Bonomo Charles
Form 4
October 19, 2012

# FORM 4

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

OMB APPROVAL

| | |
|---|---|
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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Bonomo Charles

(Last) (First) (Middle)

C/O MSC INDUSTRIAL DIRECT CO., INC., 75 MAXESS ROAD

(Street)

MELVILLE, NY US 11747

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MSC INDUSTRIAL DIRECT CO INC [MSM]

3. Date of Earliest Transaction (Month/Day/Year)
10/18/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior VP and CIO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Class A Common Stock, $0.001 par value | 10/18/2012 | | F | | 188 (1) | D | $ 71.51 | 11,543 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| Bonomo Charles<br>C/O MSC INDUSTRIAL DIRECT CO., INC.<br>75 MAXESS ROAD<br>MELVILLE, NY US 11747 | | | Senior VP and CIO | |

# Signatures

| /s/ Charles Bonomo | 10/19/2012 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** Disposition of common stock to the Issuer solely to cover tax withholding obligations arising from the vesting of the previous grant of restricted shares.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. :inherit;font-size:10pt;">After the reclassifications, operating costs and expenses are classified in the following categories in the Consolidated Statements of Operations:

- Cost of revenue, exclusive of depreciation and amortization includes direct costs of sales, such as media and related costs. Cost of revenue also includes indirect costs such as media enablement, data verification, hosting and fulfillment costs.
- Sales and marketing expenses include operating expenses for the Company's sales and marketing functions, as well as advertising and marketing expenses.
- Product development includes operating expenses for the Company's engineering and product management functions supporting research, new development and related product enhancements.
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General and administrative expenses represent operating expenses for all corporate functions, including finance, human resources, legal, corporate IT and office overhead, as well as bad debt expense.

The following table summarizes the reclassification activity for the year ended December 31, 2017:

| | Year Ended December 31, 2017 | | | |
|---|---|---|---|---|
| (in thousands) | As previously reported (1) | Category expansion | Operating costs and expenses reclassification | As currently reported |
| Cost of revenue (exclusive of depreciation and amortization) | $140,341 | $ — | $ 6,041 | $146,382 |
| Sales and marketing expenses | 16,176 | (1,615) | (2,588) | 11,973 |
| Product development | — | 2,578 | — | 2,578 |
| General and administrative expenses | 59,510 | (963) | (3,453) | 55,094 |

(1) Adjusted for discontinued operations.

As of and for the year ended December 31, 2017, certain amounts in the Company's consolidated financial statements and related footnotes thereto have been reclassified to conform to the current year presentation as a result of the Spin-off of Red Violet. See Note 5, Discontinued operations, for details.

As of December 31, 2017, the Company has reclassified certain trade-related accruals from accounts payable (previously trade accounts payable) to accrued expenses and other current liabilities in the consolidated balance sheets. As a result of these reclassifications, accounts payable decreased by $3,258 to $7,408, and accrued expenses and other current liabilities increased by $3,258 to $14,967. Additionally, for the year ended December 31, 2017, within cash flows from operating activities on the consolidated statements of cash flows, the decrease in accounts payable decreased by $274 to $2,864, and the increase in accrued expenses and other current liabilities decreased by $274 to $5,594.

Immaterial Correction of an Error

During the year ended December 31, 2018, the Company identified an error in its calculation of basic and diluted weighted average shares outstanding, in which shares that had vested but were subject to deferred delivery were not included in both the basic and diluted calculations. As a result, basic and diluted loss per share as previously reported for the year ended December 31, 2017 was overstated by an immaterial amount. For the year ended December 31, 2018, the Company has properly included its vested not delivered shares within the calculation for basic and diluted shares outstanding, and for the year ended December 31, 2017, the Company has corrected the amounts previously reported.

For the year ended December 31, 2017, basic and diluted weighted average shares outstanding increased by 5,504,834 shares from 55,648,235 to 61,153,069 shares. The correction of the error resulted in a decrease in basic and diluted loss per share from

continuing operations, discontinued operations, and net loss from $0.57, $0.39 and $0.96 per share to $0.52, $0.35 and $0.87 per share, respectively.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with US GAAP requires the Company’s management to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, useful lives of intangible assets, recoverability of the carrying amounts of goodwill and intangible assets, the portion of revenue subject to estimates for variances between internally tracked conversions and those confirmed by the customer, and income tax provision. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results could differ from these estimates.

(c) Cash, cash equivalents and restricted cash

Cash and cash equivalents consist of cash on hand and bank deposits with original maturities of three months or less, which are unrestricted as to withdrawal and use. Restricted cash includes a separately maintained cash account, as required under the terms of a lease agreement the Company entered into on October 10, 2018 for office space in New York City. See Note 15, Commitments and contingencies.

The Company’s cash, cash equivalents and restricted cash are held in major financial institutions located in the United States, which have high credit ratings. As of December 31, 2018 and 2017, cash and cash equivalents were available for use in servicing the Company's debt obligations and general operating purposes.

As of December 31, 2018 and 2017, the Company's cash, cash equivalents and restricted cash balances consist of the following:

| | Year ended December 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Cash and cash equivalents | $17,769 | $16,564 |
| Restricted cash | 1,480 | — |
| Total cash, cash equivalents and restricted cash | $19,249 | $16,564 |

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments. The Company places its temporary cash instruments with highly-rated financial institutions within the United States, and, at times, may maintain balances in such institutions in excess of the $250 thousand dollar U.S. Federal Deposit Insurance Corporation insurance limit. The Company monitors the credit ratings of its financial institutions to mitigate this risk.

(d) Accounts receivable and allowance for doubtful accounts

Accounts receivable are due from customers, which are generally unsecured, and consist of amounts earned but not yet collected. None of the Company’s accounts receivable bear interest.

The allowance for doubtful accounts is management’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. Management determines this allowance based on reviews of customer-specific facts and circumstances. Account balances are charged off against the allowance for doubtful accounts after all customary means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have off-balance sheet credit exposure related to its customers. As of December 31, 2018 and 2017, the Company's allowance for doubtful accounts was $1,751 and $1,624, respectively.

The movements within the allowance for doubtful accounts consist of the following:

| | Year ended December 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Beginning balance | 1,624 | 679 |
| Charges to expenses | 462 | 1,733 |
| Write-offs | (335 ) | (788 ) |
| Ending balance | $1,751 | $1,624 |

(e) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation or amortization. Expenditures for maintenance, repairs and minor renewals are charged to expense in the period incurred. Betterments and additions are capitalized. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms that are reasonably assured. The estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Computer and network equipment | 5-7 years |
| Furniture, fixtures and office equipment | 3-5 years |
| Leasehold improvements | 4-7 years |

Assets to be disposed of, and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell. When items of property and equipment are retired or otherwise disposed of, loss or income on disposal is recorded for the difference between the net book value and proceeds received therefrom.

(f) Business combination

The Company records acquisitions pursuant to ASC 805, Business Combinations, by allocating the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired intangible assets, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, the Company may record adjustments to acquired assets and assumed liabilities, with corresponding offsets to goodwill. Upon the conclusion of a measurement period, any subsequent adjustments are recorded to earnings.

(g) Intangible assets other than goodwill

The Company's intangible assets are initially capitalized based on actual costs incurred, acquisition cost, or fair value if acquired as part of a business combination. These intangible assets are amortized on a straight-line basis over their respective estimated useful lives, which are the periods over which these assets are expected to contribute directly or indirectly to the future cash flows of the Company. The Company's intangible assets represent purchased intellectual property, software developed for internal use, acquired proprietary technology, customer relationships, trade names, domain names, databases and non-competition agreements, including those resulting from acquisitions. Intangible assets have estimated useful lives of 2-20 years.

In accordance with ASC 350-40, Software - Internal-Use Software, the Company capitalizes eligible costs, including applicable salaries and benefits, share-based compensation expense, travel expenses, and other direct costs of developing internal-use software that are incurred in the application development stage, when developing or obtaining software for internal use. Once the internal-use software is ready for its intended use, it is amortized on a straight-line basis over its useful life.

Finite-lived intangible assets are evaluated for impairment periodically, or whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with ASC 360-10-15, Impairment or Disposal of Long-Lived Assets. In evaluating intangible assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance

with ASC 360-10-15. To the

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extent that estimated future undiscounted net cash flows are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value.
Asset recoverability is an area involving management judgment, requiring assessment as to whether the carrying values of assets are supported by their undiscounted future cash flows. In calculating the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters such as revenue growth rates, operating expenses and terminal growth rates.
For the year ended December 31, 2018, the Company determined the value of certain intangible assets were not recoverable, as discussed in Note 7, Intangible Assets. As of December 31, 2018 and 2017, the Company reviewed the indicators for impairment and concluded that no additional impairment of its finite-lived intangible assets existed.
(h) Goodwill
Goodwill represents the difference between the purchase price and the estimated fair value of net assets acquired, when accounted for by the acquisition method of accounting. As of December 31, 2018 and 2017, the goodwill balance relates to the October 2, 2014 acquisition of Interactive Data, LLC by IDI Holdings, LLC (the "Interactive Data Acquisition"), the acquisition of Fluent, LLC (the "Fluent Acquisition") effective on December 8, 2015, and the Q Interactive Acquisition.
In accordance with ASC 350, Intangibles - Goodwill and Other, goodwill is tested at least annually for impairment, or when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, by assessing qualitative factors or performing a quantitative analysis in determining whether it is more likely than not that its fair value exceeds the carrying value. A quantitative step one assessment involves determining the fair value of each reporting unit using market participant assumptions. Effective, October 1, 2017, the Company early adopted ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminated step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying value of a reporting unit exceeds its fair value, up to the amount of goodwill allocated to that reporting unit.
For purposes of reviewing impairment and the recoverability of goodwill, the Company makes certain assumptions regarding estimated future cash flows and other factors in determining the fair values, including market multiples and discount rates, among others.
Prior to the Spin-off, the Company had two reportable segments, Information Services and Performance Marketing, which corresponded with two reporting units. As of October 1, 2017, the Company performed a quantitative step one assessment of its reporting units, the results of which evidenced that the estimated fair values of the reporting units substantially exceeded their respective carrying values. Subsequent to the Spin-off of Red Violet and the associated change in the Company's management team, the composition of the reportable segments changed. As of March 31, 2018, the Company determined that it had one reportable segment corresponding with one reporting unit. As of October 1, 2018, the Company performed a quantitative step one assessment of its reporting unit. The results of this step one assessment evidenced that the estimated fair value of the reporting unit substantially exceeded its carrying value. As of December 31, 2018 and 2017, the Company concluded no impairment of its goodwill existed.
(i) Fair value of financial instruments
ASC 820, Fair Value Measurements and Disclosures, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value based on the extent to which inputs used in measuring fair value are observable in the market. These tiers include:

