

Telaria, Inc.
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____
Commission File Number 001-35982

TELARIA, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-5480343

(State or another jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

222 Broadway, 16th Floor, New York, NY 10038

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (646) 723-5300

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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 7(a)(2)(B) of the Securities Act.

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 2, 2018, there were 52,566,360 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

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Part I — FINANCIAL INFORMATION

Item 1. — Financial Statements

Telaria, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,950	\$ 76,320
Accounts receivable, net	60,021	59,288
Prepaid expenses and other current assets	3,541	2,499
Total current assets	128,512	138,107
Long-term assets:		
Property and equipment, net	3,222	3,194
Intangible assets, net	4,926	1,307
Goodwill	9,658	6,320
Deferred tax assets	332	332
Other assets	938	1,168
Total long-term assets	19,076	12,321
Total assets	\$ 147,588	\$ 150,428
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 61,171	\$ 59,419
Deferred rent, short-term	838	808
Contingent consideration on acquisition	1,443	—
Deferred income	31	674
Other current liabilities	748	53
Total current liabilities	64,231	60,954
Long-term liabilities:		
Deferred rent	5,990	5,260
Deferred tax liabilities	1,385	338
Other non-current liabilities	98	737
Total liabilities	71,704	67,289
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value: 250,000,000 shares authorized as of June 30, 2018 and December 31, 2017, respectively; 56,259,264 and 55,136,038 shares issued and 52,413,768 5		5
and 51,290,542 outstanding as of June 30, 2018 and December 31, 2017, respectively		
Treasury stock, at cost: 3,845,496 shares as of June 30, 2018 and December 31, 2017	(8,443	) (8,443
Additional paid-in capital	290,516	288,277
Accumulated other comprehensive loss	(504	) (232
Accumulated deficit	(205,690	) (196,468
Total stockholders' equity	75,884	83,139
Total liabilities and stockholders' equity	\$ 147,588	\$ 150,428

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

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Telaria, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$ 12,430	\$ 9,934	22,031	16,073
Cost of revenue	1,136	917	2,164	1,681
Gross profit	11,294	9,017	19,867	14,392
Operating expenses:				
Technology and development	2,305	2,109	4,613	4,534
Sales and marketing	6,646	7,700	12,938	14,226
General and administrative	5,365	4,774	10,363	9,647
Restructuring costs	117	—	117	—
Depreciation and amortization	874	990	2,675	2,011
Mark-to-market	—	93	—	148
Total operating expenses	15,307	15,666	30,706	30,566
Loss from continuing operations	(4,013)	(6,649)	(10,839)	(16,174)
Interest and other income (expense), net:				
Interest expense	(45)	(33)	(48)	(67)
Other income (expense), net	1,127	(45)	1,844	(38)
Total interest and other income (expense), net	1,082	(78)	1,796	(105)
Loss from continuing operations before income taxes	(2,931)	(6,727)	(9,043)	(16,279)
Provision for income taxes	29	89	43	79
Loss from continuing operations, net of income taxes	(2,960)	(6,816)	(9,086)	(16,358)
Loss on sale of discontinued operations, net of income taxes	(161)	—	(136)	—
Income from discontinued operations, net of income taxes	—	4,516	—	7,198
Total income (loss) from discontinued operations, net of income taxes	(161)	4,516	(136)	7,198
Net loss	\$(3,121)	\$(2,300)	\$(9,222)	\$(9,160)
Net income (loss) per share — basic and diluted:				
Loss from continuing operations, net of income taxes	\$(0.06)	\$(0.14)	\$(0.18)	\$(0.32)
Income from discontinued operations, net of income taxes	—	0.09	—	0.14
Net loss	\$(0.06)	\$(0.05)	\$(0.18)	\$(0.18)
Weighted-average number of shares of common stock outstanding:				
Basic and diluted	52,241,605	50,205,913	52,035,788	50,102,803

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

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Telaria, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$(3,121)	\$(2,300)	\$(9,222)	\$(9,160)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(202)	41	(272)	127
Comprehensive loss	\$(3,323)	\$(2,259)	\$(9,494)	\$(9,033)

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

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Telaria, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss from continuing operations	\$(9,086)	\$(16,358)
Total income (loss) from discontinued operations	(136)	7,198
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	2,675	4,706
Bad debt expense	163	325
Mark-to-market expense	—	148
Compensation expense related to the acquisition contingent consideration	—	1,810
Loss on disposal of property and equipment	21	—
Stock-based compensation expense	1,836	2,065
Deferred tax benefit	—	40
Net changes in operating assets and liabilities:		
Decrease in accounts receivable	709	4,742
(Increase)/decrease in prepaid expenses, other current assets and other long-term assets	(776)	161
Increase/(decrease) in accounts payable and accrued expenses	615	(8,892)
Increase/(decrease) in other current liabilities	243	(79)
Increase/(decrease) in deferred rent and security deposits payable	760	(315)
(Decrease)/increase in deferred income	(657)	90
Decrease in other liabilities	(639)	—
Net cash used in operating activities	(4,272)	(4,359)
Cash flows from investing activities:		
Purchase of property and equipment	(2,505)	(895)
Acquisition, net of cash received	(4,856)	—
Net cash used in investing activities	(7,361)	(895)
Cash flows from financing activities:		
Proceeds from the exercise of stock options awards	1,178	62
Proceeds from issuance of common stock under employee stock purchase plan	239	255
Principal portion of capital lease payments	—	(187)
Treasury stock — repurchase of stock	—	(2,406)
Tax withholdings related to net share settlements of restricted stock unit awards (RSUs)	(1,014)	(709)
Net cash provided by (used in) financing activities	403	(2,985)
Net decrease in cash, cash equivalents and restricted cash	(11,230)	(8,239)
Effect of exchange rate changes in cash, cash equivalents and restricted cash	(140)	462
Cash, cash equivalents and restricted cash at beginning of period	76,320	43,930
Cash, cash equivalents and restricted cash at end of period	\$64,950	\$36,153

Supplemental disclosure of cash flow activities:

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Cash paid for income taxes	\$53	\$74
Cash paid for interest expense	\$—	\$90
Supplemental disclosure of non-cash investing and financing activities:		
Purchase of property and equipment in accounts payable and accrued expenses	\$—	\$72
Contingent consideration related to acquisition	\$1,443	\$—
Cash holdback related to acquisition	\$452	\$—
Deferred tax liability related to acquisition	\$1,092	\$—
Common stock issued for settlement of RSUs	\$2,834	\$1,879

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

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

1. Organization and Description of Business

Telaria, Inc. (the “Company”), formerly Tremor Video, Inc., provides a fully programmatic, software platform for premium publishers to analyze, manage and monetize their video advertising across internet connected devices.

