets;
- complete mergers or acquisitions;
- incur indebtedness;
- encumber assets;
- pay dividends or make other distributions to holders of our capital stock;
- make specified investments; and
- engage in transactions with our affiliates.

These restrictions could inhibit our ability to pursue our business strategies. 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. The Adjusted EBITDA covenant will only be tested if the quick ratio falls below a certain threshold and our cash balance is below \$25.0 million. If we default under our credit facility, and such event of default is not cured or waived, the lender could cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross defaults under other debt instruments.

Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default. We may incur additional indebtedness in the future. The debt instruments governing such indebtedness could contain provisions that are as, or more, restrictive than our existing debt instruments. If we are unable to repay, refinance or restructure our indebtedness when payment is due, the lenders could proceed against the collateral granted to them to secure such indebtedness or force us into

bankruptcy or liquidation.

Forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business may not grow at similar rates, if at all.

We have in the past provided, and may continue to provide, forecasts related to the market in which we operate. Market forecasts are subject to significant uncertainty and are based on assumptions and estimates that may prove to be inaccurate. Even if these forecasts prove to be correct, we may not be successful in maintaining or increasing our share of any relevant market.

## Table of Contents

The sale of assets relating to our buyer platform may expose us to certain post-closing liabilities. Under the terms of the purchase agreement pursuant to which we sold our buyer platform business, we remain responsible for certain pre-closing liabilities relating to the buyer platform, including certain liabilities which may be contingent or unknown, and are subject to certain indemnification obligations in favor of the purchaser for, among other things, breaches of representations, warranties and covenants under the purchase agreement. In addition, we may be subject to liabilities and obligations under and with respect to contracts and assets relating to the buyer platform that were not transferred to or assumed by the buyer.

We depend on key personnel to operate our business, and if we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

We believe that our future success is highly dependent on the contributions of our senior management, as well as our ability to attract and retain additional senior management and highly skilled and experienced technical and other personnel in the United States and abroad. All of our employees, including our senior management and senior technical personnel, are free to terminate their employment relationship with us at any time, and their knowledge of our business, technology and industry may be difficult to replace. Qualified technical personnel and engineers are in high demand, particularly in the digital media industry, and we may incur significant costs to attract them. Many of the companies with which we compete for experienced personnel also have greater resources than us. Additionally, volatility or lack of performance in our stock price may also affect our ability to attract employees and retain our key employees. If we are unable to attract and retain our senior management and key employees, our ability to develop and successfully grow our business could be harmed.

Defects or errors in our solutions could harm our reputation and result in significant costs to us.

The technology underlying our platforms, including our proprietary technology and technology provided by third-parties, may contain material defects or errors that can adversely affect our ability to operate our business and cause significant harm to our reputation. This risk is compounded by the complexity of the technology underlying our solutions and the large amounts of data we utilize. Errors, defects, disruptions in service or other performance problems in our solutions could result in the failure of an ad campaign. Any such failure, malfunction, or disruption in service could harm our reputation and result in significant costs to us.

System failures could significantly disrupt our operations and cause us to lose clients.

Our success depends on the continuing and uninterrupted performance of our solutions. Sustained or repeated system failures that interrupt our ability to provide our solutions, including technological failures affecting our ability to process publisher ad requests or bids for inventory, could significantly reduce the attractiveness of our solutions and reduce our revenue. Our systems are vulnerable to damage from a variety of sources, including telecommunications failures, power outages, malicious human acts and natural disasters. In addition, any steps we take to increase the reliability and redundancy of our systems may be expensive and may not be successful in preventing system failures. Any such system failures could significantly disrupt our operations and cause us to lose clients.

Security breaches, computer viruses and computer hacking attacks could harm our business and results of operations.

We collect, store and transmit information in the provision of our services. We take steps to protect the security, integrity and confidentiality of the information we collect, store or transmit, but there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third-parties will not gain unauthorized access to this information despite our efforts. Security breaches, computer malware and computer hacking attacks have become more prevalent in our industry and may occur on our systems or those of our information technology vendors in the future. Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or

systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, or the inadvertent transmission of computer viruses or other harmful software code could result in the unauthorized disclosure, misuse, or loss of information, legal claims and litigation, indemnity obligations, regulatory fines and penalties, contractual obligations and liabilities, and other liabilities. In addition, if our security measures or those of our vendors are breached or unauthorized access to consumer data otherwise occurs our solutions may be perceived as not being secure, and our clients may reduce the use of or stop using our solutions.

While we have security measures in place, these systems and networks are subject to ongoing threats and, therefore, these security measures may be breached as a result of employee error, failure to implement appropriate processes and procedures, malfeasance, third-party action, including cyber-attacks or other international misconduct by computer hackers or otherwise. This could result in one or more third-parties obtaining unauthorized access to our client data or our data, including personally

Table of Contents

identifiable information or other viewer data, intellectual property and other confidential business information. Third-parties may also attempt to fraudulently induce employees into disclosing sensitive information such as user names, passwords or other information in order to gain access to client data or our data, including intellectual property and other confidential business information.

Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative or mitigation measures. Though it is difficult to determine what harm may directly result from any specific interruption or breach, any failure to maintain performance, reliability, security and availability of our network infrastructure or otherwise to maintain the confidentiality, security, and integrity of data that we store or otherwise maintain on behalf of third-parties may harm our reputation and our relationships or harm our ability to retain existing clients and attract new clients. Any of these could harm our business, financial condition and results of operations.

If such unauthorized disclosure or access does occur, we may be required to notify our clients or those persons whose information was improperly used, disclosed or accessed. We may also be subject to claims of breach of contract for such use or disclosure, investigation and penalties by regulatory authorities and potential claims by persons whose information was improperly used or disclosed. The unauthorized use or disclosure of information may result in the termination of one or more of our commercial relationships or a reduction in confidence and usage of our solutions. We may also be subject to litigation and regulatory action alleging the improper use, transmission or storage of confidential information, which could damage our reputation among our current and potential clients, require significant expenditures of capital and other resources and cause us to lose business and revenue.

Even if we do not suffer a data security breach, the increase in the number and the scope of data security incidents has increased regulatory and industry focus on security requirements and heightened data security industry practices. New regulation, evolving industry standards, and the interpretation of both, may cause us to incur additional expense in complying with any new data security requirements. Further, any actual or perceived threats to the security of computers and computer networks, especially mobile devices and mobile networks, could lead existing and potential users to refrain from responding to online video advertising.

Interruptions or delays in service from our third-party data centers or other third-party hosting services could impair the delivery of our solutions and harm our business.

We utilize data center hosting facilities as well Amazon Web Services to deliver our solutions. We also rely on multiple bandwidth providers, multiple internet service providers, as well as content delivery network, or CDN providers, and domain name systems, or DNS providers, and mobile networks to deliver video ads. Any damage to, or failure of, these systems could result in interruptions to the availability or functionality of our service. If for any reason our arrangements with our data center hosting facilities or third-party providers are terminated, we could experience additional expense in arranging for new facilities, technology services and support. In addition, the failure of our data center hosting facilities or any other third-party providers to meet our capacity requirements could result in interruptions in the availability or functionality of our solutions or impede our ability to scale our operations.

The occurrence of a natural disaster, an act of terrorism, vandalism or sabotage, a decision to close our third-party data center hosting facilities or the facilities of any third-party provider without adequate notice, or other unanticipated problems at these facilities could result in lengthy interruptions in the availability of our solutions. While we have disaster recovery arrangements in place, they have not been tested under actual disasters or similar events and may not effectively permit us to continue to provide our solutions in the event of any problems with respect to our data center hosting facilities or any other third-party facilities. To date, we have not experienced these types of events, but we cannot provide any assurances that they will not occur in the future. If any such event were to occur to our business,

the delivery of our solutions could be impaired and our business harmed.

Our net operating loss carryforwards may expire unutilized or underutilized, which could prevent us from offsetting future taxable income.