- Level 1 – defined as observable inputs, such as quoted prices in active markets;
- Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 – defined as unobservable inputs, for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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The fair value of the Company’s cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values because of the short-term nature of these instruments. As of December 31, 2018, the Company regards the fair value of the long-term debt to approximate its carrying value, based on the variable interest rate associated with the Refinanced Term Loan. This fair value assessment represents a Level 2 measurement. See Note 9, Long-term Debt, net.

(j) Revenue recognition

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (ASC 606), using the modified retrospective method applied to all contracts that were not completed contracts at the date of initial application. There was no impact on the opening balance of accumulated deficit on the consolidated balance sheet and statement of changes in shareholders' equity as of January 1, 2018 due to the adoption of ASC 606.

Revenue is recognized when control of goods or services is transferred to customers, in amounts that reflect the consideration the Company expects to be entitled to in exchange for those goods or services. The Company's performance obligation is typically to (a) deliver data records, based on predefined qualifying characteristics specified by the customer or (b) generate conversions, based on predefined user actions (for example, a click, a registration or the installation of an app) and subject to certain qualifying characteristics specified by the customer.

The Company applied the practical expedient related to the review of a portfolio of contracts in reviewing the terms of customer contracts as one collective group, rather than by individual contract. Based on historical knowledge of the contracts contained in this portfolio and the similar nature and characteristics of the customers, the Company has concluded the financial statement effects are not materially different than accounting for revenue on a contract-by-contract basis.

Revenue is recognized upon satisfaction of the associated performance obligations. The Company's customers simultaneously receive and consume the benefits provided as the Company satisfies its performance obligations. Furthermore, the Company elected the "right to invoice" practical expedient available within ASC 606-10-55-18 as the measure of progress, since the Company has a right to payment from a customer in an amount that corresponds directly with the value of the performance completed to date. The Company's revenue arrangements do not contain significant financing components. The Company has further concluded that revenue does not require disaggregation.

If a customer pays consideration before the Company's performance obligations are satisfied, such amounts are classified as deferred revenue. As of December 31, 2018 and 2017, the balances of deferred revenue were $444 and $265, respectively. The deferred revenue balance as of December 31, 2017 was fully recognized into revenue during the first quarter of 2018.

If there is a delay between the period in which revenue is recognized and when customer invoices are issued, revenue is recognized and related amounts are recorded as unbilled revenue in accounts receivable. As of December 31, 2018 and 2017, unbilled revenue included in accounts receivable totaled $25,545 and $16,238, respectively. In line with industry practice, the unbilled revenue balance is recorded based on the Company's internally-tracked conversions, net of estimated variances between this amount and the corresponding amount tracked and subsequently confirmed by customers. The majority of invoices included within the unbilled revenue balance are issued within the month directly following the period of service. Historical estimates related to unbilled revenue are not materially different from actual revenue billed.

Sales commissions are recorded at the time revenue is recognized and recorded in sales and marketing expenses. The Company has elected to utilize a practical expedient to expense incremental costs incurred related to obtaining a contract.

In addition, the Company elected the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed.

(k) Cost of revenue (exclusive of depreciation and amortization)
Cost of revenue primarily includes media and related costs, which consist of the cost to acquire traffic through the purchase of impressions, clicks or actions from publishers or third-party intermediaries, such as advertising exchanges, and technology costs that enable media acquisition.These media costs are used primarily to drive user traffic to the Company's and its clients' media properties. Cost of revenue additionally consists of indirect costs such as data verification, hosting and fulfillment costs. Cost of revenue is presented exclusive of depreciation and amortization expenses.
(l) Advertising costs
Advertising costs are charged to operations as incurred. For the years ended December 31, 2018 and 2017, advertising costs, included in sales and marketing expenses, were $1,471 and $1,420, respectively.
(m) Share-based compensation
The Company accounts for share-based compensation in accordance with ASC 718, Compensation - Stock Compensation. Under ASC 718, the Company measures the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award and generally recognizes such costs on a straight-line basis over the period the recipient is required to provide service in exchange for the award, which generally is the vesting period. For awards with performance conditions, the Company begins recording share-based compensation when achievement of the performance criteria is probable.
During the first quarter of 2017, the Company adopted ASU 2016-09, Compensation - Stock Compensation (ASC 718): Improvement to Employee Share-based Payment Accounting, which simplifies the accounting for share-based payment transactions, including income tax consequences. In connection with the adoption of this guidance, the Company made an accounting policy election to recognize forfeitures as they occur, on a retrospective basis, noting no material impact.
During the second quarter of 2018, the Company adopted ASU 2018-07, Compensation - Stock Compensation (ASC 718): Improvements to Nonemployee Share-Based Payment Accounting, on a modified retrospective basis. This guidance expands the scope of employee share-based payment guidance under ASC 718, Compensation - Stock Compensation, to include share-based payments to non-employees for goods and services. Prior to the adoption of ASU 2018-07, the Company accounted for share-based compensation for non-employees in accordance with ASC 505-50, Equity-Based Payments to Non-Employees. Under ASC 505-50, share-based payment transactions related to non-employees were measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever was more reliably measurable, and fair value of the consideration was updated each reporting period until the performance required to receive the award was complete. The Company recognized the fair value as expense on a straight-line basis over the expected service period.
(n) Income taxes
The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the use of the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.
The effect on deferred tax assets and liabilities of a change in tax rates or laws is recognized in income in the period that the change in tax rates or laws is enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized based on management's review of historical results and forecasts.
On December 22, 2017, the tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was enacted, which resulted in significant modifications to existing tax law. As of December 31, 2018 and 2017, a full valuation allowance was recognized against the net deferred tax assets, and thus the Tax Act did not have a material impact on the Company's consolidated financial statements; however, certain income tax disclosures, including the re-measurement of deferred tax assets and liabilities and related valuation allowance, and the effective income tax rate reconciliation, were affected. For the year ended December 31, 2017, the Company followed the

guidance in SEC Staff Accounting Bulletin ("SAB") 118, which provided additional clarification regarding the application of ASC 740 in situations where a Company did not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain

income tax effects of the Tax Act for the reporting period in which the Tax Act was enacted. SAB 118 provided for a measurement period beginning in the reporting period that includes the Tax Act's enactment date and ending when the Company has obtained, prepared and analyzed the information needed in order to complete the accounting requirements, but in no circumstances should the measurement period extend beyond one year from the enactment date. The Company completed all the accounting for the effects of the Tax Act within the measurement period ended December 22, 2018, which resulted in no changes to the amounts originally estimated.
ASC 740 clarifies the accounting for uncertain tax positions. This interpretation requires that an entity recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company's accounting policy is to accrue interest and penalties related to uncertain tax positions, if and when required, as interest expense and a component of other expenses, respectively, in the consolidated statements of operations.
(o) Income (loss) per share
Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods, in addition to RSUs and restricted common stock that are vested not delivered. Diluted income (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, and is calculated using the treasury stock method for stock options and unvested shares. Common equivalent shares are excluded from the calculation in loss periods, as their effects would be anti-dilutive.
(p) Segment data
The Company identifies operating segments as components of an entity for which discrete financial information is available and is regularly reviewed by the chief operating decision maker(s) in making decisions regarding resource allocation and performance assessment. The Company defines the term "chief operating decision makers" to be its chief executive officer and its president. The Company has determined it operates in one operating segment and one reportable segment, as its chief operating decision makers review financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.
(q) Contingencies
In the ordinary course of business, the Company is subject to loss contingencies that cover a range of matters. An estimated loss from a loss contingency, such as a legal proceeding or claim, is accrued if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued, the Company evaluates, among other factors, the degree of probability and the ability to reasonably estimate the amount of any such loss.
(r) Recently issued and adopted accounting standards
In May 2014, FASB issued ASU No. 2014-9, Revenue from Contracts with Customers (ASC 606), and additional changes, modifications, clarifications or interpretations thereafter. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance includes indicators to assist an entity in evaluating whether it controls the good or service before it is transferred to the customer. The new revenue recognition standard is effective for public entities for annual reporting periods beginning after December 15, 2017, and interim periods therein. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). Effective January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. The adoption of ASC 606 did not have a material impact on the consolidated balance sheets, statements of operations, cash flows or disclosures.
In February 2016, FASB issued ASU No. 2016-2, Leases (ASC 842), and additional changes, modifications, clarifications or interpretations thereafter, which require a reporting entity to recognize right-of-use assets and lease liabilities on the balance sheet for operating leases to increase transparency and comparability. The Company will

adopt this guidance on a modified retrospective basis as of January 1, 2019, utilizing transition guidance introduced in ASU 2018-11, Leases: Targeted Improvements, and expects to elect the ‘package of practical expedients,’ which permits the Company not to reassess prior conclusions about lease identification, classification and initial direct costs.