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 the Company's name from “Tremor Video, Inc.” to “Telaria, Inc.” In connection with the name change, the Company’s common stock began trading under a new NYSE ticker symbol, “TLRA,” and the corporate website address was changed to www.telaria.com.

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

Following the strategic decision to sell the buyer platform, the Company is focused exclusively on offering a video management platform for publishers.

The Company is headquartered in the State of New York.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements and condensed footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and the applicable rules and regulations of the U.S. Securities and Exchange Commissions (the “SEC”) regarding unaudited interim financial information. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all normal recurring adjustments necessary for a fair presentation of the Company’s condensed consolidated balance sheets, statements of operations, comprehensive loss, changes in stockholders equity, and cash flows for the interim periods presented in addition to the acquisition of SlimCut Media SAS, a French société par actions simplifiée incorporated under the laws of France (“SlimCut”), and restructuring cost adjustments. Operating results for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full year or the results for any future periods due to seasonal and other factors, including, but not limited to, the Company’s acquisition of SlimCut and the disposition of the buyer platform. Certain information and footnote disclosures normally included in the consolidated financial statements in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. Accordingly, these unaudited interim condensed consolidated financial statements and condensed footnotes should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company’s Form 10-K for the year ended December 31, 2017 filed with the SEC on March 2, 2018. The Company’s Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations for the prior periods presented herein have been recast to exclude the results of its buyer platform business that was classified as discontinued operations during the third quarter of 2017. See Note 3 for additional information.

Principles of Consolidation

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in the accompanying unaudited interim condensed consolidated financial statements.

Use of Estimates

The preparation of the Company’s Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the Condensed

Consolidated Financial Statements and accompanying disclosures. Actual results could differ from those estimates.

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company generates revenue each time a transaction occurs on its platform based on a simple and transparent fee structure established with its publisher partners and does not collect any fees directly from buyers integrated with its platform. For substantially all transactions generated through its platforms, the Company acts as an agent on behalf of publishers and revenue is recognized net of any inventory costs that it remits to publishers.

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 the Company is acting as the principal or an agent, management 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 our platforms are reported on a net basis as we are not the primary obligor in our publisher platform transactions as: (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, the Company reports revenue on a gross basis, based primarily on its determination that it acts as the primary obligor in the delivery of advertising campaigns for buyers with respect to such transactions.

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 condensed 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; with modification defined as; (i) an event that increases the fair value of the award; (ii) changes the vesting period of the award; (iii) or changes the classification of the award from equity to liability or liability to equity, for employees, other service providers or non-employees at the date of modification.

For the three and six months ended June 30, 2018 and 2017, stock-based compensation recorded in continuing operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock-based compensation expense:				
Technology and development	\$ 124	\$ 156	\$ 253	\$ 300

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Sales and marketing	394	187	704	350
General and administrative	462	409	879	846
Total stock-based compensation expense in continuing operations	\$980	\$752	\$1,836	\$1,496

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

2. Summary of Significant Accounting Policies (Continued)

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.

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. As a result of the Act, no federal income tax provision related to regular or AMT taxes has been recorded for the period ended June 30, 2018. 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 June 30, 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.

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 warrants to purchase common stock, stock option awards and restricted stock unit awards. Due to the Company's loss from continuing

operations, net of income taxes: (i) warrants to purchase common stock; (ii) stock option awards; and (iii) 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.

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

2. Summary of Significant Accounting Policies (Continued)

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.

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.

As of June 30, 2018 and December 31, 2017 the allowance for doubtful accounts was \$1,013 and \$359, respectively.

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 by performing ongoing credit evaluations and monitoring its customers' accounts receivable balances. For new customers 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 collection is reasonably assured.

During the three and six months ended June 30, 2018, there were two publishers that accounted for more than 10% of revenue. There were no publishers that accounted for more than 10% of revenue during the three and six months ended June 30, 2017. At June 30, 2018 and December 31, 2017 there were two and three DSPs that each accounted for more than 10% of outstanding accounts receivables, respectively.

Prepaid Expenses and Other Current Assets

The Company records prepaid expenses and other current assets at cost and expenses them in the period the services are provided or the goods are delivered. The Company's prepaid expenses and other current assets consist of the following:

	June 30, 2018	December 31, 2017
Prepaid expenses and other current assets	\$3,229	\$ 2,231
Prepaid rent	168	127
Deferred rental income	144	141
Total prepaid expenses and other current assets	\$3,541	\$ 2,499

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

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.

For the three and six months ended June 30, 2018 and 2017, the Company recorded depreciation expense of \$755 and \$2,464 and \$902 and \$1,835, respectively. As of June 30, 2018 and December 31, 2017, the accumulated depreciation balance is \$2,119 and \$9,110, respectively.

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. Fair value is estimated based on discounted future cash flows.

The Company did not identify any impairment losses in continuing operations related to the Company's long-lived assets during the three and six months ended June 30, 2018 and 2017.

Accounts Payable and Accrued Expenses

The Company records accounts payable and accrued expenses at cost when the service is provided or when the related product is delivered. The Company's accounts payable and accrued expenses consist of the following:

	June 30, December 31,	
	2018	2017
Trade accounts payable	\$49,795	\$ 48,736
Accrued compensation, benefits and payroll taxes	4,352	4,288
Accrued cost of sales	4,762	5,576
Other payables and accrued expenses	2,262	819
Total accounts payable and accrued expenses	\$61,171	\$ 59,419

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

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Telaria, Inc.

Notes to Condensed Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

2. Summary of Significant Accounting Policies (Continued)

and presented as either a current or long-term liability in the consolidated balance sheets based on the term of the respective lease agreements.

Recently Issued Accounting Pronouncements

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

In June 2018, Financial Accounting Standards Board, ("FASB") issued an Accounting Standards Update, ("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 condensed 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 condensed consolidated financial statements and related disclosures.

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

In September 2017, FASB issued an 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 not 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, and 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 condensed consolidated financial statements and related disclosures.

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. The pronouncement eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities). Now the entity compares the fair value of the reporting unit with its carrying amount. The requirement is for public business entities to apply the guidance to annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim or annual impairment tests after January 1, 2017. The Company does not believe the adoption of this ASU will

have a material impact prospectively, to the Company's condensed consolidated financial statements and related disclosures.