We may be limited in the portion of net operating loss carry-forwards, or NOLs, that we can use in the future to offset taxable income for U.S. federal income tax purposes. As of December 31, 2018, we had U.S. Federal and State NOLs of \$109.1 million and \$63.1 million, respectively and foreign NOLs of \$13.6 million related to our operations in United Kingdom, Germany and Brazil. Our U.S. federal NOLs will expire in various years beginning in 2025 through 2036. Our foreign NOLs can be carried forward without limitation in each respective country. While we expect to be able to use a portion of our available NOL's to offset gain in respect of the sale of our buyer platform, a lack of future taxable income would adversely



## Table of Contents

affect our ability to utilize the remaining 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. In addition, future changes in our stock ownership, including as a result of this and future offerings, as well as other changes that may be outside of our control, could result in additional ownership changes under Section 382 of the Internal Revenue Code. Our NOLs may also be impaired under similar provisions of state law. We have recorded a full valuation allowance related to substantially all of our NOLs and other deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets, a portion of which is expected to be reversed in connection with the sale of our buyer platform. Our NOLs may expire unutilized or underutilized, which could prevent us from offsetting future taxable income.

We may experience fluctuations in our tax obligations and effective tax rate.

We are subject to taxation in the United States and in numerous other jurisdictions. We record tax expense based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable settlements of tax audits. At any one time, multiple tax years could be subject to audit by various taxing jurisdictions. As a result, we could be subject to higher than anticipated tax liabilities as well as ongoing variability in our quarterly tax rates as audits close and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be adversely impacted by changes in tax laws, changes in the mix of revenue among different jurisdictions, changes to accounting rules and changes to our ownership or capital structure. Fluctuations in our tax obligations and effective tax rate could adversely affect our business.

On December 22, 2017, President Trump signed into law the “Tax Cuts and Jobs Act,” or the TCJA, which significantly amends the Internal Revenue Code of 1986. The TCJA, among other things, reduces the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limits the tax deduction for interest expense to 30% of adjusted earnings, eliminates net operating loss carrybacks, imposes a one-time tax on offshore earnings at reduced rates regardless of whether they are repatriated, allows immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifies or repeals many business deductions and credits. We continue to examine the impact these changes may have on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain and our business and financial condition could be adversely affected.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

We do not collect sales and use, value added or similar taxes in any U.S. jurisdictions in which we have sales based on our belief that such taxes are not applicable. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect our business and operating results.

### Risks Relating to Our Data Collection and Intellectual Property

Our business is subject to a variety of domestic and international laws, rules, and other obligations regarding data protection, which could result in additional compliance costs, subject us to enforcement actions, or cause us to change our platform or business practices.

We are subject to a complex array of federal, state, and international laws relating to the collection, use, retention, disclosure, security, and transfer of personal data. Many jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions, including regulating the level of notice and consent required to collect and process end-user data. The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future.

Complying with emerging and changing laws and requirements, including as we expand our operations globally, may cause us to incur substantial costs or require us to change our business practices.

The European General Data Protection Regulation (“GDPR”) became effective in May 2018. GDPR adds significant new regulatory requirements that are applicable to us as well as our clients, competitors and business partners in the EU, including new requirements for end-user consent as a legal basis to collect and process personal data. In addition, the GDPR mandates more robust documentation, retention and breach reporting requirements. Failure to comply with the GDPR could result in significant penalties of up to 20 million euros or 4% of annual global revenue. Because we do not have direct relationships with end-users, we are generally reliant on publishers to provide any necessary disclosures and obtain any necessary consents under

Table of Contents

GDPR. Any failure by our publisher clients to obtain valid consent from end-users, or their inability to rely on another legal basis for the collection or processing of personal data, could potentially result in non-compliance under the GDPR. A consistent industry framework for GDPR compliance is still emerging and it is possible that the GDPR will be interpreted to impose additional and burdensome requirements applicable to obtaining this consent.

On June 28, 2018, California passed the California Consumer Privacy Act of 2018 (“CCPA”), which grants California residents certain rights with respect to their personal information. Under the CCPA, businesses are required to grant expansive access, deletion and portability rights to consumers in the United States. The law may also impose burdensome retention and compliance obligations on publishers and advertising technology companies. Interpretation of the requirements remains unclear due to the recent passage of the regulation. The law is expected to take effect in 2020.

The cost of compliance with these laws, regulations and standards is high and is likely to increase in the future. Any failure or perceived failure by us to comply with federal, state, or foreign laws or self-regulatory standards could result in negative publicity, significant fines and expenses for remediation, diversion of management time and effort and proceedings against us by governmental entities or others.

The success of our platform depends on our ability, and the ability of our clients and business partners, to collect, process, use and transfer end user data

Our platform enables publishers and buyers to efficiently transact in a programmatic marketplace. A key value proposition of programmatic video advertising is the ability to use and share end user data to inform advertising decisions and more effectively target audiences. Publishers collect information about their end users to better package and market their inventory, and buyers use this information as well as their own data, or data licensed by third parties, to better optimize and target the delivery of an advertisement. Advertising that utilizes end user data for these purposes is inherently more valuable than advertising which is more generally targeted or contextually targeted. Without end user data the value of programmatic advertising inventory will generally diminish, which would potentially result in less ad spend and revenue through our platform.

The ability to collect end user data is influenced by a number of factors, including the development of browser and mobile device mechanisms that block or limit the collection of user data, adoption of or changes in laws and regulations around privacy and data collection, and changes in industry standards and consumer sentiment regarding privacy issues.

Internet users can, with increasing ease, implement practices or technologies that may limit our ability, or that of our publishers, buyers and business partners, to collect data. For example, users may delete or block the use of the cookies used to collect data, including through their browser or mobile device settings. Internet users may also download “ad blocking” software that prevents certain cookies from being stored on a user’s computer or mobile device, including to prevent the display of targeted advertisements. In addition, most widely used web browsers allow users to send “Do Not Track” signals to indicate that they do not wish to have their web usage tracked, while many device manufacturers and operating systems are increasingly promoting features that allow users to disable the collection of data.

New laws and regulations, such as the GDPR, restrict the ability to collect and process certain types of user data, including requiring user consent or another legal basis in order to collect or process personal data. To the extent publishers are unable to obtain valid consent or otherwise provide a legal basis for collecting and processing personal data under the GDPR, it would impair the ability to deliver targeted advertisements on their inventory. Some publishers may be unprepared to comply with evolving regulatory guidance under the GDPR and therefore may remove their inventory from targeted advertising opportunities entirely.

We and many of our publisher and buyer clients voluntarily participate in trade associations and industry self-regulatory groups that promulgate best practice guidelines or codes of conduct in connection with the delivery of online targeted advertising. We could be adversely affected by changes to these guidelines and codes that are inconsistent with our practices

Any limitation on our ability, or the ability of our clients or business partners, to collect or use end user data could negatively impact the overall value of programmatic advertising and, in turn, the value of our platform.

Changing laws and regulations concerning privacy and data protection may create industry uncertainty and confusion that is disruptive to our business

Changing laws and regulations concerning privacy and data protection may create general uncertainty and confusion in the digital advertising ecosystem that is disruptive to our business. New laws such as the GDPR and CCPA introduce significant

Table of Contents

changes in the requirements for collecting and processing end user data, and the specific application and interpretation of these requirements is continuing to evolve. This uncertainty could cause our publisher and buyer clients to change their business practices or cease doing business in certain jurisdictions.

In addition, changes in laws and the resulting uncertainty may increase our organizational burden and result in additional compliance costs as we seek to assist clients and adapt our platform and business practices as necessary to comply with the law and industry standards. If our competitors are more effective in adapting their business practices or technology in response to changes in law or requirements, they may be able to capture market share from us in certain jurisdictions.

If web, smartphones, tablet and CTV devices, their operating systems or content distribution channels, including those controlled by our competitors, develop in ways that prevent our solutions from working effectively, our ability to grow our business could be impaired.