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The Company has not yet finalized its review of ASC 842, however, the Company expects that this standard will have a material effect on the Company's consolidated balance sheets related to the recognition of new right-of-use assets and lease liabilities for real estate operating leases and will require additional disclosures about leasing activities. The Company does not expect the adoption to have an impact on its consolidated statements of operations or consolidated statements of cash flows. The accounting for capital leases is expected to remain substantially unchanged. Upon adoption of ASC 842, the Company will recognize, on a discounted basis, its minimum commitments under noncancelable operating leases on its consolidated balance sheets.
ASC 842 also provides practical expedients for an entity's ongoing accounting. The Company will elect the short-term lease recognition exemption for all leases that qualify. Accordingly, the Company will not recognize right-of-use assets or lease liabilities for qualifying leases, including existing short-term leases in effect at the transition date, and will recognize those payments on the consolidated statements of operations on a straight-line basis over the lease term. Additionally, the Company will elect the practical expedient to not separate lease and non-lease components for all its leases.

In January 2016, FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses, and additional changes, modifications, clarifications or interpretations thereafter, which require a reporting entity to estimate credit losses on certain types of financial instruments, and present assets held at amortized cost and available-for-sale debt securities at the amount expected to be collected. The new guidance is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.
In August 2016, FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance for certain cash flow issues, including contingent consideration payments made after a business combination and debt prepayment or debt extinguishment costs, among other areas. The guidance is effective for public entities for fiscal years beginning after December 15, 2017 and interim periods therein, and early adoption is permitted. Effective January 1, 2018, the Company adopted ASU 2016-15, with such adoption having no material impact to the consolidated financial statements and related disclosures.
In March 2018, the FASB issued ASU No. 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. ASU 2018-5 amended ASC 740 to reflect SEC Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the impact of the Tax Act. The amendments in ASU 2018-05 are effective upon issuance. The Company adopted SAB 118 in the fourth quarter of 2017, and therefore the Company's subsequent adoption of ASU 2018-05 in the first quarter of 2018 had no impact on its accounting for income taxes in the first quarter of 2018.
In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of employee share-based payment guidance under ASC Topic 718, to include share-based payments to nonemployees for goods and services. The guidance is effective for public entities for fiscal years beginning after December 15, 2018 and interim periods therein, and early adoption is permitted. Effective April 1, 2018, the Company adopted ASU 2018-07 on a modified retrospective basis. The adoption of ASU 2018-07 did not have a material impact on the Company's consolidated financial statements and related disclosures.
3. Income (loss) per share

For the years ended December 31, 2018 and 2017 basic and diluted income (loss) per share was as follows:



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| (In thousands, except share data) | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| Numerator: | | |
| Net income (loss) from continuing operations | $3,192 | $(31,706 ) |
| Net loss from discontinued operations | (21,124 ) | (21,500 ) |
| Net loss | $(17,932) | $(53,206 ) |
| Denominator: | | |
| Weighted average shares outstanding | 73,470,197 | 55,648,235 |
| Weighted average restricted shares vested not delivered | 3,235,680 | 5,504,834 |
| Total weighted average basic shares outstanding | 76,705,877 | 61,153,069 |
| Diluted share outstanding | 76,705,877 | 61,153,069 |
| Income (loss) per share: (1) | | |
| Basic and diluted: | | |
| Continuing operations | $0.04 | $(0.52 ) |
| Discontinued operations | $(0.28 ) | $(0.35 ) |
| Net loss | $(0.23 ) | $(0.87 ) |

(1) Income (loss) per share amounts may contain summation differences due to rounding.

Certain stock equivalents, including stock options and warrants, have been excluded from the diluted weighted average share calculation due to their being anti-dilutive, based on exercise prices compared to the average stock price for the period.

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| Restricted stock units | 3,831,965 | 8,150,905 |
| Warrants | 2,498,776 | 1,273,776 |
| Stock options | 112,000 | 174,500 |
| Total anti-dilutive securities | 6,442,741 | 9,599,181 |

4. Spin-off of Red Violet and business combinations

Spin-off of Red Violet

On February 12, 2018, the Company's Board of Directors approved a plan to spin off Red Violet, which was governed by a Separation and Distribution Agreement, as well as other related agreements between the Company and Red Violet, each entered into on February 27, 2018 (collectively, the “Spin-off Agreements”). The Company contributed $19.7 million in cash to Red Violet upon completion of the Spin-off. On February 28, 2018, a Registration Statement on Form 10 was filed by Red Violet with the SEC, which registered the shares of Red Violet that were distributed in the Spin-off.

On March 7, 2018, the Company announced that the Board of Directors established March 19, 2018 as the record date ("Record Date") and March 26, 2018 as the distribution date (the “Distribution Date”) for the Spin-off. On March 9, 2018, in order to meet the NASDAQ initial listing requirement of a minimum $4.00 per share bid price, the Company adjusted the Spin-off ratio so that on the Distribution Date, stockholders of the Company received, by way of a dividend, one share of Red Violet common stock for each 7.5 shares of the Company's common stock held as of the Record Date.

On March 8, 2018, the Compensation Committee of the Company's Board of Directors approved the acceleration (the "Acceleration") of an aggregate of 5,157,998 stock options, restricted stock units ("RSUs") and shares of restricted stock held by certain employees, consultants, and directors, including only those employees who would continue with Red Violet upon completion of the Spin-off, subject to such employees still being employed or providing services on the acceleration date, which was subsequently determined to be March 12, 2018 (the "Acceleration Date"). Accordingly, share-based compensation expense of $15.5 million resulting from the Acceleration was recognized in discontinued operations during the first quarter of December 31, 2018.

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Q Interactive Acquisition and Integration

On June 8, 2016, in order to expand and strengthen the Company’s business in the consumer marketing industry, the Company entered into and consummated the transactions contemplated by a Membership Interest Purchase Agreement with Selling Source, pursuant to which the Company acquired all of the membership interests of Q Interactive. As consideration for the Membership Interests, after preliminary adjustment for Q Interactive’s net working capital at closing, the Company issued to Selling Source 2,369,190 shares of the Company’s common stock. Additional consideration based on gross revenue targets, which were met in the first quarter of 2017, was settled on November 3, 2017 in the form of 2,750,000 shares of common stock. Total consideration for the acquisition of $21,431 was recorded by the Company and allocated to working capital, intangible assets and goodwill.

On January 18, 2017, the Company’s management and Board of Directors approved a plan to integrate Q Interactive’s business into the Company (the “Q Interactive Integration”), which resulted in Q Interactive becoming a wholly-owned subsidiary of the Company. During the year ended December 31, 2017, an aggregate of $780 in restructuring costs associated with the Q Interactive Integration were recognized in general and administrative expenses in the consolidated statements of operations. Additionally, during the first quarter of 2017, the Company wrote off the remaining balance of certain long-lived assets of $3,626, primarily related to trade names and proprietary technology acquired in the Q Interactive Acquisition, and recognized a write-off of long-lived assets on the consolidated statements of operations.

5. Discontinued operations

In accordance with ASC 205-20, Discontinued Operations, the financial results of Red Violet are reflected in the Company's consolidated financial statements as discontinued operations and, therefore, are presented as assets and liabilities of discontinued operations on the consolidated balance sheets, loss from discontinued operations on the consolidated statements of operations, and cash activity from discontinued operations on the consolidated statements of cash flows. As of the Spin-off date, the Company's additional paid-in capital decreased by the carrying value of the net assets of Red Violet of $41,500.

For the years ended December 31, 2018 and 2017, the financial results of operations of Red Violet were as follows:

| | Year Ended December 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Major classes of line items constituting loss from discontinued operations: | | |
| Revenue | $3,325 | $8,578 |
| Cost of revenue (exclusive of depreciation and amortization) | 2,017 | 7,066 |
| Sales and marketing expenses | 1,089 | 4,394 |
| General and administrative expenses | 1,852 | 17,480 |
| Depreciation and amortization | 451 | 1,138 |
| Loss from operations of discontinued operations, net of $0 income taxes | (2,084) | (21,500) |
| Loss on disposal of discontinued operations, net of $0 income taxes | (19,040) | — |
| Net loss from discontinued operations | $(21,124) | $(21,500) |

For the year ended December 31, 2018, included in the net loss from discontinued operations is a loss on disposal of discontinued operations of $19,040, of which an aggregate of $16,030 represented non-cash charges. The loss on disposal of discontinued operations consisted of the following:

| (In thousands) | Year Ended December 31, 2018 |
|---|---|
| Share-based compensation expense (1) | $ 15,548 |

| | | |
|---|---|---|
| Write-off of unamortized debt costs (2) | 284 | |
| Write-off of certain prepaid expenses | 198 | |
| Spin-off related professional fees | 2,012 | |
| Spin-off related employee compensation | 998 | |
| Loss on disposal of discontinued operations | $ | 19,040 |

(1) As discussed and defined in Note 4, Spin-off of Red Violet and business combinations, share-based compensation expense represents non-cash expense in connection with the Acceleration.

(2) As discussed in Note 9, Long-term debt, net, in connection with the Spin-off, the Company repaid the Promissory Notes to certain shareholders, which resulted in a write-off of unamortized debt costs of $284.

During the first quarter of 2018, in connection with the Spin-off of Red Violet, an aggregate of $7,708 was recognized in costs and expenses from continuing operations as Spin-off transaction costs, and included non-cash share-based compensation expense of $5,409 as a result of 2,041,000 shares of Transaction Grants (as defined in Note 12, Share-based compensation), and employee cash compensation of $2,299.