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

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2. Summary of Significant Accounting Policies (Continued)

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 condensed 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 retrospectively to annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company adopted this update in the first quarter of 2018 with no impact to the Company's six months 2018 condensed 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 the six months of 2017.

FASB Accounting Standards Update No. 2016-15 - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an ASU, 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 condensed 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, Leases, which clarifies and improves existing authoritative guidance related to leasing transactions. This update will require the recognition of lease assets and lease liabilities on the balance sheet and disclosing information about material leasing arrangements. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective. To facilitate the implementation of this guidance, the Company has hired an outside consulting firm to assist the Company in identifying our significant leases by geography and by asset type that will be impacted by the new guidance and in the process of identifying and implementing a new software platform for administering our leases and facilitating compliance with the new guidance. The Company expects to implement this guidance in the first quarter of 2019.

The Company is currently evaluating the impact that the update will have on its condensed consolidated financial statements and related disclosures.

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

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2. Summary of Significant Accounting Policies (Continued)

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 condensed 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. In connection with the transaction, we entered into a transition services agreement, as amended, pursuant to which we agreed to provide certain services to Taptica through May 31, 2018.

The proceeds from the sale included \$1,000 for the right to use the name, "Tremor Video, DSP," for a period of 18 months following the closing. The Company is currently recognizing the \$1,000 in other income within the Condensed Consolidated Statements of Operations ratably over the 18 months period.

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 is recorded in other income.

In connection with the closing of the transaction, the Company recognized a gain on sale of discontinued operations, net of tax, of \$14,626 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 sale of discontinued operations for the three and six months ended June 30, 2018 as a result of net working capital adjustments in the amounts of \$(161) and \$(136), respectively. The losses recorded for the three and six months ended June 30, 2018 partially offset the gain on sale of discontinued operations originally recognized in the third quarter of 2017.

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3. Disposition of Buyer Platform (Continued)

The following table presents the major financial lines constituting the results of operations for discontinued operations to the net income from discontinued operations, net of tax, presented separately in the Condensed Consolidated Statements of Operations:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Revenue	\$—	\$38,933	—	74,194
Cost of revenue	—	23,524	—	44,783
Gross profit	—	15,409	—	29,411
Operating expenses:				
Technology and development	—	3,081	—	6,317
Sales and marketing	—	6,208	—	12,735
General administrative	—	231	—	441
Depreciation and Amortization	—	1,367	—	2,695
Total operating expenses	—	10,887	—	22,188
Operating income of discontinued operations before income taxes	—	4,522	—	7,223
Provision for income tax on discontinued operations	—	6	—	25
Income from discontinued operations, net of income taxes	\$—	\$4,516	—	7,198
Loss on sale of discontinued operations before income taxes	(161)	—	(136)	—
Provision for income taxes on sale of discontinued operations	—	—	—	—
Loss on sale of discontinued operations, net of income taxes	(161)	—	(136)	—
Total income (loss) from discontinued operations, net of income taxes	\$(161)	\$4,516	\$(136)	\$7,198

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

	Six Months Ended June 30, 2018	2017
Non-cash adjustments to net cash from operating activities:		
Depreciation and amortization	\$—	\$2,695
Stock based compensation expense	\$—	\$569
Cash used in investing activities:		
Capital expenditures	\$—	\$462

4. Acquisitions

On June 8, 2018, the Company acquired all of the outstanding shares of SlimCut, a global video technology solutions company that is focused on serving premium publishers in Canada and France, 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 are eligible to receive future cash payments up to \$1,500 based on certain financial milestones of SlimCut during fiscal year 2018.

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4. Acquisitions (Continued)

The fair value of the contingent consideration as of June 8, 2018 is \$1,443 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, with no material change in fair value. As a result, no mark-to market expense is recorded for the three month period ended June 30, 2018.

The results of operations of SlimCut have been included in the Company's condensed 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 and for the three and six month periods ended June 30, 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 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 former stockholders of TVN ("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 (the "Year 1 Earn-Out Period") and the period from July 1, 2016 to June 30, 2017 (the "Year 2 Earn-Out Period"), 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 three and six months ended June 30, 2017, the Company recorded \$93 and \$148 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 \$985 and \$1,810 of compensation related expense in connection with the 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, all contingent consideration related to the purchase of TVN had been paid.

5. 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

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5. Fair Value Measurements (Continued)

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds(1)	\$49,233	\$—	\$—	\$49,233	\$53,853	\$—	\$—	-\$53,853
Total assets	\$49,233	\$—	\$—	\$49,233	\$53,853	\$—	\$—	-\$53,853
Liabilities:								
Contingent consideration on acquisition liability(2)	\$—	\$—	-\$1,443	\$1,443	\$—	\$—	\$—	\$—
Total liabilities	\$—	\$—	-\$1,443	\$1,443	\$—	\$—	\$—	\$—

Money market funds are included within cash and cash equivalents in the Company's consolidated balance sheets.

(1) 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 \$15,717 and \$22,467 of operating cash balances as of June 30, 2018 and December 31, 2017, respectively.

On June 8, 2018, the Company acquired all of the outstanding shares of SlimCut. In connection with the acquisition, the former stockholders of SlimCut are eligible to receive future cash payments contingent on the operating performance of SlimCut in reaching certain financial milestones. 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, (2) 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. Subsequent to the date of acquisition, the Company re-measured the estimated fair value of the contingent consideration as of June 30, 2018 with no material change in the estimated fair value of the contingent consideration. Any changes in the unobservable inputs could significantly impact the estimated fair value of the contingent consideration.

Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)
2018

Beginning Balance at January 1, 2018	\$—
Contingent consideration (SlimCut Acquisition)	1,443
Mark-to-market(1)	—
Balance as of June 30, 2018	\$1,443

As of June 30, 2018, there is no mark-to-market expense incurred based on the Company's re-measurement of the estimated fair value of the contingent consideration relating to the acquisition of SlimCut. Amounts recorded as (1) 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 4 for further discussion of contingent consideration payments owed in connection with the Company's acquisition of SlimCut.

6. 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 evaluates goodwill and other intangible assets with indefinite lives for impairment annually as of October 1st, 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. The Company adopted FASB Accounting Standards Update (“ASU”)

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6. Goodwill and Intangible Assets, Net (Continued)

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.

The Company operates as one operating and reporting segment and, therefore, the Company assesses 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.

The Company did not identify any impairment of its goodwill as of June 30, 2018 and December 31, 2017, and therefore, for the three and six months ended June 30, 2018 and for the year-ended December 31, 2017, no impairment losses related to goodwill were recorded.