Our business model depends upon the continued compatibility of our solutions with most internet-connected devices across online, mobile, tablet, and CTV devices, as well as the major operating systems that run on them. The design of these devices and operating systems are controlled by third-parties with whom we do not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. In some cases, the parties that control the development of internet-connected devices and operating systems include companies that we regard as our competitors, including some of our most significant competitors. If our solutions were unable to work or we were unable to collect data on these devices or operating systems, either because of technological constraints or because a maker of these devices or developer of these operating systems wished to impair our ability to sell video ads on them, our ability to grow our business could be impaired.

Any failure to protect our intellectual property rights could negatively impact our business.

We regard the protection of our intellectual property, which includes trade secrets, copyrights, trademarks and domain names as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We generally enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties, with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, we may not be successful in executing these agreements with every party who has access to our confidential information or contributes to the development of our intellectual property.

Those agreements that we do execute may be breached, and we may not have adequate remedies for any such breach. These contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our intellectual property, or deter independent development of similar intellectual property by others. Breaches of the security of our solutions, databases or other resources could expose us to a risk of loss or unauthorized disclosure of information collected, stored, or transmitted for or on behalf of publishers, or of cookies, data stored in cookies, other user information, or other proprietary or confidential information.

We register certain domain names, trademarks and service marks in the United States and in certain locations outside the United States. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Any patents that may be issued in the future may not adequately protect our intellectual property or provide us with competitive advantages, or may be successfully challenged by third-parties. Our competitors and others could attempt to capitalize on our brand recognition by using domain names or business names similar to ours. Domain names similar to ours have been registered in the United States and elsewhere. We may be unable to prevent third-parties from acquiring or using domain names and other

trademarks that infringe on, are similar to, or otherwise decrease the value of our brands, trademarks or service marks. Effective trade secret, copyright, trademark, domain name and patent protection are expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. We may be required to protect our intellectual property in an increasing number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location. We may, over time, increase our investment in protecting our intellectual property through patent filings that could be expensive and time-consuming.

Additionally, the Leahy-Smith America Invents Act, or AIA, among other things, switched U.S. patent rights from the former “first-to-invent” system to a “first inventor-to-file” system. This may result in inventors and companies having to file patent applications more frequently to preserve rights in their inventions. This may favor larger competitors that have the resources to file more patent applications.

## Table of Contents

Monitoring unauthorized use of our intellectual property is difficult and costly. Our efforts to protect our proprietary rights and intellectual property may not be adequate to prevent their misappropriation or misuse. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Our competitors may also independently develop similar technology, which avoids infringing on our intellectual property rights. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our solutions or technology are hosted or available. Further, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. The laws in the United States and elsewhere change rapidly, and any future changes could adversely affect us and our intellectual property. Our failure to meaningfully protect our intellectual property could result in competitors offering solutions that incorporate our most technologically advanced features, which could seriously reduce demand for our solutions. In addition, we may in the future find it necessary or appropriate to initiate infringement claims or litigation, whether to protect our intellectual property or to determine the enforceability, scope and validity of the intellectual property rights of others. Litigation, whether we are a plaintiff or a defendant, can be expensive, time-consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination that is unfavorable to us. In addition, litigation is inherently uncertain. Accordingly, despite our efforts, we may be unable to prevent third-parties from infringing upon or misappropriating our intellectual property.

Our business may suffer if it is alleged or determined that our solutions or another aspect of our business infringes the intellectual property rights of others.

The online advertising industry is characterized by the existence of large numbers of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in this industry are often required to defend against litigation claims that are based on allegations of infringement or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims or rights against their use.

Our success depends, in part, upon non-infringement of intellectual property rights owned by others and being able to resolve claims of intellectual property infringement or misappropriation without major financial expenditures or adverse consequences. From time to time we face claims by third-parties that we infringe upon or misappropriate their intellectual property rights, and we may be found to be infringing upon or to have misappropriated such rights. Such claims may be made by competitors or other parties. We cannot assure you that we are not infringing or violating any third-party intellectual property rights. From time to time, we or our clients may be subject to legal proceedings relating to our solutions or underlying technology and the intellectual property rights of others, particularly as we expand the complexity and scope of our business. As a result of disclosure of information in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third-parties.

Regardless of whether claims that we are infringing patents or infringing or misappropriating other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend, and can impose a significant burden on management and employees. The outcome of any litigation is inherently uncertain, and we may receive unfavorable interim or preliminary rulings in the course of litigation. There can be no assurances that favorable final outcomes will be obtained in all cases. We may decide to settle lawsuits and disputes on terms that are unfavorable to us. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. Claims that we are infringing patents or other intellectual property rights could:

- subject us to significant liabilities for monetary damages, which may be tripled in certain instances, and the attorney's fees of others;

- prohibit us from developing, commercializing or continuing to provide some or all of our solutions unless we obtain licenses from, and pay royalties to, the holders of the patents or other intellectual property rights, which may not be available on commercially favorable terms, or at all;
- subject us to indemnification obligations or obligations to refund fees to, and adversely affect our relationships with, our current or future publishers;
- result in injunctive relief against us, or otherwise result in delays or stoppages in providing all or certain aspects of our solutions;



Table of Contents

- cause publishers to avoid working with us;
- divert the attention and resources of management and technical personnel; and
- require technology or branding changes to our solutions that would cause us to incur substantial cost and that we may be unable to execute effectively or at all.

We use open source software in our solutions that may subject our technology to general release or require us to re-engineer our solutions, which may cause harm to our business.

Our technology incorporates or is distributed with software or data licensed from third-parties, including some software distributed under so-called “open source” licenses, which we use without charge. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third-parties certain rights of further use. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software, and to make our proprietary software available under open source licenses, if we combine and/or distribute our proprietary software with open source software in certain manners. Although we monitor our use of open source software, we cannot be sure that all open source software is reviewed prior to use in our proprietary software, that our programmers have not incorporated open source software into our proprietary software, or that they will not do so in the future. Additionally, the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide our solutions to our clients. In addition, the terms of open source software licenses may require us to provide software that we develop, using such open source software, to others, including our competitors, on unfavorable license terms. As a result of our current or future use of open source software, we may face claims or litigation, be required to release our proprietary source code, pay damages for breach of contract, re-engineer our technology, discontinue sales in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, financial condition or operating results.

We rely on data, other technology, and intellectual property licensed from other parties, the failure or loss of which could increase our costs and delay or prevent the delivery of our solutions.

We utilize various types of data, other technology, and intellectual property licensed from unaffiliated third-parties in order to provide certain elements of our solutions. Any errors or defects in any third-party data or other technology could result in errors in our solutions that could harm our business and damage our reputation and losses in revenue, and we could be required to spend significant amounts of additional research and development resources to fix any problems. In addition, licensed technology, data, and intellectual property may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these on commercially reasonable terms, or at all, could result in delays in producing or delivering our solutions until equivalent data, other technology, or intellectual property is identified and integrated, which delays could harm our business. In this situation we would be required to either redesign our solutions to function with technology, data or intellectual property available from other parties or to develop these components ourselves, which would result in increased costs. Furthermore, we might be forced to limit the features available in our current or future solutions. If we fail to maintain or renegotiate any of these technology or intellectual property licenses, we could face significant delays and diversion of resources in attempting to develop similar or replacement technology, or to license and integrate a functional equivalent of the technology or intellectual property. The occurrence of any of these events may have an adverse effect on our business, financial condition and operating results.

Risks Related to Being a Public Company and Public Company Financial Reporting

We have identified in the past a material weakness in our internal control over financial reporting. If we fail to maintain proper and effective internal and disclosure controls, our ability to produce accurate financial statements and other disclosures on a timely basis could be impaired.

The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting, that meet the applicable standards. We may err in the design or operation of our controls. In addition, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

Table of Contents

We are required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting. During the fiscal year ended December 31, 2015 management identified a material weakness in our internal control over financial reporting related to principal-agent considerations around revenue recognition, which was remedied in the year ended December 31, 2016.

We may in the future discover areas of our internal controls over financial reporting that need improvement. If additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. In addition, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources and could lead to substantial additional costs for accounting and legal fees.