As of December 31, 2017, the Company reclassified the carrying amounts of assets and liabilities of Red Violet into corresponding assets and liabilities of discontinued operations. A reconciliation is presented below:

| (In thousands) | December 31, 2017 |
|---|---|
| Carrying amounts of the major classes of assets included in discontinued operations: | |
| Cash and cash equivalents | $ 65 |
| Accounts receivable, net | 1,650 |
| Prepaid expenses and other current assets | 559 |
| Current assets of discontinued operations | 2,274 |
| Property and equipment, net | 1,091 |
| Intangible assets, net | 15,353 |
| Goodwill | 6,465 |
| Other non-current assets | 1,180 |
| Non-current assets of discontinued operations | 24,089 |
| Total assets of discontinued operations | $ 26,363 |
| Carrying amounts of the major classes of liabilities included in discontinued operations: | |
| Trade accounts payable | $ 919 |
| Accrued expenses and other current liabilities | 6,437 |
| Deferred revenue | 33 |
| Total liabilities of discontinued operations | $ 7,389 |

6. Property and equipment, net

Property and equipment, net consists of the following:

| (In thousands) | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Computer and network equipment | $ 276 | $ 159 |
| Furniture, fixtures and office equipment | 564 | 245 |
| Leased furniture, fixtures and office equipment | 747 | — |
| Leasehold improvements | 1,023 | 1,023 |
| Total cost of property and equipment | 2,610 | 1,427 |
| Less: accumulated depreciation and amortization | (1,230 ) | (740 ) |
| Property and equipment, net | $ 1,380 | $ 687 |

For the years ended December 31, 2018 and 2017, depreciation of property and equipment was $490 and $481, respectively.

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7. Intangible assets, net

Intangible assets, net, other than goodwill, consist of the following:

| (In thousands) | Amortization period | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Gross amount: | | | |
| Software developed for internal use | 3 years | $ 3,037 | $ 2,972 |
| Acquired proprietary technology | 5 years | 11,459 | 11,382 |
| Customer relationships | 7-10 years | 34,986 | 34,986 |
| Trade names | 20 years | 16,357 | 16,357 |
| Domain names | 20 years | 191 | 191 |
| Databases | 5-10 years | 31,292 | 31,292 |
| Non-competition agreements | 2-5 years | 1,768 | 1,768 |
| | | 99,090 | 98,948 |
| Accumulated amortization: | | | |
| Software developed for internal use | | (1,282) | (490) |
| Acquired proprietary technology | | (6,987) | (4,693) |
| Customer relationships | | (14,417) | (9,628) |
| Trade names | | (2,504) | (1,686) |
| Domain names | | (29) | (20) |
| Databases | | (10,573) | (6,964) |
| Non-competition agreements | | (1,486) | (1,113) |
| | | (37,278) | (24,594) |
| Net intangible assets: | | | |
| Software developed for internal use | | 1,755 | 2,482 |
| Acquired proprietary technology | | 4,472 | 6,689 |
| Customer relationships | | 20,569 | 25,358 |
| Trade names | | 13,853 | 14,671 |
| Domain names | | 162 | 171 |
| Databases | | 20,719 | 24,328 |
| Non-competition agreements | | 282 | 655 |
| | | $ 61,812 | $ 74,354 |

The gross amounts associated with software developed for internal use primarily represent capitalized costs of internally- developed software. The amounts relating to acquired proprietary technology, customer relationships, trade names, domain names, databases and non-competition agreements primarily represent the fair values of intangible assets acquired as a result of the Fluent Acquisition and the Q Interactive Acquisition.

For the year ended December 31, 2018, the Company recognized a $1,517 impairment loss related to software capitalized for internal use, but not yet placed into service. The Company determined that the value of these capitalized assets was not recoverable and, as such, was written off in the period that the determination was made and included in write-off of long-lived assets on the consolidated statements of operations.

On January 18, 2017, the Company's management and Board of Directors approved a plan to fully integrate Q Interactive's business into Fluent, LLC. As a result of the integration, the remaining balance of long-lived assets of $3,626, related primarily to the acquired proprietary technology and trade names acquired in the Q Interactive Acquisition, was written off during the first quarter of 2017 and included in write-off of long-lived assets on the consolidated statements of operations.

For the years ended December 31, 2018 and 2017, amortization expenses related to intangible assets and included in depreciation and amortization expenses in the Company's consolidated statements of operations were $12,684 and $12,574, respectively.

Explanation of Responses:

For the years ended December 31, 2018 and 2017, the Company capitalized $1,659 and $1,438, respectively, which included $1,582 and $1,438 related to internally-developed software, respectively, $1,517 of which was written off during the year ended December 31, 2018.

As of December 31, 2018, estimated amortization expenses related to the Company's intangible assets for 2019 through 2024 and thereafter are as follows:

(In thousands)

| Year | December 31, 2018 |
|---|---|
| 2019 | $ 12,495 |
| 2020 | 12,371 |
| 2021 | 8,757 |
| 2022 | 8,008 |
| 2023 | 3,967 |
| 2024 and thereafter | 16,214 |
| Total | $ 61,812 |

8. Goodwill

Goodwill represents the difference between the purchase price and the estimated fair value of net assets acquired, when accounted for by the acquisition method of accounting. As of December 31, 2018 and 2017, the goodwill balance relates to the Interactive Data Acquisition, the Fluent Acquisition and the Q Interactive Acquisition.

In connection with the Spin-off of Red Violet, goodwill of $6,465 was derecognized, based on the relative fair value of Red Violet's portion of the Information Services reporting unit as compared to the total estimated fair value of the Information Services reporting unit. As of December 31, 2017, this amount was reclassified into non-current assets of discontinued operations in the consolidated balance sheets.

9. Long-term debt, net

As of December 31, 2018, Long-term debt, net, consists of the following:

| (In thousands) | Refinanced Term Loan due 2023 |
|---|---|
| Principal amount | $ 60,320 |
| Less: unamortized debt issuance costs | (4,848 ) |
| Long-term debt, net | 55,472 |
| Less: current portion of long-term debt | (3,500 ) |
| Long-term debt, net (non-current) | $ 51,972 |

As of December 31, 2017, long-term debt, net, including promissory notes payable to certain shareholders, consisted of the following:

| (In thousands) | Term Loan due 2020 | Incremental Term Loan due 2020 | Promissory Loan due 2021 | Total |
|---|---|---|---|---|
| Principal amount | $ 40,688 | $ 14,312 | $ 10,000 | $ 65,000 |
| Less: unamortized debt issuance costs | (2,753 ) | (672 ) | (312 ) | (3,737 ) |
| Add: PIK interest accrued to principal balance | 542 | 9 | 1,149 | 1,700 |
| Long-term debt, net | 38,477 | 13,649 | 10,837 | 62,963 |
| Less: current portion of long-term debt | (2,062 ) | (688 ) | — | (2,750 ) |
| Long-term debt, net (non-current) | $ 36,415 | $ 12,961 | $ 10,837 | $ 60,213 |

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Term Loans
On December 8, 2015, Fluent, LLC entered into an agreement ("Credit Agreement") with certain financial institutions and the administrative agent (collectively, "Whitehorse") for a term loan in the amount of $45.0 million ("Term Loan").
The Credit Agreement provided for certain customary mandatory prepayments upon certain events, as well as certain prepayment premiums during the first four years of the Term Loan, provided that the prepayment premiums were not applicable to scheduled payments of principal, the required excess cash flow payments (as defined in the Credit Agreement) and certain other required prepayments.
On January 19, 2017, Fluent, LLC entered into Amendment No. 3 to Credit Agreement ("Amendment No. 3"), which amended the Term Loan. Amendment No. 3, among other things, provided for a new term loan in the principal amount of $15.0 million ("Incremental Term Loan"), subject to the terms and conditions of Amendment No. 3, and modified certain other Credit Agreement provisions, including certain financial covenants and related definitions. The Incremental Term Loan of $14,039, net of debt issuance costs of $961, was received on February 1, 2017.
The Term Loan and Incremental Term Loan (collectively, the "Term Loans") were guaranteed by the Company and all of its direct and indirect subsidiaries, and were secured by substantially all of the assets of the Company and its direct and indirect subsidiaries, in each case, on an equal and ratable basis. The Term Loans accrued interest at the rate of: (a) either, at Fluent, LLC's option, LIBOR (subject to a floor of 0.50%) plus 10.5% per annum, or base rate (generally equivalent to the U.S. prime rate) plus 9.5% per annum, payable in cash, plus (b) 1% per annum, payable, at Fluent, LLC's option, either in cash or in-kind. Payments of principal on the Term Loans were $688 per quarter, payable at the end of each calendar quarter, commencing on March 31, 2017. The Term Loans were scheduled to mature on December 8, 2020.
On March 26, 2018, the remaining principal amounts of the Term Loans were prepaid through the Refinancing, as defined below, in connection with the Spin-off of Red Violet.
Promissory Notes
On December 8, 2015, the Company entered into and consummated the promissory notes financing (the "Promissory Notes") with each of Frost Gamma Investment Trust ("Frost Gamma"), an affiliate of Phillip Frost, M.D., the Vice Chairman of the Company's Board of Directors prior to the Spin-off, Michael Brauser, the then Executive Chairman of the Company's Board of Directors, and another investor, pursuant to which the Company issued Promissory Notes of $5.0 million to Frost Gamma, $4.0 million to Michael Brauser and $1.0 million to another investor, respectively, for an aggregate financing amount of $10.0 million. The Promissory Notes carried an interest rate of 10% per annum, which was capitalized monthly and added to the outstanding principal amount of such Promissory Notes.
Under the terms of the Promissory Notes, the Company was required to repay the principal and all accrued interest six months after the repayment of all amounts due under the Credit Agreement, except that the Company had the option to repay the Promissory Notes earlier from the proceeds of a public equity financing. During the first quarter of 2017, the Company made cash payments of accrued paid-in-kind ("PIK") interest of $533, $426 and $107 to Frost Gamma, Michael Brauser and another investor, respectively.