The changes in the carrying amount of goodwill as of June 30, 2018 are as follows:

	June 30, 2018
Beginning balance as of January 1, 2018	\$6,320
Acquisition-related goodwill	3,434
Foreign exchange impact	(96)
Ending Balance as of June 30, 2018	\$9,658

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.

The Company did not identify any impairment of intangible assets as of June 30, 2018 and December 31, 2017, and therefore, for the three and six months ended June 30, 2018 and for the year-ended December 31, 2017, no impairment losses related to intangible assets were recorded.

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:

Customer relationships 5 - 10 years

Technology 5 years

Information regarding the Company's acquisition-related intangible assets, net is as follows:

	June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships(1)	\$4,955	\$ (1,017)	\$ 3,938

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Technology(2)	1,000	(12)	988
Total acquisition-related intangible assets, net	\$5,955	\$ (1,029)	\$ 4,926

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6. Goodwill and Intangible Assets, Net (Continued)

	December 31, 2017		
	Gross	Accumulated	Net
	Carrying	Amortization	Carrying
	Amount		Amount

Customer relationships(1)	\$2,188	\$ (881)	\$ 1,307
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(1) Gross carrying amount increased \$2,900 from December 31, 2017 to June 30, 2018 due to the acquisition of SlimCut and decreased \$133 from the foreign exchange impact for the same period. From December 31, 2017 to June 30, 2018, amortization expense increased by \$197, offset by foreign exchange impact over the same period of \$61.

(2) The increase in gross carrying amount and accumulated amortization of \$1,000 and \$12, respectively, for the six months ended June 30, 2018 is due to the acquisition of SlimCut.

Amortization expense for the three and six months ended June 30, 2018 is \$119 and \$211, respectively. For the three and six months ended June 30, 2017 amortization expense was \$88 and \$176, respectively.

The estimated future amortization expense for intangibles subject to amortization for the next five years and thereafter is as follows:

2018 (six months remaining)	416
2019	833
2020	833
2021	690
2022	490
2023 and thereafter	1,664

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7. Changes in Accumulated Other Comprehensive Loss

The following tables provide the components of accumulated other comprehensive loss income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	Foreign	Foreign	Foreign	Foreign
	Currency	Currency	Currency	Currency
	Translation	Translation	Translation	Translation
	Adjustment	Adjustment	Adjustment	Adjustment
Balance at beginning of the Period	\$(302)	\$ (245)	\$(232)	\$ (331)
Other comprehensive income (loss) ⁽¹⁾	(202)	41	(272)	127
Balance as of June 30,	\$(504)	\$ (204)	\$(504)	\$ (204)

(1) For the three and six months ended June 30, 2018 and 2017, there were no reclassifications to or from accumulated other comprehensive (loss) income.

8. Net Loss Per Share of Common Stock

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Loss from continuing operations, net of income taxes	\$(2,960)	\$ (6,816)	\$(9,086)	\$ (16,358)
Total (loss) income from discontinued operations, net of income taxes	(161)	4,516	(136)	7,198
Net loss	\$(3,121)	\$ (2,300)	\$(9,222)	\$ (9,160)
Denominator:				
Weighted-average number of shares of common stock outstanding for basic and diluted net loss per share	52,241,605	50,205,913	52,035,788	50,102,803
Basic and diluted net income (loss) per share:				
Net loss from continuing operations	\$(0.06)	\$ (0.14)	\$(0.18)	\$ (0.32)
Net income from discontinued operations	—	0.09	—	0.14
Net loss	\$(0.06)	\$ (0.05)	\$(0.18)	\$ (0.18)

The following securities were outstanding during the periods presented below and have been excluded from the calculation of diluted net loss from continuing operations per share, net loss per share and net income (loss) from discontinued operations per share of common stock because the effect is anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock option awards	2,482,505	5,738,480	2,482,505	5,738,480
Restricted stock unit awards	6,988,152	4,364,856	6,988,152	4,364,856
Total anti-dilutive securities	9,470,657	10,103,336	9,470,657	10,103,336

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9. 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 for the three months ending June 30, 2018. The company recorded the one-time costs as restructuring costs in the Company's condensed consolidated statements of operations.

The following table sets forth details regarding the activities described above during the three months ended June 30, 2018.

	Balance as of April 1, 2018	Expenses, net	Cash	Non-Cash	Balance as of June 30, 2018
Restructuring liability	\$	—\$ 117	\$(23)	\$ 1	\$ 95

10. 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 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 is 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 June 30, 2018, future minimum payment commitments required under the Company's non-cancellable office space leases, including the lease for its current corporate headquarters (which the Company relocated to during the second quarter of 2018 at 222 Broadway, New York, NY), its former corporate headquarters (which the Company subleased as of June 2018 at 1501 Broadway, New York, New York) and for its previous corporate headquarters (which the Company subleases at 52W 23rd Street, New York, NY), co-location agreements and third-party licenses, net of aggregate future sublease income, for the next five years and thereafter are as follows:

Remaining 2018	\$3,223
2019	6,439
2020	6,487

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2021	5,399
2022	4,922
Thereafter	18,127
Total minimum operating commitments	44,597
Less non-cancellable sublease income	(22,606)
Total operating commitments	\$21,991

Total rent expense recorded within operating income in the condensed consolidated statements of operations for the three and six months ended June 30, 2018 is \$1,034 and \$2,171 respectively. Rent expense for the three and six months ended June 30, 2017 is \$745 and \$1,508, respectively. In addition, the Company recorded sublease expense for the three and six months

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10. Commitments and Contingencies (Continued)

ended June 30, 2018 of \$604 and \$1,039, respectively, and \$409 and \$850 for the three and six months ended June 30, 2017, respectively, and sublease income for the three and six months ended June 30, 2018 of \$582 and \$1,095, respectively, and \$468 and \$956 for the three and six months ended June 30, 2017, respectively. Sublease income and expense is recorded within other income (expense), net in the condensed consolidated statements of operations.

Letters of Credit

At June 30, 2018, the Company had the following outstanding letters of credit:

\$450 related to its former headquarters at 52 W 23rd St, New York, New York

\$320 related to its office space in Mountain View, California

\$2,332 related to its former headquarters at 1501 Broadway, New York, New York

\$633 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 June 30, 2018 and December 31, 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.