Our independent registered public accounting firm is also required, pursuant to Section 404 of the Sarbanes-Oxley Act, to report on the effectiveness of our internal control over financial reporting beginning with our fiscal year ended December 31, 2018. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. For future reporting periods, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion.

If we are not able to conclude that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion that our internal controls over financial reporting are effective investors could lose confidence in the accuracy and completeness of our financial reports, which could harm our stock price, and we could be subject to sanctions or investigations by the New York Stock Exchange, or NYSE, the SEC or other regulatory authorities. Failure to remediate any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

We report a portion of our revenue on a gross basis; the combination of gross and net revenue reporting may make our financial reporting more complex and difficult to understand.

The recognition of our revenue is governed by certain criteria that must be met and that determine whether we report revenue either on a net basis, where third party inventory costs reduce revenue, or on a gross basis, where third party inventory costs are reflected in cost of revenue. Substantially all of our revenue is recognized net of inventory costs, based on determination that we were serving primarily as an agent on behalf of the publisher that is monetizing its inventory. However, for certain transactions, we report revenue on a gross basis, based primarily on our determination that we are acting as a primary obligor for the buyer with respect to the advertising inventory purchased on our platform.

The combination of net and gross revenue reporting may make our financial reporting more complex and difficult for investors to understand, and may make comparison of our results of operations to prior periods or other companies more difficult. We may experience significant fluctuations in revenue depending upon, in part, the nature of our sales and our reporting of such revenue.

In order to provide guidance or make other projections regarding our expectations of U.S. GAAP revenue for future periods, we must make estimates and assumptions about the mix of gross and net-reported transactions based upon the volumes and characteristics of the transactions we think will make up the total mix of revenue in the period covered by the projection. Those estimates and assumptions may be inaccurate when made, or may be rendered inaccurate by circumstances occurring after the guidance is given, such as changing the characteristics of our offerings or particular transactions in response to client demands, market developments, regulatory pressures, acquisitions, and other factors. In addition, the rules governing revenue recognition in our business are complex, and the rules or their interpretation may evolve. As a result, it is possible that our projections of U.S. GAAP revenue guidance may vary from actual results, or comparisons of our projections from period to period may be difficult.

Our accounting is becoming more complex, and relies upon estimates or judgments relating to our critical accounting policies. If our accounting is erroneous or based on assumptions that change or prove to be incorrect, our operating results could fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.

## Table of Contents

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and also to comply with many complex requirements and standards. We devote substantial resources to compliance with accounting requirements and we base our estimates on our best judgment, historical experience, information derived from third parties, and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if we make accounting errors or our judgments prove to be wrong, assumptions change or actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors or guidance we may have provided, resulting in a decline in our stock price and potential legal claims. Significant judgments, assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, stock-based compensation, business combinations, and income taxes.

Risks associated with being a public company.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC and NYSE impose numerous requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to compliance with these laws and regulations. These requirements have increased and will continue to increase our legal, accounting, and financial compliance costs and have made and will continue to make some activities more time consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance compared to when we were a private company. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers.

### Risks Related to Ownership of Our Common Stock

The market price of our common stock may be volatile, which could result in substantial losses for investors.

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Between January 1, 2018 and March 13, 2019, our stock price has ranged from \$2.81 per share to \$5.80 per share. In addition, the trading prices of the securities of advertising technology companies in general have been highly volatile, and the volatility in market price and trading volume of securities is often unrelated or disproportionate to the financial performance of the companies issuing the securities. In addition to the factors discussed in this “Risk Factors” section and elsewhere in our public filings with the SEC, factors affecting the market price of our common stock include:

- price and volume fluctuations in the overall stock market, or in the market for the stock of comparable companies, from time to time;
- adverse changes in the regulatory environment;
- actual or anticipated changes in our earnings or fluctuations in our operating results or the results of our competitors;
- changes in the market perception of online video advertising platforms generally or in the effectiveness of our solutions in particular;

- a lack of trading volume in our common stock;
- announcements of technological innovations, new solutions, strategic alliances or significant agreements by us or by our competitors;
- issuance of new or changed securities analysts' reports or recommendations for our or our competitors' stock;
- litigation involving us;
- changes in general economic, industry and market conditions and trends;

Table of Contents

- recruitment or departure of key personnel;
- announcements of acquisitions or dispositions, including the sale of the Company's buyer platform; and
- the other factors described in this section of the report titled "Risk Factors."

In the past, following periods of volatility in the market price of a company's securities, securities class action or derivative litigation has often been brought against that company and its officers and directors. Because of the potential volatility of our stock price, we may become the target of additional securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

Sales of substantial amounts of our common stock in the public markets, or the perception that they might occur, could reduce the price that our common stock might otherwise attain and may dilute your voting power and your ownership interest in us.

Sales of a substantial number of shares of our common stock, or the perception that a substantial number of shares could be sold, including under our shelf registration statement filed with the SEC on November 6, 2017, could reduce the market price of our common stock. As of March 13, 2019, we had 45,561,523 shares of common stock outstanding.

In addition, an aggregate of 4,249,557 shares of common stock issuable upon exercise of options and vesting of RSUs outstanding, as of December 31, 2018 will become available for sale immediately upon the exercise of such option awards or vesting of such RSU awards.

We have also registered for offer and sale all shares of common stock that we may issue under our stock-based compensation plans, including our employee stock purchase plan. These shares can be freely sold in the public market upon issuance. Sales of common stock by existing stockholders in the public market, whether as part of an underwritten public offering or pursuant to exemptions from registration, the availability of these shares for sale, our issuance of securities or the perception that any of these events might occur could materially and adversely affect the market price of our common stock. In addition, the sale of these securities could impair our ability to raise capital through the sale of additional stock.

In addition, in the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement, and employee arrangements or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and could cause our stock price to decline.

Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.

Our executive officers, directors and principal stockholders and their respective affiliates beneficially owned, in the aggregate, a significant percentage of our outstanding common stock as of December 31, 2018. These persons, acting together, are able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of this group of stockholders may not coincide with our interests or the interests of other stockholders.

If securities or industry analysts do not publish, or cease publishing, research or reports about us, our business or our market, if they publish negative evaluations of our stock, or if we fail to meet the expectations of analysts, the price of

our stock and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. We do not have any control over these analysts, and their reports or analyst consensus may not reflect our guidance, plans or expectations. If one or more of the analysts covering our business issues an adverse opinion of our company because we fail to meet their expectations or otherwise, the price of our stock could decline. If one or more of these analysts cease to cover our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

Anti-takeover provisions in our certificate of incorporation and bylaws as well as provisions of Delaware law might discourage, delay or prevent a change in control of our company or changes in our board of directors or management and, therefore, depress the price of our common stock.



## Table of Contents

Our certificate of incorporation and bylaws and Delaware law contain provisions that may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our common stock or transactions that our stockholders might otherwise deem to be in their best interests. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove members of our board of directors or our management. Therefore, these provisions could adversely affect the price of our stock. Our corporate governance documents include provisions:

- establishing a classified board of directors with staggered three-year terms so that not all members of our board of directors are elected at one time;
- providing that directors may be removed by stockholders only for cause;
- preventing the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- permitting the board of directors to issue up to 10,000,000 shares of preferred stock with any rights, preferences and privileges as they may designate;
- limiting the liability of, and providing indemnification to, our directors and officers;
- providing that vacancies may be filled by remaining directors;
- preventing cumulative voting; and
- providing for a supermajority requirement to amend our bylaws.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the General Corporation Law of the State of Delaware, which prohibits a Delaware corporation from engaging in a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

In October 2017, we entered into a sublease for our corporate headquarters at 222 Broadway, New York, New York for approximately 26,664 square feet of office space. The term of the lease runs through 2029.

We currently sublease our former headquarters located at 1501 Broadway, New York, New York and 53 W 23<sup>rd</sup> St, New, New York.