As of December 31, 2017, the net balance of Promissory Notes was presented as promissory notes payable to certain shareholders, net, on the consolidated balance sheet. On March 26, 2018, the remaining principal amount plus accrued PIK interest of the Promissory Notes was fully repaid through the Refinancing, as discussed below, in connection with the Spin-off of Red Violet. As of March 26, 2018, the unamortized debt costs of $284 pertaining to the Promissory Notes were written off to loss on disposal of discontinued operations. See Note 5, Discontinued Operations.

Refinanced Term Loan

In connection with the Spin-off of Red Violet, effective March 26, 2018, Fluent, LLC refinanced and fully repaid the Term Loans and Promissory Notes with a new term loan in the amount of $70.0 million ("Refinanced Term Loan"), pursuant to a Limited Consent and Amendment No. 6 to the Credit Agreement (the "Amendment No. 6") (the "Refinancing").

The Refinanced Term Loan is guaranteed by the Company and its direct and indirect subsidiaries, and secured by substantially all of the assets of the Company and its direct and indirect subsidiaries, including Fluent, LLC, in each case, on an equal and ratable basis. The Refinanced Term Loan accrues interest at the rate of either, at Fluent, LLC's option, (a) LIBOR (subject to a floor of 0.50%) plus 7.00% per annum, or (b) base rate plus 6.0% per annum, payable in cash. Interest under the Refinanced

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Term Loan is payable monthly. The fair value of the Company's debt will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of rising rates of interest. Commencing with the second quarter of 2018, scheduled principal amortization of the Refinanced Term Loan is $875 per quarter. The Refinanced Term Loan matures on March 26, 2023. As of December 31, 2018, the Company has additional borrowing capacity under the Refinanced Term Loan.
On March 26, 2018, the Refinanced Term Loan was utilized to repay, in full, the outstanding principal amount plus accrued PIK interest of the Term Loans and Promissory Notes of $55,586 and $11,425, respectively. Prepayment premiums and unamortized debt costs associated with the Term Loans of $2,818 and $3,136, respectively, were capitalized in the balance of the Refinanced Term Loan. These prepayment premiums and unamortized debt costs are being amortized over the remaining period of the Refinanced Term Loan. Further, refinancing costs paid to third parties of $193 were recognized in loss on disposal of discontinued operations. See Note 5, Discontinued operations.
Commencing with the second quarter of 2018, the Credit Agreement, as amended, requires that the Company maintain and comply with certain financial and other covenants. Additionally, the Credit Agreement, as amended, includes certain prepayment provisions, including mandatory quarterly principal prepayments of the Refinanced Term Loan with a portion of the Company's excess cash flow, as defined in the Credit Agreement. For the fourth quarter ended December 31, 2018, there were no mandatory prepayments required based on the excess cash flow obligation. As of December 31, 2018, the Company was in compliance with all of the financial and other covenants under the Credit Agreement, as amended.
Whitehorse Warrants
On November 3, 2017, the Company entered into warrant amendments (the "Whitehorse Warrant Amendments") with Whitehorse, regarding warrants to purchase an aggregate of 300,000 shares of common stock (collectively, the “Whitehorse Warrants”), at an exercise price of $5.08 per share. Pursuant to the Whitehorse Warrant Amendments, the Company agreed to reduce the exercise price to $3.00 per share. Whitehorse exercised all the Whitehorse Warrants for 300,000 shares of common stock (the “Whitehorse Shares”) and gross proceeds of an aggregate of $900 were received in November 2017. Pursuant to the terms of the Whitehorse Warrant Amendments, Whitehorse was prohibited from engaging or otherwise agreeing to any sale, pledge, or other transfer of the Whitehorse Shares for a period of 120 days (the “Whitehorse Lock-Up Period”) following the exercise of such warrants in full. Following the Whitehorse Lock-Up Period, (i) Whitehorse may only sell such number of shares underlying the warrants representing up to 5.0% of the Company’s daily trading volume on the immediately prior trading day prior to a sale and (ii) Whitehorse may not transfer any of the Whitehorse Shares for less than $4.50 per share, provided that Whitehorse may not transfer any Whitehorse Shares unless the Company has an effective registration statement permitting the resale of the Whitehorse Shares. Upon either the Record Date or the termination of the Business Combination Agreement, dated September 6, 2017, by and among Cogint, Inc. and BlueFocus International Limited, Whitehorse could require the Company to purchase all of the Whitehorse Shares at a price of $4.50 per share. As of December 31, 2017, a liability of $1,350 in relation to the Whitehorse Shares with put rights was classified into current liabilities.
On July 9, 2018 the Company entered into First Amendments (the "First Amendments") to the Amendments to Warrants and Agreements to Exercise ("Amended Whitehorse Warrants") with (i) H.I.G. Whitehorse SMA ABF, L.P. regarding 46,667 warrants to purchase common stock of the Company, par value $0.0005 per share, at an exercise price of $3.00 per share; (ii) H.I.G. Whitehorse SMA Holdings I, LLC regarding 66,666 warrants to purchase common stock of the Company at an exercise price of $3.00 per share; and (iii) Whitehorse Finance, Inc. regarding 186,667 warrants to purchase common stock of the Company at an exercise price of $3.00 per share. Pursuant to the First Amendments, the parties agreed to reduce the price per share at which the warrant holders have the right, but not the obligation, to require the Company to purchase from the warrant holders the Warrant Shares (the "Put Right") to $3.8334 per share, to modify the period during which the Put Right can be exercised to the period commencing January 1, 2019 and ending December 15, 2019, and to modify the minimum price that the warrant holders can transfer any of the Warrant Shares to no less than $3.8334 per share. The reduction in the Put Right price from $4.50 per share to $3.8334 per share was a result of the receipt by the warrant holders of 40,000 shares of Red Violet common stock in the Spin-off and the warrant holders' subsequent sale of those shares for $200 in a private transaction. During the third quarter of 2018, the change in value of the Put Right price resulted in a reduction to the

puttable option classified within accrued expenses and other current liabilities and a corresponding increase to additional paid-in-capital of $200 on the consolidated balance sheets.

The Company estimated the fair value of such warrants on the date of grant and amendment, respectively, using a Black-Scholes pricing model by applying the following assumptions:

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| | Year Ended December 31, 2017 | |
|---|---|---|
| Expected term (in years) | 0.08 - 9 | |
| Risk-free interest rate | 1.02 - 2.35 % | |
| Expected volatility | 82.50 | % |
| Expected dividend yield | — | % |

For the year ended December 31, 2017, a gain of $350, as a result of the Whitehorse Warrant Amendments, was capitalized as a deduction to the balance of debt costs. As of December 31, 2018 and 2017, the debt costs balances related to the Whitehorse Warrants were $669 and $897, respectively. The fair value of the warrants is amortized to interest expense over the term of the Refinanced Term Loan using the interest method.

Maturities

As of December 31, 2018, scheduled future maturities of the Refinanced Term Loan, excluding potential voluntary future additional principal prepayments, are as follows:

| (In thousands) | |
|---|---|
| Year | |
| 2019 | $3,500 |
| 2020 | 3,500 |
| 2021 | 3,500 |
| 2022 | 3,500 |
| 2023 | 46,320 |
| Total maturities | 60,320 |
| Less: unamortized debts issuance costs | 4,848 |
| Total | $55,472 |

Fair value

As of December 31, 2018, the fair value of long-term debt is considered to approximate its carrying value, as the Refinanced Term Loan has a variable interest rate.

10. Income taxes

The Company is subject to federal and state income taxes in the United States. For the years ended December 31, 2018 and 2017, the provision (benefit) for income taxes on loss from continuing operations consisted of the following:

| | Year Ended December 31 | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Current | | |
| Federal | $ — | $ — |
| State | — | — |
| | — | — |
| Deferred | | |
| Federal | 3,726 | (7,117) |
| State | 81 | (1,855) |
| Less: valuation allowance | (3,761) | 8,972 |
| | 46 | — |
| Income tax expense | $ 46 | $ — |

For the years ended December 31, 2018 and 2017, reconciliation of the Company's effective income tax rate to the U.S. corporate statutory income tax rate is as follows:

Explanation of Responses:

| (In thousands) | Year Ended December 31 2018 | | 2017 | |
|---|---|---|---|---|
| Income tax expense at federal statutory rate | $(3,756) | 21.0 % | $(18,090) | 34.0 % |
| Share-based compensation shortfall | 7,080 | (39.6) | 5,133 | (9.6 ) |
| Effect of state taxes, net of federal tax benefit | 64 | (0.4 ) | (1,515 ) | 2.8 |
| Deferred remeasurement for tax rate change | — | — | 5,117 | (9.6 ) |
| Loss on amendment of warrants | — | — | 342 | (0.6 ) |
| Non-deductible items | 396 | (2.3 ) | — | — |
| Return to provision adjustment | (4 ) | 0.2 | — | — |
| Other | 27 | 0.2 | 41 | (0.1 ) |
| Change in valuation allowance | (3,761 ) | 21.0 | 8,972 | (16.9) |
| Income tax expense | $46 | 0.1 % | $— | — % |

As of December 31, 2018 and 2017, the components of deferred tax assets and liabilities consist of the following:

| (In thousands) | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 8,908 | $ 7,555 |
| Share-based compensation | 5,753 | 16,321 |
| Interest expense limitation | 2,171 | — |
| Settlement liability | — | 1,037 |
| Accounts receivable, net | 451 | 480 |
| Accrued expenses and other current liabilities | 74 | 91 |
| Property and equipment, net | 73 | — |
| Other | 145 | 22 |
| | 17,575 | 25,506 |
| Valuation allowance | (5,238 ) | (10,853 ) |
| | 12,337 | 14,653 |
| Deferred tax liabilities: | | |
| Intangible assets | (12,383 ) | (14,505 ) |
| Property and equipment, net | — | (148 ) |
| | (12,383 ) | (14,653 ) |
| Net deferred tax liability | $ (46 ) | $ — |

As of December 31, 2018, the Company has federal net operating losses of $36,973, of which $26,128 begin to expire in 2035, and $10,845 which can be carried forward indefinitely. As of December 31, 2018, the Company has state net operating loss carryforwards of $36,075, which begin to expire in 2035. Certain net operating losses generated by the Company in 2014 and 2015 are subject to annual limitation under IRC Section 382 due to ownership changes.
For the year ended December 31, 2018, the Tax Act established a new limitation on deductible interest expense under IRC Section 163(j), which limits the Company's annual deduction of interest expense to the sum of business interest income and 30 percent of the adjusted taxable income of the Company. For the year ended December 31, 2018, the limitation resulted in disallowed interest of $8,417, which can be carried forward indefinitely.