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with (1) the unaudited interim consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2017 included in the Annual Report on Form 10-K filed with the SEC on March 2, 2018. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings, including our Annual Report on Form 10-K filed with the SEC on March 2, 2018. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the

date of such statements. We will disclose material non-public information through one or more of the following channels: our investor relations website (<http://investor.telaria.com>), the social media channels identified on our investor relations website, press releases, SEC filings, public conference calls and webcasts.

Overview

Telaria, Inc. provides a fully programmatic, software platform for premium publishers to analyze, 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 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.

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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 gain important insights into the value of their video inventory across channels. Our platform is integrated with leading third-party demand-side platforms, or DSPs, through server-to-server integrations, which enable publishers to programmatically connect with buyers through private marketplaces or open auctions with significantly reduced latency and response time. In addition, publishers manage their directly sold video inventory through our newly introduced Advanced TV ad server, which was built specifically to meet the unique requirements of CTV.

We provide a full suite of tools for publishers to control their video inventory and protect the integrity of their brand. For instance, through our inventory pricing and presentation controls, publishers are able to define supply hierarchies and demand tiers, set minimum price floors, establish advertiser and category-level black and white lists to manage potential sales channel conflicts, and set pacing and forecasting parameters for campaigns. Our brand safety controls provide publishers with essential tools to ensure that the delivery of an ad campaign does not interfere with the consumer viewing experience, including ad creative review tools, the ability to filter out repetitive ads, and ad-pod features that allow for the serving of multiple ads at once in a manner analogous to commercial breaks in traditional linear television.

Our platform provides publishers with up-to-the-second reporting through a live dashboard and reporting suite, which allows them to effectively monitor buying patterns and make real-time changes to take advantage of market dynamics, as well as extensive analytics that leverage billions of historical data points to drive long term monetization strategy. In addition, clients utilize our inventory intelligence dashboard to access first and third-party data that provides valuable insights into their inventory such as performance, viewability and audience data. This data can then be used by publishers to segment their inventory and create incremental value. We also offer real-time diagnostic capabilities and full transactional transparency to our publisher partners so that they have a complete picture of how their inventory is represented in the marketplace and can immediately identify and act to resolve any issues impacting revenue generation.

We have built long-standing relationships with premium video publishers, 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 each time a transaction occurs 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 is focused on serving premium publishers in Canada and France. Refer to Note 4 - Acquisition, in the notes to the condensed consolidated financial statements. Historically, we operated a buyer platform business in addition to offering our video management platform for publishers. We recently made the strategic decision to focus our business exclusively on offering our video management platform for publishers, and on August 7, 2017, we announced that we had completed the sale of the assets and liabilities primarily related to our buyer platform to an affiliate of Taptica International Ltd. or Taptica, for total consideration of \$50 million, subject to adjustment for working capital. As a result of the sale, we no longer provide a buyer platform solution. Accordingly, the results of operations for the buyer platform are reflected as discontinued operations in our financial statements for all periods presented herein.

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.

For the quarter ended June 30, 2018, our revenue from continuing operations increased to \$12.4 million, compared to \$9.9 million for the quarter ended June 30, 2017, an increase of 25.1%. Over the same period, our gross margin increased to 90.9% for the quarter ended June 30, 2018, compared to 90.8% for the quarter ended June 30, 2017. Our

loss from continuing operations, net of income taxes decreased from a loss of \$6.8 million for the quarter ended June 30, 2017 to a loss from continuing operations, net of income taxes of \$3.0 million for the quarter ended June 30, 2018, and our Adjusted EBITDA (refer to “Key Metrics-Adjusted EBITDA”) increased from a loss of \$3.2 million to a loss of \$1.1 million for the same respective periods.

For the six months ended June 30, 2018, our revenue from continuing operations increased to \$22.0 million compared to \$16.1 million for the six months ended June 30, 2017, an increase of 37.1%. Over the same period, our gross margin increased to 90.2% for the six months ended June 30, 2018, compared to 89.5% for the six months ended June 30, 2017. Our loss from continuing operations, net of income taxes decreased from a loss of \$16.4 million for the six months ended June 30, 2017 to a loss from continuing operations, net of income taxes of \$9.1 million for the six months ended June 30, 2018 and our

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Adjusted EBITDA (refer to “Key Metrics-Adjusted EBITDA”) increased from a loss of \$10.0 million to a loss of \$4.4 million for the same respective periods.

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 from continuing operations, net of income taxes are discussed under the headings “Components of our Results of Operations.” Adjusted EBITDA is discussed immediately following the table below.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
	(unaudited)			
Revenue	\$12,430	\$9,934	\$22,031	\$16,073
Gross margin	90.9 %	90.8 %	90.2 %	89.5 %
Loss from continuing operations, net of income taxes	(2,960)	(6,816)	\$(9,086)	\$(16,358)
Adjusted EBITDA	\$(1,074)	\$(3,227)	\$(4,397)	\$(9,975)

Adjusted EBITDA

Adjusted EBITDA represents our loss from continuing operations, net of income taxes, before depreciation and amortization expense, total interest and other expense (income), net, provision (benefit) 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-costs, expenses for transitional services, 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 acquisition-related costs, restructuring costs, executive severance, retention and recruiting costs, disposition-costs, expenses for transitional services and other adjustments that may represent a reduction in cash available to us; 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.

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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.

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
	(unaudited)			
Loss from continuing operations, net of income taxes	\$(2,960)	\$(6,816)	\$(9,086)	\$(16,358)
Adjustments:				
Depreciation and amortization expense	874	990	2,675	2,011
Total interest and other income (expense), net ⁽¹⁾	(1,082)	78	(1,796)	105
Provision for income taxes	29	89	43	79
Stock-based compensation expense	980	752	1,836	1,496
Acquisition-related costs ⁽²⁾	329	985	329	1,810
Restructuring costs ⁽³⁾	117	—	117	—
Mark-to-market expense ⁽⁴⁾	—	93	—	148
Executive severance, retention and recruiting costs	80	302	223	332
Disposition-related costs ⁽⁵⁾	1	300	2	300
Expenses for transitional services ⁽⁶⁾	308	—	697	—
Litigations costs	—	—	—	—
Other adjustments ⁽⁷⁾	250	—	563	102
Total net adjustments	1,886	3,589	4,689	6,383
Adjusted EBITDA	\$(1,074)	\$(3,227)	\$(4,397)	\$(9,975)

Reflects sublease income for our two former corporate headquarters and former Santa Monica location net of rent (1) expense for those same locations. In addition, includes income received from the sale of Tremor Video DSP trademark.