We also lease offices in Mountain View, California; San Francisco, California; Los Angeles, California; Melbourne, Australia; Sydney, Australia; London, England; Paris, France; Toronto, Canada; Kuala Lumpur, Malaysia; São Paulo, Brazil; and Auckland, New Zealand. In addition, we utilize a third-party data center hosting facility located in New York, New York. We believe our facilities are adequate for our current and near-term needs.

ITEM 3. LEGAL PROCEEDINGS

From time to time we may be involved in legal proceedings or subject to claims arising in the ordinary course of our business. We do not believe we are a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

30

---

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

31

---

Table of Contents

## Part II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock has been listed on the NYSE under the symbol "TLRA" since September 27, 2017 and was initially under the symbol "TRMR" from June 27, 2013 (the date of our initial listing) through September 27, 2017. Prior to June 27, 2013 there was no public market for our stock.

The following table sets forth for the indicated periods the intraday high and low sales prices per share for our common stock on the NYSE.

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$5.27	\$ 4.56	\$ 4.37	\$ 3.73
Low	3.51	3.60	3.51	2.26
	2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$2.52	\$ 2.57	\$ 4.36	\$ 5.00
Low	1.90	2.00	2.05	3.57

## Holders of Record

As of March 13, 2019, there were approximately 39 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## Stock Price Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or incorporated by reference into any filing of Telaria, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph compares, for the period from January 1, 2014 through December 31, 2018, the cumulative total return on our common stock, the NYSE Composite Index and the Powershares S&P SmallCap Information Technology Portfolio Index. The graph assumes \$100 was invested on June 26, 2013, in the common stock of Telaria, Inc., the NYSE Composite Index and the Powershares S&P SmallCap Information Technology Portfolio Index, and assumes the reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Table of Contents

Relative Price Performance

Dividend Policy

We have never declared or paid any dividends on our common stock or any other securities. We anticipate that we will retain all of our future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of the agreements governing our credit facility. Payment of future cash dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, the requirements of current or then-existing debt instruments and other factors the board of directors deems relevant.

Purchases of Equity Securities by the Issuer

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 at an average of \$2.81 per share), 2,000,000 shares that were purchased from Canaan Partners in a negotiated transaction (for a total of \$6.1 million at a price of \$3.05 per share) and 3,651,314 shares that were purchased from W Capital Partners in a negotiated transaction (for a total of approximately \$9.2 million at a price of \$2.525 per share). 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 at a price of \$2.525 per share) outside of our share repurchase program.

Table of Contents

The following chart summarizes our purchases of equity during the three months ended December 31, 2018:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicity Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
(in thousands except for share data)				
October 2018	1,370,022	\$ 2.73	1,370,022	\$ 16,254
November 2018	2,271,836	3.06	2,271,836	9,295
December 2018	3,676,314	2.53	3,676,314	—
Total	7,318,172	\$ 2.73	7,318,172	

For accounting purposes, common stock repurchased under our stock repurchase program 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.

Recent Sales of Unregistered Securities

N/A

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth our selected consolidated financial data. The following selected consolidated financial data for the years ended December 31, 2018, 2017, and 2016 and the selected consolidated balance sheet data as of December 31, 2018 and 2017 are derived from our audited consolidated financial statements that are included in Part II, Item 8 of this Annual Report, which have been audited by Ernst & Young LLP, our independent registered public accounting firm. The selected consolidated financial data for the years ended December 31, 2015 and 2014 and the selected consolidated balance sheet data as of December 31, 2016, 2015 and 2014 are derived from audited consolidated financial statements that are not included in this Annual Report. Our historical results are not necessarily indicative of the results to be expected in the future.

The following data should be read together with the information set forth in Item II, Part 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in conjunction with the consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report.

Table of Contents

	Years Ended				
	December 31,				
	2018 <sup>1</sup>	2017 <sup>1</sup>	2016 <sup>1</sup>	2015 <sup>1</sup>	2014 <sup>1</sup>
	(dollars in thousands, except share and per share data)				
Revenue	\$55,165	\$43,799	\$29,121	\$9,611	\$—
Cost of revenue	6,844	3,448	2,211	945	—
Gross profit	48,321	40,351	26,910	8,666	—
Operating expenses:					
Technology and development <sup>(2)</sup>	9,925	8,586	6,961	4,762	3,281
Sales and marketing <sup>(2)</sup>	25,424	28,073	22,297	13,841	5,324
General and administrative <sup>(2)</sup>	20,187	20,197	16,069	16,883	14,472
Restructuring Costs	149	—	—	—	—
Depreciation and amortization	3,705	4,586	3,754	2,176	839
Mark-to-market	57	148	1,263	—	—
Total operating expenses	59,447	61,590	50,344	37,662	23,916
Loss from continuing operations	(11,126 )	(21,239 )	(23,434 )	(28,996 )	(23,916 )
Interest and other income (expense):					
Interest expense, net	(89 )	(78 )	(129 )	(10)	(4)
Other income (expense), net	1,975	1,270	(123 )	30	46
Total interest and other income (expense), net	1,886	1,192	(252 )	20	42
Loss from continuing operations before income taxes	(9,240 )	(20,047 )	(23,686 )	(28,976 )	(23,874 )
Provision for income taxes	(10 )	(347 )	164	200	1
Loss from continuing operations, net of income taxes	(9,230 )	(19,700 )	(23,850 )	(29,176 )	(23,875 )
(Loss) gain on sale of discontinued operations, net of income taxes	(136 )	14,626	—	—	—
Income (loss) from discontinued operations, net of income taxes <sup>(3)</sup>	—	7,301	2,903	(14,054)	386
Total income (loss) from discontinued operations, net of income taxes	(136 )	21,927	2,903	(14,054 )	386
Net income (loss) attributable to common shareholders	(9,366 )	2,227	(20,947 )	(43,230 )	(23,489 )
Net earnings (loss) per share - basic and diluted <sup>(4)</sup>					
Loss from continuing operations, net of income taxes	\$(0.18 )	\$(0.39 )	\$(0.46 )	\$(0.57 )	\$(0.47 )
Discontinued operations, net of income taxes	—	0.43	0.06	(0.27 )	0.01
Net income (loss)	\$(0.18 )	\$0.04	\$(0.40 )	\$(0.84 )	\$(0.46 )
Basic and diluted weighted-average number of shares outstanding	51,764,506	50,511,366	52,279,738	51,684,397	50,637,541

Other Financial Data (unaudited):



Adjusted EBITDA<sup>(5)</sup>

\$(360 ) \$(6,517 ) \$(11,829 ) \$(22,565 ) \$(19,958 )

36

---

Table of Contents

	As of				
	December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Cash, cash equivalents and short-term investments	\$47,659	\$76,320	\$43,160	\$59,887	\$77,787
Working capital	42,253	77,153	56,168	74,148	89,024
Total assets	174,706	150,428	154,225	168,124	178,005
Total liabilities	120,311	67,289	75,703	66,692	38,232
Total stockholders' equity	\$54,395	\$83,139	\$78,522	\$101,432	\$139,773

(1) Financial statements have been adjusted to reflect the sale of our buy side business, which was sold on August 7, 2017, as discontinued operations.

(2) Includes stock-based compensation expense as follows:

	Years Ended				
	December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Technology and development	\$492	\$615	\$459	\$301	\$113
Sales and marketing	1,470	2,062	476	472	538
General and administrative	1,858	2,044	1,551	1,683	2,189
Total stock-based compensation expense	\$3,820	\$4,721	\$2,486	\$2,456	\$2,840

(3) Includes impairment charges incurred during the year ended December 31, 2015 of (i) \$20.9 million related to goodwill, (ii) \$1.2 million related to certain intangible assets, and (iii) \$0.6 million related to certain property and equipment.

(4) As a result of our operating losses incurred for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, all potentially dilutive securities are anti-dilutive and, accordingly, basic and diluted weighted-average number of shares of common stock outstanding is equal for the years presented.