For the year ended December 31, 2018, the Spin-off of Red Violet contributed to a $1,500 decrease to the net deferred tax assets of the Company, which was fully offset by a corresponding reduction to the valuation allowance. The aforementioned decrease represents the net deferred tax assets attributable to Red Violet on the date of the Spin-off.
As of December 31, 2018 and 2017, the Company recorded a full valuation allowance against its net deferred tax assets of $5,238 and $10,853, respectively. For the year ended December 31, 2018, the decrease in the valuation allowance is primarily a result of the movement in the net deferred tax asset in the current year. The Company intends to continue maintaining a full valuation allowance on these net deferred tax assets until there is sufficient evidence to support the release of all or some portion of these allowances. Based on the Company's history of losses, current

income (loss) from continuing operations, estimated

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future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences and consideration of available tax planning strategies, the Company believes there is a reasonable possibility that within the next twelve months sufficient positive evidence may become available to allow a conclusion to be reached that a significant portion, if not all, of the valuation allowance may be released. Release of some or all of the valuation allowance would result in the recognition of certain deferred tax assets and an increase in deferred tax benefit for any period in which such a release may be recorded; however, the exact timing and amount of any valuation allowance release are subject to change, depending upon the level of profitability that the Company is able to achieve and the net deferred tax assets available.

The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Company files tax returns in federal and certain state and local jurisdictions. The 2015 tax year is the earliest tax year that remains subject to examination by the following taxing authorities in major jurisdictions: Federal, California, New York and New York City. Since inception, the Company has generated net operating losses, and thus the 2014 tax year remains open to examination by taxing authorities to the extent the net operating losses generated in such year are utilized in subsequent periods with open statutes.

For the years ended December 31 2018 and 2017, reconciliation of the gross amounts of unrecognized tax benefits, excluding accrued interest and penalties, consists of the following:

| | Year Ended December 31 | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Unrecognized tax benefits, opening balance | $1,134 | $1,668 |
| Decrease as a result of the Tax Act | — | (534 ) |
| Increase in unrecognized tax benefits | 346 | — |
| Unrecognized tax benefits, ending balance | $1,480 | $1,134 |

The unrecognized tax benefits, if recognized, would result in an increase to net operating losses that would be subject to a valuation allowance and, accordingly, result in no impact to the Company’s annual effective tax rate. As of December 31, 2018, the Company has not accrued any interest or penalties with respect to its uncertain tax positions. The Company does not anticipate a significant increase or reduction in unrecognized tax benefits within the next twelve months.

11. Common stock, preferred stock and warrants

Common stock

As of December 31, 2018, 2017 and 2016, the number of issued shares of common stock was 76,525,581, 61,631,573 and 53,717,996, respectively, which included shares of treasury stock of 1,233,198, 352,523 and 160,235, respectively.

For the year ended December 31, 2018, the change in the number of issued shares of common stock comprised the following issuances:

- An aggregate of 12,194,008 shares of common stock were issued as a result of the vesting of RSUs, and included 875,675 shares of common stock withheld to cover withholding taxes upon such vesting, which are reflected as additions to treasury stock in the consolidated statements of changes in shareholders' equity.
- An aggregate of 2,700,000 shares of common stock were issued in a registered direct offering ("Registered Direct Offering") to certain investors with a purchase price of $5.00 per share, pursuant to a definitive securities purchase agreement entered into on January 10, 2018, for proceeds of $13,392, net of issuance costs of $108.
- Concurrent with the Registered Direct Offering, the Company issued to such institutional buyers, for no additional consideration, warrants to purchase an aggregate of 1,350,000 shares of common stock. These warrants have an exercise price of $6.00 per share and are exercisable until July 11, 2020.

For the year ended December 31, 2017, the change in the number of issued shares of common stock comprised the following issuances:

- An aggregate of 4,001,808 shares of common stock were issued as a result of the vesting of RSUs and the issuance of restricted stock, including 192,288 shares of common stock withheld to cover withholding taxes upon such vesting, which are reflected as additions to treasury stock in the consolidated statements of changes in shareholders' equity.

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- On October 17, 2017, the Company entered into certain amendments (the “Intracoastal and Anson Warrant Amendments”) to the common stock purchase warrants dated July 23, 2015, May 17, 2016 and November 23, 2016 with Intracoastal Capital, LLC (“Intracoastal”) and the common stock purchase warrant dated May 17, 2016 with Anson Investments Master Fund LP (“Anson”), which represented warrants to purchase a total of 861,769 shares of the Company’s common stock previously granted to these warrant holders pursuant to the common stock purchase warrants described above. The Company agreed to reduce the exercise price of these warrants to $3.00 per share. In October 2017, Intracoastal and Anson exercised all of such warrants, as a result of which the Company received proceeds of $2,585 and issued an aggregate of 861,769 shares of common stock.

The Intracoastal and Anson Warrant Amendments also provided that the Company issue to Intracoastal and Anson additional warrants for common stock equal to 25% of the number of shares exercised, resulting in an aggregate issuance of 215,443 additional warrants with an exercise price of $5.35 per share (the “Additional Warrants”).

For the year ended December 31, 2017, a loss of $1,005 was recognized in other expenses, net as a result of the Intracoastal and Anson Warrant Amendments.

- On November 3, 2017, the Company issued an aggregate of 300,000 shares of common stock to Whitehorse, in connection with the exercise of the Whitehorse Warrants, pursuant to the Whitehorse Warrant Amendments. Gross proceeds of $900 in total were received in November 2017. For the year ended December 31, 2017, together with the exercise of warrants by Intracoastal and Anson, discussed above, an aggregate of $3,484 was received as a result of the exercise of warrants to purchase 1,161,769 shares of common stock.
- On November 3, 2017, the Company issued a total of 2,750,000 shares of common stock to settle the additional acquisition consideration payable in stock related to the Q Interactive Acquisition.

Treasury stock

As of December 31, 2018, 2017 and 2016, the Company held 1,233,198, 352,523 and 160,235 shares in treasury, with a cost of $3,272, $1,274 and $531, respectively.

For the year ended December 31, 2018, the increase in treasury stock was attributable to 875,675 shares that were withheld to cover withholding taxes upon the vesting of RSUs and restricted stock. The increase in treasury stock also included a purchase on April 9, 2018 by the Company of 729,167 shares of treasury stock for $1,581, which represented the aggregate shares that Red Violet employees had elected to sell to cover the withholding of taxes on the accelerated vesting of RSUs related to the Spin-off. On October 17, 2018, the Company repurchased 5,000 shares from an outside investor.

For the year ended December 31, 2017, the increase in treasury stock was attributable to 192,288 shares that were withheld to cover withholding taxes upon the vesting of RSUs and restricted stock.

Warrants

As of December 31, 2018, 2017 and 2016, warrants to purchase an aggregate of 2,498,776, 1,273,776 and 2,220,102 shares of common stock were outstanding, respectively. The current exercise prices for outstanding issuances range from 3.75 to 6.00 per share.

For the year ended December 31, 2018, the increase in warrants resulted from the issuance of warrants to purchase an aggregate of 1,350,000 shares of common stock, with an exercise price of $6.00 per share. These issuances occurred concurrent with the Registered Direct Offering. Pursuant to the First Amendments to the Amended Whitehorse Warrants, the parties agreed to reduce the price per share at which the warrant holders have the right, but not the obligation, to require the Company to purchase from the warrant holders the Warrant Shares to $3.8334 per share, to modify the period during which the Put Right could be exercised to the period commencing January 1, 2019 and ending December 15, 2019 and to modify the minimum price that the warrant holders can transfer any of the Warrant Shares to no less than $3.8334 per share.

For the year ended December 31, 2017, as a result of certain amendments of warrants, as discussed above under "Common Stock", the exercise price of warrants to purchase an aggregate of 1,161,769 of common stock was lowered to $3.00 per share. These warrants were subsequently exercised in full.

As of December 31, 2017, warrants to purchase an aggregate of 1,273,776 shares of common stock were outstanding, and included the following:

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Concurrent with the Registered Direct Offering, warrants to purchase an aggregate of 500,000 shares of common stock were issued to five investors, and included 375,000 warrants to Intracoastal and Anson, with an exercise price of $8.00 per

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share. These warrants became exercisable beginning November 21, 2016, the date that was six months and one day from the date of issuance, and were to expire 24 months from the date that they became exercisable. As a result of the Intracoastal and Anson Warrant Amendments, warrants previously issued to Intracoastal and Anson were amended and exercised, with an exercise price of $3.00 per share. As of December 31, 2017, there were remaining warrants to purchase 125,000 shares of common stock.