For the three and six months ended June 30, 2018, reflects acquisition-related costs incurred in connection with (2) our acquisition of SlimCut. For the three and six months ended June 30, 2017, reflects acquisition-related costs incurred in connection with the acquisition of TVN. Refer to Note 4 - Acquisition, in the notes to the condensed consolidated financial statements.

Reflects the estimated fair value of costs related to the move of our Santa Monica location. Refer to Note 8 - (3) Restructuring costs in the notes to the condensed consolidated financial statements.

Reflects expense incurred based on the re-measurement, at June 30, 2017, of the estimated fair value of earn-out (4) payments that were paid in connection with the acquisition of TVN and which were not conditioned on continued employment. Refer to Note 4 - Acquisition in the notes to the condensed consolidated financial statements.

Reflects professional fees incurred in connection with the sale of the buyer platform in August 2017. Refer to Note (5) 3 - Disposition of Buyer Platform in the notes to the condensed consolidated financial statements of this Form 10-Q.

Reflects costs incurred providing transitional services following the sale of our buyer platform. (6)

For the three and six months ended June 30, 2018, reflects rent expense for our current corporate headquarters (7) during the period of time in which such space was unoccupied. For the six months ended June 30, 2017, reflects amounts accrued in connection with a one-time change in our employee vacation policy for the first quarter of 2017.

Components of Operating Results

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

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Revenue

We generate revenue each time a transaction occurs 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. For substantially all transactions generated through our platforms, we act as an agent on behalf of publishers and revenue is recognized net of any inventory costs that it remits to publishers. Refer to Note 2 - Summary of Significant Accounting Policies-Revenue Recognition, in the notes to the condensed consolidated financial statements.

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue primarily consists of third party hosting fees, licensing fees for third party data and, with respect to any transactions that we record on a gross basis, cost of inventory. Costs owed to publishers but not yet paid are recorded in our consolidated balance sheets and included as part of accounts payable and accrued expenses.

Gross margin is our gross profit expressed as a percentage of our total revenue.

Operating Expenses

Operating expenses consist of technology and development, sales and marketing, general and administrative, restructuring costs, 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. 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 travel and 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. We intend to continue to invest in our technology and development efforts. 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. 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. Additional expenses in this category include legal, accounting, investor relations and other professional fees, insurance, public company expenses, including costs associated with becoming compliant with the Sarbanes-Oxley Act, travel and other related overhead. We expect our general and administrative expenses to increase in absolute dollars in future periods as a result of incurring additional expenses becoming compliant with the Sarbanes-Oxley Act.

Restructuring Costs. Restructuring costs primarily consist of costs associated with the relocation of office space as a result of the sale of our buyer platform in August of 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 Expense. Mark-to-market expense consists primarily of expense related to contingent consideration incurred in connection with our acquisition of TVN in August 2015 (refer to note 4 in notes to condensed consolidated financial statements).

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Interest and Other Income (Expense), Net

Interest and other income (expense), net consist primarily of interest income, interest expense, and 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. As of June 30, 2018 and December 31, 2017, we did not have any outstanding borrowings under our credit facility.

Provision for Income Taxes

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

Results of Operations

The following table is a summary of our consolidated statements of operations data for each of the periods indicated. The results of operations of our buyer platform are included in "Income from discontinued operations, net of income taxes."

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	Three Months Ended June 30, 2018				Six Months Ended June 30, 2017				Percentage of Revenue			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue				
(dollars in thousands)												
Consolidated Statements of Operations												
Data:												
Revenue	\$12,430	100	%	\$9,934	100.0	%	\$22,031	100.0	%	\$16,073	100.0	%
Cost of revenue	1,136	9.1		917	9.2		2,164	9.8		1,681	10.5	
Gross profit	11,294	90.9		9,017	90.8		19,867	90.2		14,392	89.5	
Operating expenses:												
Technology and development	2,305	18.5		2,109	21.2		4,613	20.9		4,534	28.2	
Sales and marketing	6,646	53.5		7,700	77.5		12,938	58.7		14,226	88.5	
General and administrative	5,365	43.2		4,774	48.1		10,363	47.0		9,647	60.0	
Restructuring costs	117	0.9		—	—		117	0.5		—	—	
Depreciation and amortization	874	7.0		990	10.0		2,675	12.1		2,011	12.5	
Mark-to-market	—	—		93	0.9		—	—		148	0.9	
Total operating expenses	15,307	123.2		15,666	157.7		30,706	139.2		30,566	190.2	%
Loss from continuing operations	(4,013)	(32.3)	)	(6,649)	(66.9)	)	(10,839)	(49.2)	)	(16,174)	(100.6))
Total interest and other (expense) income, net	1,082	8.7		(78)	(0.8)	)	1,796	8.2		(105)	(0.7))
Loss from continuing operations before provision for income taxes	(2,931)	(23.6)	)	(6,727)	(67.7)	)	(9,043)	(41.0)	)	(16,279)	(101.3))
Provision (benefit) for income taxes	29	0.2		89	0.9		43	0.2		79	0.5	
Loss from continuing operations, net of income taxes	(2,960)	(23.8)	)	(6,816)	(68.6)	)%	(9,086)	(41.2)	)%	(16,358)	(101.8))%
Income from discontinued operations, net of income taxes	(161)	(1.3)	)	4,516	45.5		(136)	(0.6)	)	7,198	44.8	
Net loss	\$(3,121)	(25.1)	)%	\$(2,300)	(23.2)	)%	\$(9,222)	(41.9)	)%	\$(9,160)	(57.0))%

Comparison for the Three and Six Months Ended June 30, 2018 and 2017

Revenue

	Three Months Ended June 30, 2018			Change Increase/ (Decrease)			Six Months Ended June 30, 2017			Change Increase/ (Decrease)		
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
(dollars in thousands)												
Revenue	\$12,430	\$9,934	\$2,496	25.1	%	\$22,031	\$16,073	\$5,958	37.1	%		

Our revenue during the three months ended June 30, 2018 increased to \$12.4 million from \$9.9 million for the same period in 2017, an increase of 25.1%. The increase in our revenue resulted from an increase in the amount of spend being transacted through our platform, including spend transacted by our former buyer platform following its sale to Taptica in August 2017.

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Our revenue during the six months ended June 30, 2018 increased to \$22.0 million from \$16.1 million for the same period in 2017, an increase of 37.1%. The increase in our revenue resulted from an increase in the amount of spend being transacted through our platform, including spend transacted by our former buyer platform following its sale to Taptica in August 2017.