(5) Adjusted EBITDA represents our loss from continuing operations, net of income taxes, before depreciation and amortization expense, total interest and other income (expense), net and (benefit) provision for income taxes, and as adjusted to eliminate the impact of non-cash stock-based compensation expense, acquisition-related costs, restructuring costs, mark-to-market expense, executive severance, retention and recruiting costs, disposition-related costs, expenses for transitional services, litigation costs and other adjustments. Adjusted EBITDA is a key measure used by management to evaluate operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses we do not consider to be indicative of our core operating performance in calculating adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis.

Adjusted EBITDA is a non-GAAP financial measure. Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under U.S. GAAP. Some of these limitations are: (a) although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash and capital expenditure requirements for such replacements or for new capital expenditure requirements; (b) Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (c) Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; (d) Adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; (e) Adjusted EBITDA does not reflect litigation costs associated with class action securities litigation or costs associated with acquisitions, dispositions, transitional services, executive severance, retention and recruiting and other adjustments; and (f) other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure. Because of these and other limitations, you should consider adjusted EBITDA alongside our other U.S. GAAP-based financial performance measures, net loss and our other U.S. GAAP financial results. The following table presents a reconciliation of adjusted EBITDA to loss from continuing operations,

net of income taxes, the most directly comparable U.S. GAAP measure, for each of the periods indicated:

37

---

Table of Contents

	Years Ended				
	December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Loss from continuing operations, net of income taxes	\$(9,230)	\$(19,700)	\$(23,850)	(29,176 )	(23,875 )
Adjustments					
Depreciation and amortization expense	3,705	4,586	3,754	2,176	839
Total interest and other income (expense), net <sup>(1)</sup>	(1,886 )	(1,192 )	252	(20 )	(42 )
Provision (benefit) for income taxes	(10 )	(347 )	164	200	1
Stock-based compensation expense	3,820	4,721	2,486	2,456	2,840
Acquisition-related expenses <sup>(2)</sup>	483	1,810	3,583	892	—
Restructuring costs <sup>(3)</sup>	149	—	—	—	—
Mark-to market expense <sup>(4)</sup>	57	148	1,263	—	—
Executive severance, retention and recruiting costs <sup>(5)</sup>	839	1,421	59	579	—
Disposition related costs <sup>(6)</sup>	—	1,029	—	—	—
Expenses for transitional services <sup>(7)</sup>	697	905	—	—	—
Litigation costs	—	—	194	328	279
Other adjustments <sup>(8)</sup>	1,016	102	266	—	—
Total net adjustments	8,870	13,183	12,021	6,611	3,917
Adjusted EBITDA	\$(360 )	\$(6,517 )	\$(11,829)	\$(22,565)	\$(19,958)

- (1) For 2018, includes sublease income for our former office locations net of rent expense for those same locations. In addition, includes income received from the transfer of rights in the name "Tremor Video". For 2018, reflects acquisition-related costs incurred in connection with the acquisition of SlimCut Media ("SlimCut") in June 2018. For 2017, 2016 and 2015, represents acquisition-related costs incurred in connection with the acquisition of The Video Network Pty LTD ("TVN"). Refer to Note 4 - Fair Value Measurements and Note 7 - Acquisition, in the notes to the consolidated financial statements.
- (2) Reflects the estimated fair value of costs related to the relocation of office space following the sale of our buyer platform. Refer to Note 16 - Restructuring Costs in the notes to the consolidated financial statements.
- (3) For 2018, reflects expense incurred based on the re-measurement of the estimated fair value of earn-out payments payable in connection with the acquisition of SlimCut. For 2017 and 2016, reflects expense incurred based on the re-measurement of the estimated fair value of earn-out payments that were paid in connection with the acquisition of TVN. Refer to Note 4 - Fair Value Measurements and Note 7 - Acquisition, in the notes to the consolidated financial statements.
- (4) Reflects certain executive severance, recruiting and retention costs.
- (5) Reflects professional fees incurred in connection with the sale of our buyer platform in August 2017. Refer to Note 3 - Disposition of Buyer Platform in the notes to the consolidated financial statements.
- (6) Reflects costs incurred providing transitional services following the sale of our buyer platform.
- (7) For 2018, reflects rent expense for our current corporate headquarters during the period of time in which such space was unoccupied as well as expenses relating to the reversal of certain capitalized professional fees. For 2017, reflects the change in our employee vacation policy. For 2017 and 2016, reflects amounts accrued in connection with a one-time change in our employee vacation policy.
- (8)

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the information set forth in Part II, Item 6. "Selected Consolidated Financial Data" and the consolidated financial statements and



## Table of Contents

the related notes included elsewhere in this Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in “Special Note Regarding Forward-Looking Statements” and “Risk Factors.”

Telaria, Inc. provides a fully programmatic software platform for publishers to manage and monetize their video advertising. Our platform is built specifically for digital video and to support the unique requirements of connected TV, mobile and over-the-top content. We provide publishers with real-time analytics, data and decisioning tools to control their video advertising business and offer a holistic monetization solution to optimize yield across a publisher’s entire supply of digital video inventory.

Our technology enables publishers to manage and deliver their directly sold and programmatic video inventory through a single platform, allowing them to get a complete picture of their sales efforts and maximize revenue from ad placements across channels. Our platform is connected with leading third-party demand-side platforms, or DSPs, through server-to-server integrations, creating a robust programmatic marketplace where publishers can seamlessly transact with buyers. These programmatic transactions fully automate the sales process and enable publishers to increase the value of their advertising inventory by using data to better segment and match their supply with demand.

In addition, publishers manage video inventory sold by their direct sales team through our Advanced TV ad server, which was built specifically to meet the unique requirements of connected TV, or CTV, and over-the-top, or OTT, content. Publishers use our integrated ad-server and programmatic supply side platform to optimize yield by having their directly sold campaigns compete against our marketplace of programmatic demand to obtain the highest value for their inventory.

We provide a full suite of tools for publishers to control their video advertising business and protect the consumer viewing experience. These controls are particularly important for our clients in CTV and OTT who need to ensure a TV-like viewing and advertising experience for consumers.

For instance, our ad-pod feature provides long-form content publishers with a tool analogous to commercial breaks in traditional linear television so that they can request and manage several ads at once from different demand sources. Using this tool, publishers can establish business rules such as competitive separation of advertisers to ensure that competing brand ads do not appear during the same commercial break, audio normalization to control for the volume of an ad relative to content, and frequency capping to avoid exposing viewers to repetitive ad placements.

Publishers on our platform receive up-to-the-second reporting and diagnostics so that they can effectively monitor buying patterns and make real-time changes to take advantage of market dynamics. Our inventory intelligence dashboard provides publishers with extensive analytics that leverage billions of historical data points to drive their monetization strategy, as well as access to first and third-party data that offers valuable insights into their video advertising such as performance, viewability and audience data, which can be used to segment inventory and create incremental value.

We have built long-standing relationships with premium video publishers, in particular in the CTV and OTT space, and we believe the scale and quality of our client base makes us an important partner to video ad buyers. Buyers on our platform include some of the largest brand advertisers in the world and our platform is integrated with the leading video volume buyers in digital advertising. We generate revenue when an advertising impression is sold on our platform based on a simple and transparent fee structure established with our publisher partners and do not collect any fees directly from DSPs integrated with our platform.

We provide our platform internationally in Europe, Canada, Latin America, and the Asia Pacific regions. During the second quarter of 2018, we further expanded our international presence through the acquisition of SlimCut Media SAS (“SlimCut”), a global video technology solutions company that provides out-stream video solutions for premium publishers in Canada and France. Refer to Note 7 - Acquisition, in the notes to the condensed consolidated financial statements.

In September 2017, we changed our name from “Tremor Video, Inc.” to “Telaria, Inc.” In connection with the name change, our NYSE ticker symbol was changed to “TLRA” and our corporate website address was changed to [www.telaria.com](http://www.telaria.com). Information on or accessible through our website is not incorporated by reference to this report.