- The Intracoastal and Anson Warrant Amendments provided that the Company deliver an aggregate of 215,443 Additional Warrants to these two investors, with an exercise price of $5.35 per share. These Additional Warrants were to be exercisable from the date of issuance and expire on the earlier of the close of business on the two-year anniversary of (i) the date a registration statement registering the resale of the underlying shares is declared effective by the SEC, or (ii) the commencement date that such Additional Warrant may be exercised by means of a “cashless exercise.”
- Concurrent with the Registered Direct Offering, warrants to purchase an aggregate of 1,000,000 and 100,000 shares of common stock, with exercise prices of $3.75 and $5.00 per share, respectively, were issued to four investors, including Intracoastal and related agents, respectively. The warrants issued to the four investors became exercisable beginning six months and one day from the date of issuance and were to expire 5 years from the date these warrants became exercisable. The warrants issued to related agents became exercisable beginning six months and one day from the date of issuance and were to expire 24 months from the date they became exercisable. As a result of the Intracoastal and Anson Warrant Amendments, warrants to purchase 166,667 shares of common stock previously issued to Intracoastal were amended and exercised, with an exercise price of $3.00 per share. This exercise resulted in remaining warrants in aggregate to purchase 833,333 and 100,000 shares of common stock, with exercise prices of $3.75 and $5.00 per share, respectively, being issued to the remaining three investors and related agents, respectively.

Preferred stock

As of December 31, 2018 and 2017, the Company had 10.0 million shares of preferred stock with par value of $0.0001 per share authorized. No shares of preferred stock were issued or outstanding.

12. Share-based compensation

As of December 31, 2018, the Company maintains three share-based incentive plans: the 2008 Share Incentive Plan (the “2008 Plan”), the Fluent, Inc. 2015 Stock Incentive Plan (the “2015 Plan”) and the Fluent, Inc. 2018 Stock Incentive Plan (the "2018 Plan"), which, when combined, authorize the issuance of 21,152,558 shares of common stock. The 2008 Plan expired in December 2018, and no future grants can be granted out of that plan. In April 2018, the Company's board of directors approved the 2018 Plan, which was subsequently approved by stockholders at the Company's Annual Meeting of Stockholders held on June 6, 2018. The primary purpose of the 2015 Plan and 2018 Plans, respectively, is to attract, retain, reward and motivate certain individuals by providing them with opportunities to acquire or increase their ownership interests in the Company.

As of December 31, 2018, there were 156,490 and 7,652,558 shares of common stock reserved for issuance under the 2015 Plan and the 2018 Plan, respectively.

Shares issued outside of the equity plans

The following RSUs were issued outside of the 2008 Plan, 2015 Plan and 2018 Plan:

Effective October 14, 2014, pursuant to a business consulting agreement (the "Business Consulting Agreement"), Marlin Capital Investments, LLC ("Marlin Capital"), a company of which Michael Brauser, the Company's Executive Chairman prior to the Spin-off, owned 50% of and was one of two managers, held RSUs representing the right to receive 2,000,000 shares of the Company's common stock for consulting services provided by Marlin Capital. These RSUs were to vest annually beginning from October 13, 2015 if certain performance goals of the Company were met. The shares underlying such RSUs would not have been delivered until October 13, 2018, unless there was a change of control of the Company, termination of the agreement by the Company without cause, or termination of the agreement by Marlin Capital for good reason. As of December 31, 2015, the Company determined the performance goals were met. On March 12, 2018, the Company terminated the Business Consulting Agreement, which resulted in the acceleration of the 500,000 shares that were unvested. During the first quarter of December 31, 2018, the related share-based compensation expense of $906 was recognized in loss on disposal of discontinued operations.

Effective November 16, 2015, the Company entered into an employment agreement with Michael Brauser (the "Brauser Employment Agreement") related to his service as Executive Chairman of the Board of Directors, pursuant to which Mr. Brauser would receive an annual base salary of $25, payable in accordance with the Company's general payroll practices, and

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RSUs outside of the 2008 Plan and the 2015 Plan representing the right to receive 5,000,000 shares of common stock. Among the total 5,000,000 shares granted pursuant to the RSUs, 1,250,000 shares were delivered in December 2017 and 1,250,000 shares were delivered in January 2018. On March 12, 2018, the unvested 2,500,000 shares were accelerated and related share-based compensation expense of $6,468 was recognized in loss on disposal of discontinued operations during the first quarter of 2018.

On December 8, 2015, when Phillip Frost, M.D. joined the Board of Directors of the Company as Vice Chairman, Frost Gamma was granted 3,000,000 RSUs, outside of the 2008 Plan and 2015 Plan. This grant was fully vested and related share-based compensation expense was recognized on December 8, 2015, but Frost Gamma elected to defer delivery of any vested RSUs until Dr. Frost's separation from service from the Company or death or disability. Effective March 8, 2018, Dr. Frost resigned as Vice Chairman. The 3,000,000 shares were delivered during the first quarter of 2018.

Spin-off of Red Violet

On March 8, 2018, the Company's Compensation Committee of the Board of Directors approved the Acceleration of stock options, RSUs and restricted stock held by certain employees, consultants and directors. Awards for an aggregate of 5,157,998 were accelerated, which included stock options for 47,500 shares, 4,960,498 RSUs (inclusive of 500,000 shares to Marlin Capital and 2,500,000 to Michael Brauser, as discussed above), and 150,000 shares of restricted stock. Share-based compensation expense of $15,548, which resulted from the Acceleration was recognized in loss on disposal of discontinued operations during the first quarter of 2018.

During the first quarter of 2018, and in connection with the Spin-off of Red Violet, common stock awards comprised of an aggregate of 304,000 shares were granted to certain employees of Red Violet ("Spin-off Grants"). The related share-based compensation expense of $881 was recognized in loss on disposal of discontinued operations. In addition, an aggregate of 2,041,000 shares of common stock, subject to deferred delivery over a three-year period, were granted to certain Company employees as a result of the Spin-off ("Transaction Grants"). The related share-based compensation expense of $5,409 was recognized in costs and expenses as part of Spin-off transaction costs during the first quarter of 2018.

Stock options

For the years ended December 31, 2018 and 2017, the activity related to stock options consisted of the following:

| | Number of options | Weighted average exercise price per share | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding as of December 31, 2016 | 352,000 | $ 10.25 | 4.4 years | |
| Expired | (130,000) | 6.25 | | |
| Outstanding as of December 31, 2017 | 222,000 | 12.59 | 5.4 years | — |
| Expired | (110,000) | 11.17 | | |
| Outstanding as of December 31, 2018 | 112,000 | 13.98 | 2.8 years | — |
| Options vested and expected to vest as of December 31, 2018 | 112,000 | 13.98 | 2.8 years | — |
| Options exercisable as of December 31, 2018 | 112,000 | $ 13.98 | 2.8 years | — |

The aggregate intrinsic value amounts in the table above represent the difference between the closing price of the Company’s common stock on December 31, 2018 of $3.60 and the corresponding exercise prices, multiplied by the number of in-the-money stock options as of the same date.

For the years ended December 31, 2018 and 2017, the activity related to the unvested balance of options consisted of the following:

| | Number of options | Weighted average exercise price per share | Weighted average remaining contractual term |
|---|---|---|---|
| Unvested as of December 31, 2016 | 68,750 | $ 8.91 | 8.9 years |
| Vested | (21,250) | 8.80 | |
| Unvested as of December 31, 2017 | 47,500 | 8.96 | 7.9 years |
| Vested (1) | (47,500) | 8.96 | |
| Unvested as of December 31, 2018 | — | $ — | 0.0 years |

(1)47,500 shares of stock options were accelerated as a result of the Spin-off of Red Violet.

The Company estimates the fair value of each stock option on the date of grant using a Black-Scholes option pricing model applying the following assumptions, and amortizes the fair value to expense over the option's vesting period using the straight-line attribution approach for employees and non-employee directors. For the years ended December 31, 2018 and 2017, there were no grants of stock options, and there were no stock options exercised.
The risk-free interest rate is based on rates in effect for United States government bonds with terms similar to the expected terms of the stock options, at the time of grant. The estimated volatility of shares on the date of grant is based on the historical volatility of the Company's publicly-traded shares. The expected term is determined by taking into account the contractual terms and historical exercise patterns.
During the years ended December 31, 2018 and 2017, the total fair value of vested stock options was $159 and $125, respectively.
For the years ended December 31, 2018 and 2017, compensation expense recognized for these stock options was $243 and $123, respectively. This compensation expense was recognized in discontinued operations in the consolidated statements of operations. As of December 31, 2018, there was no unrecognized share-based compensation with respect to outstanding stock options.
Restricted stock units, common stock grants and restricted stock
For the years ended December 31, 2018 and 2017, activity related to unvested RSUs, common stock grants and restricted stock activity consisted of the following:

| | Number of units | Weighted average grant date fair value |
|---|---|---|
| Unvested as of December 31, 2016 | 12,407,029 | $ 8.40 |
| Granted | 2,732,000 | 5.61 |
| Vested and delivered (1) | (3,659,520 ) | 8.29 |
| Withheld as treasury stock (2) | (192,288 ) | 8.48 |
| Vested not delivered (3) | (2,568,318 ) | 3.43 |
| Forfeited | (567,998 ) | 5.65 |
| Unvested as of December 31, 2017 (4) | 8,150,905 | 9.27 |
| Granted (5) | 4,598,125 | 2.63 |
| Vested and delivered (1) | (11,468,333 ) | 7.63 |
| Withheld as treasury stock (2) | (875,675 ) | 6.05 |
| Vested not delivered (3) | 3,766,068 | 9.85 |
| Forfeited | (339,125 ) | 4.68 |
| Unvested as of December 31, 2018 | 3,831,965 | $ 7.95 |

(1) Among the shares vested and delivered during the years ended December 31, 2018 and 2017, there were 6,278,318 and 34,584 shares that were vested but deferred from prior periods, respectively. See (3) below.