Cost of Revenue, Gross Profit and Gross Margin

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)		
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage	
(dollars in thousands)									
Cost of revenue	\$1,136	\$917	\$ 219	23.9 %	\$2,164	\$1,681	\$ 483	28.7 %	
Gross profit	11,294	9,017	2,277	25.3 %	19,867	14,392	5,475	38.0 %	
Gross margin	90.9 %	90.8 %			90.2 %	89.5 %			

Our cost of revenue during the three months ended June 30, 2018, increased to \$1.1 million from \$0.9 million for the three months ended June 30, 2017.

For the three months ended June 30, 2018, gross profit was \$11.3 million, an increase of \$2.3 million, or 25.3%, compared to the prior year period.

Our gross margin increased to 90.9% for the three months ended June 30, 2018 from 90.8% for the three months ended June 30, 2017.

Our cost of revenue during the six months ended June 30, 2018, increased to \$2.2 million from \$1.7 million for the six months ended June 30, 2017. The increase in our cost of revenue primarily reflects an increase in hosting fees corresponding with additional spend being transacted through our platform.

For the six months ended June 30, 2018, gross profit was \$19.9 million, an increase of \$5.5 million, or 38.0%, compared to the prior year period.

Our gross margin increased to 90.2% for the six months ended June 30, 2018 from 89.5% for the six months ended June 30, 2017.

Technology and Development Expense

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)		
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage	
(dollars in thousands)									
Technology and development expense	\$2,305	\$2,109	\$ 196	9.3 %	\$4,613	\$4,534	\$ 79	1.7 %	
% of total revenue	18.5 %	21.2 %			20.9 %	28.2 %			

The increase in technology and development expense during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, was primarily attributable to a \$0.2 million increase in salaries, incentive compensation and stock-based compensation.

Technology and development expense for the six month period June 30, 2018 compared to the six month period ended June 30, 2017 remained relatively flat.

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Sales and Marketing Expense

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Sales and marketing expense	\$6,646	\$7,700	\$(1,054)	(13.7)%	\$12,938	\$14,226	\$(1,288)	(9.1)%
% of total revenue	53.5%	77.5%			58.7%	88.5%		

The decrease in sales and marketing expense during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, was primarily attributable to a \$0.6 million decrease in salaries, incentive compensation and stock based compensation and by a \$0.4 million decrease in overhead costs.

The decrease in sales and marketing expense during the six month period ended June 30, 2018, compared to the six months ended June 30, 2017, was primarily attributable to a \$0.7 million decrease in salaries, incentive compensation and stock based compensation, \$0.3 million decrease in bad debt expense and \$0.2 million decrease in overhead costs.

General and Administrative Expense

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
General and administrative expense	\$5,365	\$4,774	\$ 591	12.4%	\$10,363	\$9,647	\$ 716	7.4%
% of total revenue	43.2%	48.1%			47.0%	60.0%		

The increase in general and administrative expense during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, was primarily attributable to a \$0.1 million increase in salaries, incentive compensation, stock-based compensation and other personnel-related costs, \$0.2 million increase in bad debt expense and \$0.3 million increase in overhead costs.

The increase in general and administrative expense during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, was primarily attributable to a \$0.4 million increase in salaries, incentive compensation, stock-based compensation and other personnel-related costs, \$0.2 million increase in bad debt expense and \$0.1 million increase in overhead costs.

Restructuring Costs

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Restructuring costs	\$117	\$—	\$ 117	100.0%	\$117	\$—	\$ 117	100.0%
% of total revenue	0.9%	—%			0.5%	—%		

The increase in restructuring costs during the three and six months ended June 30, 2018 is the result of one-time costs due to the relocation of our Santa Monica office.

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Depreciation and Amortization Expense

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Depreciation and amortization expense	\$874	\$990	\$ (116)	(11.7)%	2,675	\$2,011	\$ 664	33.0 %
% of total revenue	7.0 %	10.0 %			12.1 %	12.5 %		

Depreciation expense for the three month period ended June 30, 2018, compared to the three month period ended June 30, 2017 remained relatively flat, year over year.

The increase in depreciation and amortization expense during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily attributable to accelerated depreciation on leasehold improvements and furniture and fixtures that will not be moved in connection with our relocation of office space.

Mark-to-Market Expense

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Mark-to-market expense	\$—	\$93	\$ (93)	(100.0)%	—	\$148	\$ (148)	(100.0)%
% of total revenue	0.0 %	0.9 %			0.0 %	0.9 %		

Mark-to-market expense is 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 note 4 in the notes to condensed consolidated financial statements). Contingent consideration was paid in full as of September 30, 2017 and as a result, there was no mark-to-market expense during the three and six months ended June 30, 2018.

Interest and Other Income (Expense), Net

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Total interest and other (expense) income, net	\$1,082	\$(78)	\$1,160	(1,487.2)%	\$1,796	\$(105)	\$1,901	(1,810.5)%
% of total revenue	8.7 %	(0.8)%			8.2 %	(0.7)%		

The increase in total interest and other income (expense), net during the three months ended June 30, 2018, compared to the three months ended June 30, 2017, was primarily attributable to an increase of \$0.3 million in transitional services income related to services provided to the acquirer following the sale of our buyer platform, \$0.6 million relating to licenses of intellectual property and the remaining increase attributable to interest income.

The increase in interest income and other income (expense), net during the six months ended June 30, 2018, compared to the six months ended June 30, 2017, was the result of an increase of \$0.7 million in transitional services income related to the services provided to the acquirer following the sale of our buyer platform, \$0.7 million related to license of intellectual property and the remaining increase attributable to interest income.

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Provision for income taxes

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Provision for income taxes	\$29	\$89	\$ (60)	(67.4)%	\$43	\$79	\$ (36)	(45.6)%
% of total revenue	0.2 %	0.9 %			0.2 %	0.5 %		

The provision for income taxes for the three and six month periods ended June 30, 2018 and 2017 remained flat, year over year.

Income from Discontinued Operations

	Three Months Ended June 30,		Change Increase / (Decrease)		Six Months Ended June 30,		Change Increase / (Decrease)	
	2018	2017	Amount	Percentage	2018	2017	Amount	Percentage
	(dollars in thousands)							
Income from discontinued operations	\$(161)	\$4,516	\$(4,677)	(103.6)%	\$(136)	\$7,198	\$(7,334)	(101.9)%
% of total revenue	(1.3)%	45.5 %			(0.6)%	44.8 %		

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 condensed consolidated financial statements). The results of our buyer platform have been recast as discontinued operations.

For the three and six months ended June 30, 2018, income from discontinued operations consisted of working capital adjustments.