For the year ended December 31, 2018, our revenue from continuing operations increased to \$55.2 million, compared to \$43.8 million for the year ended December 31, 2017, an increase of 26.0%. Over the same period, our gross margin decreased from 92.1% to 87.6%. Our loss from continuing operations, net of income taxes decreased from a loss of \$19.7 million for the year ended December 31, 2017 to a loss of \$9.2 million for the year ended December 31, 2018, and our Adjusted EBITDA

Table of Contents

(refer to “Key Metrics-Adjusted EBITDA”) increased from a loss of \$6.5 million to a loss of \$0.4 million for the same respective periods. Our results exclude the impact of our buyer platform, which is recorded in discontinued operations.

**Key Metrics**

We monitor the key metrics set forth in the table below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess our operational efficiencies. Revenue, gross margin and net loss are discussed under the headings “Components of our Results of Operations.” Adjusted EBITDA is discussed immediately following the table below.

	Years Ended		
	December 31,		
	2018	2017	2016
	(dollars in thousands)		
Revenue	\$55,165	\$43,799	\$29,121
Gross margin	87.6 %	92.1 %	92.4 %
Net loss from continuing operations	(9,230 )	(19,700 )	(23,850 )
Adjusted EBITDA	\$(360 )	\$(6,517 )	\$(11,829 )

**Adjusted EBITDA**

Adjusted EBITDA represents our loss from continuing operations, net of income taxes, before depreciation and amortization expense, total interest and other income (expense), net and (benefit) provision for income taxes, and as adjusted to eliminate the impact of non-cash stock-based compensation expense, acquisition-related costs, restructuring costs, mark-to-market expense, executive severance, retention and recruiting costs, disposition-related costs, expenses for transitional services, litigation costs, and other adjustments. Adjusted EBITDA is a key measure used by management to evaluate operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses we do not consider to be indicative of our core operating performance in calculating adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis.

Adjusted EBITDA is not a measure calculated in accordance with U.S. GAAP. See footnote 5 to the table in Part II, Item 6. “Selected Consolidated Financial Data” in this Annual Report for a discussion of the limitations of adjusted EBITDA and a reconciliation of adjusted EBITDA to loss from continuing operations, net of income taxes, the most comparable U.S. GAAP measurement, for the years ended December 31, 2018, 2017 and 2016.

**Components of Operating Results**

We operate in one segment, online video advertising services. The key elements of our operating results include: Revenue

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. Typically, this fee is structured as a percentage of the price that the publisher receives for its advertising inventory. Our revenue is therefore influenced by the number of ad impressions we sell through our platform, the average CPM (price per 1,000 impressions) for inventory sold, and the percentage fee that we retain, or take rate. We believe that contributions to revenue from CTV and OTT will continue to grow as a percentage of our total revenue. In general, we expect this shift to result in an increase in the average CPM for inventory monetized through our platform and a decrease in our average take rate.

As our business continues to mature, we may adjust our pricing model and add additional revenue streams to account for new products or service offerings or changes in client preferences and demands. For instance, we may charge data licensing or professional service fees or strategically pursue a license or subscription-based pricing model with certain publishers in order to create a potentially deeper and stickier relationship.

For substantially all transactions executed through our platform, we act as an agent on behalf of the publisher that is monetizing its inventory, and revenue is recognized net of any inventory costs that we remit to publishers. However, for certain transactions, we report revenue on a gross basis, based primarily on our determination that we are acting as



a primary obliger for the buyer with respect to the advertising inventory purchased on our platform.

## Table of Contents

Our revenue recognition policies are discussed in more detail in the section below titled “-Critical Accounting Policies and Estimates.”

### Cost of Revenue, Gross Profit and Gross Margin

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.

Gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin is impacted by the relative contribution to our revenue from transactions that we record on a gross basis. In June 2018, we acquired the business of SlimCut, which included certain revenue streams that are recorded on a gross basis. Prior to the acquisition, we recorded 100% of our revenue on a net basis. As a result, following the acquisition, the contribution to revenue from transactions booked on a gross basis increased compared to prior periods.

### Operating Expenses

Operating expenses consist of technology and development, sales and marketing, general and administrative, depreciation and amortization and mark-to-market expenses. Salaries, incentive compensation, stock-based compensation and other personnel-related costs are the most significant components of each of technology and development, sales and marketing and general and administrative expenses. We include stock-based compensation expense in connection with the grant of stock option awards or restricted stock unit awards in the applicable operating expense category based on the respective equity award recipient's function. Our employee head count increased from 136 employees at December 31, 2017, to 167 employees at December 31, 2018. The increase in head count was largely driven by our acquisition of SlimCut in June 2018. We expect our operating expenses to continue to increase in future periods, to support our continued growth.

**Technology and Development Expense.** Technology and development expense primarily consists of salaries, incentive compensation, stock-based compensation and other personnel-related costs for product development and engineering personnel. Additional expenses in this category include other related overhead. Due to the rapid development and changes in our business, we have expensed all technology and development expenses in the same period that the costs were incurred. The number of employees in technology and development functions increased from 20 employees at December 31, 2017 to 34 employees at December 31, 2018. We intend to continue to invest in our technology and development efforts, by strategically hiring additional personnel. We believe continuing to invest in technology and development efforts is essential to maintaining our competitive position.

**Sales and Marketing Expense.** Sales and marketing expense primarily consists 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. The number of employees in sales and marketing functions increased from 89 employees at December 31, 2017 to 103 employees at December 31, 2018. We expect our sales and marketing expense to increase in the foreseeable future to support our continued revenue growth.

**General and Administrative Expense.** General and administrative expense primarily consists of salaries, incentive compensation, stock-based compensation and other personnel-related costs for business operations, administration, finance and accounting, legal, information systems and human resources employees. Included in general and administrative expenses are consulting and professional fees, including legal, accounting and investor relations fees, insurance, and costs associated with becoming compliant with the Sarbanes-Oxley Act and other public company corporate expenses, costs associated with the recent transaction, travel and other related overhead. The number of employees in general and administrative functions increased from 27 employees at December 31, 2017 to 30 employees at December 31, 2018. We expect our general and administrative expenses to increase in absolute dollars in future periods, including as a result of incurring additional expenses becoming compliant with the Sarbanes-Oxley Act.

**Restructuring Costs.** Restructuring costs primarily consists of costs associated with the relocation of office space as a result of the sale of our buyer platform in August 2017 (refer to notes 9 and 3 in notes to condensed consolidated financial statements).

Depreciation and Amortization Expense. Depreciation and amortization expense primarily consists of our depreciation expense related to investments in property, equipment and software as well as the amortization of certain intangible assets.

Mark-to-market. Mark-to-market expense consists primarily of the remeasurement of the estimated fair value of the contingent consideration incurred in connection with our acquisition of SlimCut in June 2018 and The Video Network Pty Ltd, or TVN, in August 2015 (refer to notes 4 and 7 in notes to consolidated financial statements).

Table of Contents

## Interest Expense and Other Income (Expense), Net

Interest expense and other income (expense), net consist primarily of interest expense and interest income, lease income and expense, foreign exchange transaction gains and losses. Interest income is derived from interest received on our cash and cash equivalents. Interest expense is primarily attributable to interest paid on taxes and fees to local jurisdictions. Lease income and expense is attributable to subleases on our former corporate headquarters. As of December 31, 2018, and 2017, we did not have any outstanding borrowings under our credit facility.

## Provision for Income Taxes

Provision for income taxes consists of minimum U.S. federal, state and local taxes, income taxes in foreign jurisdictions in which we conduct business and deferred income taxes.

## Results of Operations

The following table is a summary of our consolidated statement of operations data for each of the periods indicated. The period-to-period comparisons of the results are not necessarily indicative of our results for future periods.