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(2) As discussed in Note 11, Common Shares and Preferred Shares, the increase in treasury stock was primarily attributable to shares withheld to cover statutory withholding taxes upon the vesting of RSUs. As of December 31, 2018 and 2017, there were 1,233,198 and 352,523 outstanding shares of treasury stock, respectively.

(3) Vested not delivered represent vested RSUs or common stock grants with delivery deferred to a future time. During the year ended December 31, 2018, there was a net decrease of 3,766,068 shares included in vested not delivered, as a result of the delivery of common stock of underlying RSUs included in "vested not delivered" in prior periods. During the year ended December 31, 2017, there was a net increase of 2,568,318 shares within the same balance due to the addition of vestings subject to deferred delivery terms. As of December 31, 2018 and 2017, there were 2,909,917 and 6,675,985 outstanding RSUs or shares of common stock grants included in vested not delivered, respectively.

(4) As of December 31, 2017, included in the unvested shares were 150,000 shares of unvested restricted stock, which were, as of December 31, 2017, included in the issued and outstanding shares of the Company’s common stock.

(5) As discussed in "Spin-off of Red Violet" above, included in the RSUs granted during the year ended December 31, 2018, were an aggregate of 304,000 shares of Spin-off Grants that vested and were delivered in the first quarter of 2018, and an aggregate of 2,041,000 shares of Transaction Grants that vested but were subject to deferred delivery over a three-year period.

For the years ended December 31, 2018 and 2017, the Company recognized compensation (included in sales and marketing expenses, general and administrative expenses. product development, and discontinued operations in the consolidated statements of operations, and intangible assets in the consolidated balance sheets) for these RSUs, common stock grants and restricted stock of $15,104 and $35,169, respectively. The fair value of the RSUs and restricted stock was estimated using the closing prices of the Company's common stock on the dates of grant.

As of December 31, 2018, unrecognized share-based compensation expense associated with the granted RSUs is $7,418, which is expected to be recognized over a weighted average period of 1.9 years.

For the years ended December 31, 2018 and 2017, share-based compensation for the Company’s stock options, RSUs, common stock grants and restricted stock was allocated to the following accounts in the consolidated financial statements:

| | Year Ended December 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Sales and marketing expenses | $2,856 | $2,254 |
| Product development | 676 | 423 |
| General and administrative expenses | 5,739 | 28,448 |
| Spin-off transaction costs | 5,410 | — |
| Discontinued operations | 15,712 | 2,871 |
| | 30,393 | 33,996 |
| Capitalized in intangible assets of continuing operations | 423 | 512 |
| Capitalized in intangible assets of discontinued operations | 181 | 784 |
| Total | $30,997 | $35,292 |

13. Segment information

Prior to the Spin-off, the Company had two reportable segments corresponding with two operating segments, Information Services and Performance Marketing. Subsequent to the Spin-off of Red Violet, and the associated change in the Company's management team, the composition of the reportable segments changed. As of March 31, 2018, the Company determined that it had one reportable segment corresponding with one operating segment, Performance Marketing. This determination reflects how the Company evaluates its business performance and manages its operations. For the years ended December 31, 2018 and 2017, the Company revised the segment information disclosures to reflect this change.

Revenue by geography is based on the location of the Company's customers. For the years ended December 31, 2018 and 2017, the total revenue earned from outside of the United States was less than 10.0%. All significant long-lived

assets are located in the United States.



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14. Related party transactions
For the years ended December 31, 2018 and 2017, material related party transactions were as follows:
Business Consulting Agreement
Pursuant to the Business Consulting Agreement, Marlin Capital held RSUs representing the right to receive 2,000,000 shares of the Company's common stock, for consulting services provided by Marlin Capital. These RSUs were to vest annually beginning from October 13, 2015 only if certain performance goals of the Company were met. The shares underlying such RSUs would not have been delivered until October 13, 2018, unless there was a change of control of the Company, termination of the agreement by the Company without cause, or termination of the agreement by Marlin Capital for good reason. The Company determined the performance goals were met as of December 31, 2015. Share-based compensation expense of negative $1,792 and $4,272 for the twelve months ended December 31, 2018 and 2017, respectively, associated with shares under the Business Consulting Agreement was recognized in general and administrative expenses. On March 12, 2018, the Company terminated the Business Consulting Agreement. The unvested 500,000 shares were accelerated and related share-based compensation expense of $906 was recognized fully in loss on disposal of discontinued operations during the first quarter of 2018. See Note 12, "Share-based compensation," for details.
Promissory Notes
On December 8, 2015, the Company entered into the Promissory Notes, with an interest rate of 10% per annum, with certain investors, for aggregate financing of $10.0 million, consisting of $5.0 million from Frost Gamma, $4.0 million from Michael Brauser, and $1.0 million from another investor. As of December 31, 2017, the principal amounts plus accrued PIK interest of the Promissory Notes owing to Frost Gamma, Michael Brauser and such other investor were $5,574, $4,460 and $1,115, respectively. During the twelve months ended December 31, 2017, the Company repaid $533, $426, and $107 to Frost Gamma, Michael Brauser and another investor, respectively. On March 26, 2018, as part of the Refinancing associated with the Spin-off of Red Violet, the principal amount plus accrued PIK interest of the Promissory Notes owing to Frost Gamma, Michael Brauser and such other investor, of $5,713, $4,570 and $1,143, respectively, was fully repaid. See Note 9, "Long-term debt, net," for details.
Consulting Agreement
On September 6, 2017, the Company entered into the Consulting Agreement with Michael Brauser, effective as of June 23, 2017, for a term of four years, under which Mr. Brauser served as a strategic adviser to the Company but received no salary for such services. In consideration for Mr. Brauser's services, the Consulting Agreement provided for continued vesting of all outstanding RSUs granted to Mr. Brauser under the Brauser Employment Agreement. Share-based compensation expense of $302 and $1,742, associated with the Consulting Agreement, was recognized in general and administrative expenses for the twelve months ended December 31, 2018 and 2017, respectively. In addition, upon the Acceleration, the remaining unvested 2,500,000 shares were accelerated, and related share-based compensation expense of $6,468 was recognized in loss on disposal of discontinued operations during the first quarter of 2018. The Consulting Agreement was terminated upon the Spin-off of Red Violet. See Note 12, "Share-based compensation," for details.
Others
Effective on August 1, 2015, the Company entered into a consulting agreement with DAB Management Group Inc. ("DAB"), for DAB to provide consulting services (the "DAB Agreement"). DAB is owned by Daniel Brauser, a director of the Company at the time the DAB Agreement was entered into and the son of Michael Brauser. Under the DAB Agreement, the consulting service fee was $20 per month. The Company recognized consulting service fees of $60 and $240 for the twelve months ended December 31, 2018 and 2017, respectively. The DAB Agreement was terminated upon the Spin-off of Red Violet.
15. Commitments and contingencies
(a) Operating lease commitments
Effective October 10, 2018, the Company entered into a seven-year operating lease agreement for approximately 42,685 square feet of office space in New York City, with the option to extend through 2031. In connection with this lease agreement, the Company was required to establish and maintain a $1,480 cash collateral account, which is recorded in restricted cash on the

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consolidated balance sheets. Rent expense related to the new lease agreement is recorded on a straight-line basis beginning on the lease commencement date of November 8, 2018.
For the years ended December 31, 2018 and 2017, the Company recorded rent expense related to its current office locations of $1,596 and $1,728, respectively.
As of December 31, 2018, future minimum rental payments under noncancelable operating leases having initial or remaining lease terms of more than one year are as follows:
(In thousands)

| Year | December 31, 2018 |
|---|---|
| 2019 | $ 1,543 |
| 2020 | 2,280 |
| 2021 | 2,282 |
| 2022 | 2,244 |
| 2023 | 2,390 |
| 2024 and thereafter | 4,371 |
| Total | $ 15,110 |

(b) Capital lease commitments
In connection with the seven-year operating lease agreement discussed above, the Company obtained the right to use certain furniture, fixtures and office equipment (referred to as "Leased Capital Assets") already installed in the new office space in New York City. The Company determined that the Leased Capital Assets should be treated as a capital lease.
As of December 31, 2018, the Company has lease obligations of $747 related to the Leased Capital Assets. The Company's obligations under this capital lease agreement are as follows:
(In thousands)

| Year | December 31, 2018 |
|---|---|
| 2018 | $ 101 |
| 2019 | 157 |
| 2020 | 157 |
| 2021 | 157 |
| 2022 | 169 |
| Thereafter | 312 |
| Total minimum payments required | $ 1,053 |
| Amounts representing interest | 306 |
| Present value of net minimum payments | 747 |
| Less: Current maturities | 101 |
| Long-term payment obligations | $ 646 |

(c) Contingencies
The Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of management, is likely to have a material adverse effect on the business, financial condition, results of operations or cash flows. Legal fees associated with such legal proceedings are expensed as incurred. The Company reviews legal proceedings and claims on an ongoing basis and follows the appropriate accounting guidance, including ASC 450, when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the consolidated financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, the Company evaluates, among other factors, the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated.

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In addition, the Company may be involved in litigation from time to time in the ordinary course of business. It is the opinion of the Company's management that the ultimate resolution of any such matters currently pending will not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. However, the results of such matters cannot be predicted with certainty and there can be no assurance that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

16. Subsequent events

Management has made an evaluation for subsequent events requiring recognition or disclosure in these consolidated financial statements through March 18, 2019, which is the date these consolidated financial statements were available to be issued. None were identified.