Liquidity and Capital Resources

Our Condensed Consolidated Statement of Cash Flows (Unaudited) includes cash flows from discontinued operations related to our buyer platform. Except for disclosures related to our working capital, liquidity and cash flows, or unless otherwise specified, disclosures in this management's discussion and analysis of financial condition and results of operations relate solely to our continuing operations.

Working Capital

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

	As of June 30,	
	2018	2017
	(dollars in thousands)	
Cash and cash equivalents	\$ 64,950	\$ 36,153
Accounts receivable, net of allowance for doubtful accounts	60,021	30,056
Working capital	\$ 64,281	\$ 50,216

Our cash and cash equivalents at June 30, 2018 were held for working capital purposes. We do not enter investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in 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

Cash and Cash Equivalents

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 \$65.0 million and \$76.3 million as of June 30, 2018 and December 31, 2017, respectively.

Credit Facility

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 June 30, 2018 and December 31, 2017, our lender has issued standby letters of credit in favor of the landlord of our headquarters totaling \$2.3 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. 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 June 30, 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 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.

Historical Cash Flows

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

	Six Months Ended	
	June 30,	
	2018	2017
	(dollars in thousands)	
Net cash provided by (used in):		
Operating activities	\$ (4,272)	\$ (4,359)
Investing activities	(7,361)	(895)
Financing activities	403	(2,985)

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Operating Activities

Net cash used in 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.

During the six months ended June 30, 2018, our net cash used in operating activities was \$4.3 million and primarily consisted of a loss from continuing operations, net of income taxes of \$9.1 million, partially offset by a \$0.3 million increase in net cash resulting from changes in operating assets and liabilities and \$4.7 million in adjustments for non-cash items. The components of our net loss from continuing operations are described in greater detail above under “Results of Operations.” Adjustments for non-cash items consisted of \$2.7 million in depreciation and amortization expense, \$1.8 million in non-cash stock-based compensation expense and bad debt expense of \$0.2 million. The increase in cash resulting from changes in our operating assets and liabilities of \$0.3 million during the six months ended June 30, 2018 consisted of a \$0.6 million increase in accounts payable and accrued expense, a \$0.7 million decrease in accounts receivable, a \$0.8 million increase in deferred rent and security deposits payable, and a \$0.3 million increase in other current liabilities, offset by \$0.8 million increase in prepaid expenses and other current assets, \$0.7 million decrease in deferred income and a \$0.6 million decrease in other liabilities.

During the six months ended June 30, 2017, our net cash used in operating activities was \$4.4 million and consisted of a loss from continuing operations, net of income taxes of \$16.4 million and a \$4.3 million decrease in net cash resulting from changes in operating assets and liabilities, which was partially offset by income from discontinued operations, net of income taxes of \$7.2 million and adjustments for non-cash items of \$9.1 million. Adjustments for non-cash items primarily consisted of \$4.7 million in depreciation and amortization expense, \$2.1 million in non-cash stock-based compensation expense, \$2.0 million in non-cash expenses related to our acquisition of TVN and \$0.3 million of bad debt expense. The decrease in cash resulting from changes in our operating assets and liabilities during the six months ended June 30, 2017 primarily consisted of a \$8.9 million net decrease in accounts payable and accrued expenses and \$0.4 million decrease in deferred rent and other current liabilities, partially offset by a decrease of \$4.7 million in accounts receivable and a \$0.2 million decrease in prepaid expenses and other current assets.

Investing Activities

For the six months ended June 30, 2018 our net cash used in investing activities of \$7.4 million consisted of the acquisition of SlimCut for initial cash payment of \$4.9 million and the purchase of property and equipment of \$2.5 million. For the six months ended June 30, 2017, our net cash used by investing activities of \$0.9 million consisted of the purchase of property and equipment.

Financing Activities

For the six months ended June 30, 2018, our net cash provided by financing activities was \$0.4 million, which consisted of \$1.2 million in proceeds received from the exercise of stock option awards and \$0.2 million of proceeds received in connection with shares purchased under our ESPP, partially offset by \$1.0 million tax payments on behalf of employees related to net share settlements of restricted stock unit awards.

For the six months ended June 30, 2017, our net cash used in financing activities was \$3.0 million, which consisted primarily of purchases of common stock pursuant to our share repurchase program of \$2.4 million, tax payments on behalf of employees related to net share settlements of restricted stock unit awards of \$0.7 million and capital lease payments of \$0.2 million, partially offset by proceeds received in connection with shares purchased under our ESPP and the exercise of stock option awards of \$0.3 million.

Off-Balance Sheet Arrangements

During the periods presented, 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.

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Critical Accounting Policies and Significant Judgments and Estimates

We prepare our unaudited interim consolidated financial statements in accordance with U.S. GAAP. The preparation of unaudited interim 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. We believe the estimates, assumptions and judgments involved in revenue recognition and deferred revenue, stock-based compensation expense, and accounting for income taxes have the greatest potential impact on our unaudited interim consolidated financial statements, and consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the U.S. Securities and Exchange Commission on March 2, 2018.

Item 3. Quantitative and Qualitative Disclosures 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.

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 June 30, 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 expenses and revenue primarily in the United Kingdom, EU, Canada, Singapore, Australia, New Zealand and Malaysia. 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. 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. 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 4. 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’s 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.

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2018. Based on the evaluation of our disclosure controls and procedures as of June 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

While our management, including our Chief Executive Officer and Chief Financial Officer, design our disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance of achieving their objectives, 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.

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Part II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is from time to time involved with various claims and litigation arising during the normal course of business. Although the results of litigation and claims cannot be predicted with certainty, 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 the Company because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

There have been no material changes to our risk factors as compared to the risk factors described in our Annual Report on Form 10-K for the year end December 31, 2017, filed with the SEC on March 2, 2018.

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

(a) Recent Sales of Unregistered Equity Securities

None

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

None

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

(a) List of Exhibits

Exhibit Number Exhibit Description

21.1	<u>List of Subsidiaries.</u>
31.1+	<u>Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).</u>
31.2+	<u>Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).</u>
32.1++	<u>Certification Pursuant of Principal Executive Officer to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2++	<u>Certification Pursuant of Principal Financial Officer to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

+ Filed herewith.

++ 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 Quarterly Report on Form 10-Q 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.

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SIGNATURES

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

TELARIA, INC.

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

Date: August 9, 2018

TELARIA, INC.

By: /s/ John S. Rego
John S. Rego
Senior Vice
President and
Chief Financial
Officer

Date: August 9, 2018