## Revenue

Cost of revenue

Gross profit

## Operating expenses:

Technology and development

Sales and marketing

General and administrative

Restructuring Costs

Depreciation and amortization

Mark-to-market

Total operating expenses

Loss from continuing operations

Total interest and other income (expense), net

Loss from continuing operations before income taxes

(Benefit) provision for income taxes

Loss from continuing operations, net of income taxes

Total income (loss) from discontinued operations, net of income taxes

Net income (loss)

## Comparison of Years Ended December 31, 2018 and 2017

Years Ended		Change	
December 31,		Increase / (Decrease)	
2018	2017	Amount	Percentage
(dollars in thousands)			
Revenue	55,165	43,799	\$ 11,366 26.0 %



Table of Contents

Revenue. Our revenue during the year ended December 31, 2018 increased to \$55.2 million from \$43.8 million in the prior year period, representing a 26.0% increase year-over-year. The year-over-year increase in our revenue was primarily driven by an increase in the amount of spend being transacted on CTV, which was partially offset by a decrease in spend on desktop. Year-over-year, revenue generated on CTV devices increased by 322%, from \$3.5 million in 2017 to \$14.8 million in 2018.

	Years Ended		Change	
	December 31,		Increase /	
	2018	2017	Amount	Percentage
	(dollars in thousands)			
Cost of revenue	6,844	3,448	\$3,396	98.5 %
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		Change	
	December 31,		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		Change	
	December 31,		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		Change	
	December 31,		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.



Table of Contents

	Years Ended		Change	
	December 31, 2018	2017	Increase / (Decrease) Amount	(Decrease) Percentage
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		Change	
	December 31, 2018	2017	Increase / (Decrease) Amount	(Decrease) Percentage
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		Change	
	December 31, 2018	2017	Increase / (Decrease) Amount	(Decrease) Percentage
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		Change	
	December 31, 2018	2017	Increase / (Decrease) Amount	(Decrease) Percentage
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 discontinued operations, net of taxes of \$14.6 million (refer to Note 3 in the consolidated financial statements).





Table of Contents

## Comparison of Years Ended December 31, 2017 and 2016

Years Ended		Change	
December 31,		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		Change	
December 31,		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		Change	
December 31,		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.

Table of Contents

	Years Ended		Change		
	December 31, 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		Change		
	December 31, 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		Change		
	December 31, 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		Change		
	December 31, 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).

Table of Contents

	Years Ended		Change
	December 31,		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		Change
	December 31,		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



## Table of Contents

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.

Table of Contents

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.

Table of Contents

## 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



## Table of Contents

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.



## Table of Contents

### 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.

Table of Contents

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

	Page Number
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>55</u>
CONSOLIDATED FINANCIAL STATEMENTS:	
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	<u>58</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>59</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>60</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018 and 2017</u>	<u>61</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016</u>	<u>62</u>
<u>Notes to Consolidated Financial Statements</u>	<u>63</u>

Table of Contents

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



Table of Contents

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.

Table of Contents

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

57

---

## Telaria, Inc.

## Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31,	
	2018	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.

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.



Edgar Filing: Telaria, Inc. - Form 10-K

Telaria, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(in thousands, except share data)

	Common Stock		Treasury Stock		Additional	Accumulated	Accumulated	Total
	Share	Capital	Share	Capital	Paid-In	Other	Deficit	Stockholders'
					Capital	Comprehensive		Equity
						Income		(Deficit)
						(Loss)		
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 )

Edgar Filing: Telaria, Inc. - Form 10-K

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.

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 )

Edgar Filing: Telaria, Inc. - Form 10-K

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.

62

---

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

#### 4. Fair Value Measurements (Continued)

### Table of Contents

#### 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](http://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.

Table of Contents

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	\$ —

Table of Contents

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 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.

Table of Contents

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

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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.

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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.

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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:

71

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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	
	<del>2018</del> 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	\$—



Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 <sup>(1)</sup>	\$28,671	—	—	28,671	\$53,853	\$—	—	—\$53,853
Total assets	\$28,671	—	—	28,671	\$53,853	\$—	—	—\$53,853
Liabilities:								
Contingent consideration on acquisition liability <sup>(2)</sup>	—	—	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.



Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 <sup>(1)</sup>	1,443	(4,753 )
Compensation expense	—	1,810
Mark-to-market expense <sup>(2)</sup>	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

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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.

75

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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

76

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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)

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 %

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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.

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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,

Edgar Filing: Telaria, Inc. - Form 10-K

	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

80

---

## 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.

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 <sup>(1)</sup>	(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 <sup>(1)</sup>	99	99
Ending balance at December 31, 2017	\$ (232 )	\$(232)

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

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 31<sup>st</sup>, 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:

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 15. Stock-Based Compensation (Continued)

Range of Exercise Prices	Options Outstanding		Options Exercisable			
	Options	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 <sup>(1)</sup>	6,311,059	\$ 3.63
Stock option awards granted <sup>(2)</sup>	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<sup>(3)</sup> 4,249,557 \$ 3.97

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 (1) 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.

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 (2) 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.



Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 <sup>(1)</sup>	1,345,153	3.94

Edgar Filing: Telaria, Inc. - Form 10-K

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

85

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 15. Stock-Based Compensation (Continued)

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
------	------	------

Edgar Filing: Telaria, Inc. - Form 10-K

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	%

86

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(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.

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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	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,

Edgar Filing: Telaria, Inc. - Form 10-K

	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

88

---

Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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.



Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

## 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 <sup>(1)</sup>	\$(0.12 )	\$(0.06 )	\$(0.03 )	\$ 0.03
Income from discontinued operations, net of income taxes <sup>(1)</sup>	—	—	—	—
Net income (loss) <sup>(1)</sup>	\$(0.12 )	\$(0.06 )	\$(0.03 )	\$ 0.03
Net earnings (loss) per share - diluted:				
Income (loss) from continuing operations, net of income taxes <sup>(1)</sup>	\$(0.12 )	\$(0.06 )	\$(0.03 )	\$ 0.03
Income from discontinued operations, net of income taxes <sup>(1)</sup>	—	—	—	—
Net income (loss) <sup>(1)</sup>	\$(0.12 )	\$(0.06 )	\$(0.03 )	\$ 0.03
Weighted-average number of shares of common stock outstanding:				
Basic	51,827,682	52,241,605	52,716,626	50,278,668
Diluted	51,827,682	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 <sup>(1)</sup>	(0.19 )	(0.14 )	(0.06 )	—
Income (loss) from discontinued operations, net of income taxes <sup>(1)</sup>	0.05	0.09	0.30	(0.02 )
Net income loss <sup>(1)</sup>	\$(0.14 )	\$(0.05 )	\$ 0.24	\$(0.02 )
Basic and diluted weighted-average number of shares outstanding <sup>(2)</sup>	49,998,547	50,205,913	50,642,344	51,195,402

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



Table of Contents

Telaria, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

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.

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

Table of Contents

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 of the 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

92

---

Table of Contents

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.

93

---

Table of Contents

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.



Table of Contents

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

Table of Contents

## 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

Table of Contents

## 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.

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

Edgar Filing: Telaria, Inc. - Form 10-K

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

97

---

Table of Contents

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

Edgar Filing: Telaria, Inc. - Form 10-K

10.30+	<u>Amended and Restated Employment Offer Letter by and between the Company and Katie Evans, dated March 6, 2017</u>	10-Q	001-35982	10.5	5/10/2017	
10.31+	<u>Employment Offer Letter by and between the Company and Paul Caine, dated October 6, 2017</u>	10-K	001-35982	10.32	3/1/2018	
10.32+	<u>Employment Offer Letter by and between the Company and Adam Lowy, dated October 19, 2019</u>					X
10.33	<u>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).</u>	S-1	333-188813	10.3	5/23/2013	
21.1	<u>List of subsidiaries.</u>	10-Q	001-35982	21.1	8/9/2018	

98

---

Table of Contents

23.1	<u>Consent of Independent Registered Public Accounting Firm.</u>	X
24.1	<u>Power of Attorney (included in signature page).</u>	X
31.1	<u>Certification of the Chief Executive Officer of Telaria, Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934.</u>	X
31.2	<u>Certification of the Chief Financial Officer of Telaria, Inc. pursuant to rule 13a-14 under the Securities Exchange Act of 1934.</u>	X
32.1	<u>Certification of the Chief Executive Officer of Telaria, Inc. pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	X
32.2	<u>Certification of the Chief Financial Officer of Telaria, Inc. pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	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.