Rocket Fuel Inc.
Form 10-Q
August 07, 2015

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

_____

FORM 10-Q

_____

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from to

Commission File Number: 001-36071

_____

ROCKET FUEL INC.
(Exact name of registrant as specified in its charter)

Delaware	30-0472319
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1900 Seaport Boulevard, Pacific Shores Center, Redwood City, CA 94063
(Address of principal executive offices and Zip Code)
(650) 595-1300
(Registrant's telephone number, including area code)

_____

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. On July 31, 2015, there were 42,704,430 shares of the registrant's common stock, par value $0.001, outstanding.

EMERGING GROWTH COMPANY

We are an ‘‘emerging growth company’’ as that term is defined in the Jumpstart Our Business Startups Act of 2012 and, as such, we have elected to comply with certain reduced public company reporting requirements.

ROCKET FUEL INC.
FORM 10-Q
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TRADEMARKS

“Rocket Fuel,” the Rocket Fuel logo, “Advertising that Learns,” “Marketing that Learns,” and other trademarks or service marks of Rocket Fuel appearing in this Quarterly Report on Form 10-Q are the property of Rocket Fuel Inc. Trade names, trademarks and service marks of other companies appearing in this Quarterly Report on Form 10-Q are the property of their respective holders and should be treated as such.

PART I
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)
Rocket Fuel Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$81,065	$107,056
Accounts receivable, net	119,423	135,400
Deferred tax assets, net	1,716	1,716
Prepaid expenses	3,167	3,698
Other current assets	6,847	12,531
Total current assets	212,218	260,401
Property, equipment and software, net	86,719	89,441
Restricted cash	2,304	2,915
Intangible assets, net	60,845	69,299
Goodwill	115,412	115,412
Other assets	1,620	1,797
Total assets	$479,118	$539,265
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$63,305	$76,085
Accrued and other current liabilities	32,740	33,258
Deferred revenue	1,931	593
Current portion of capital leases	6,233	5,482
Current portion of debt	45,720	45,705
Total current liabilities	149,929	161,123
Debt—Less current portion	20,477	23,335
Capital leases—Less current portion	10,649	12,341
Deferred rent—Less current portion	25,498	26,818
Deferred tax liabilities	1,949	2,068
Other liabilities	1,204	814
Total liabilities	209,706	226,499
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock, $0.001 par value— 1,000,000,000 authorized as of June 30, 2015 and December 31, 2014; 42,662,928 and 42,002,533 issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	43	42
Additional paid-in capital	439,542	421,630
Accumulated other comprehensive loss	(113)	(120)
Accumulated deficit	(170,060)	(108,786)
Total stockholders' equity	269,412	312,766
Total liabilities and stockholders' equity	$479,118	$539,265

See Accompanying Notes to Condensed Consolidated Financial Statements.

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Rocket Fuel Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except loss per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$120,065	$92,642	$224,399	$167,039
Costs and expenses:				
Media costs	49,155	37,930	94,716	67,637
Other cost of revenue	19,826	8,993	39,782	16,821
Research and development	11,791	8,434	23,114	15,675
Sales and marketing	41,750	33,789	84,628	63,548
General and administrative	14,761	12,135	32,335	22,475
Restructuring	6,471	—	6,471	—
Total costs and expenses	143,754	101,281	281,046	186,156
Operating loss	(23,689)	(8,639)	(56,647)	(19,117)
Interest expense	1,045	514	2,385	928
Other (income) expense, net	(696)	425	1,512	444
Loss before income taxes	(24,038)	(9,578)	(60,544)	(20,489)
Income tax (benefit) provision	372	181	729	496
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Basic and diluted net loss per share attributable to common stockholders	$(0.58)	$(0.28)	$(1.45)	$(0.61)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	42,296	35,172	42,140	34,606

See Accompanying Notes to Condensed Consolidated Financial Statements.

Rocket Fuel Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Other comprehensive income (loss): (1)				
Foreign currency translation adjustments	116	(7)	7	25
Comprehensive loss	$(24,294)	$(9,766)	$(61,266)	$(20,960)

(1) Reclassifications out of Other comprehensive income (loss) into Net loss were not significant.
See Accompanying Notes to Condensed Consolidated Financial Statements.

Rocket Fuel Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net loss	$(61,273)	$(20,985)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	24,023	6,940
Impairment of leasehold improvements	2,704	—
Stock-based compensation	13,881	11,241
Deferred taxes	(20)	112
Excess tax benefit from stock-based activity	—	(163)
Other non-cash adjustments, net	1,044	69
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	15,362	(3,179)
Prepaid expenses and other assets	6,318	(14,614)
Accounts payable	(11,538)	(248)
Accrued and other liabilities	182	(1,301)
Deferred rent	890	15,749
Deferred revenue	1,338	457
Net cash used in operating activities	(7,089)	(5,922)
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(10,085)	(19,141)
Capitalized internal-use software development costs	(6,048)	(3,555)
Changes in restricted cash	636	(2,203)
Net cash used in investing activities	(15,497)	(24,899)
FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock, net of issuance costs	—	115,130
Proceeds from employee stock plans, net	3,139	5,671
Excess tax benefit from stock-based activity	—	163
Tax withholdings related to net share settlements of restricted stock units	(533)	(53)
Repayment of capital lease obligations	(2,755)	(430)
Proceeds from debt facilities, net of debt issuance costs	(242)	—
Repayment of debt	(3,000)	—
Net cash (used in) provided by financing activities	(3,391)	120,481
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(14)	7
CHANGE IN CASH AND CASH EQUIVALENTS	(25,991)	89,667
CASH AND CASH EQUIVALENTS—Beginning of period	107,056	113,873
CASH AND CASH EQUIVALENTS—End of period	$81,065	$203,540

	Six Months Ended June 30,	
	2015	2014
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$454	$205
Cash paid for interest	1,921	791
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment recorded in accounts payable and accruals	$428	$9,079
Offering costs recorded in accrued liabilities	—	32
Property, plant and equipment acquired under capital lease obligations	1,786	7,350
Vesting of early exercised options	97	576
Stock-based compensation capitalized in internal-use software costs	1,286	762

See Accompanying Notes to Condensed Consolidated Financial Statements.

ROCKET FUEL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rocket Fuel Inc. (the "Company") was incorporated as a Delaware corporation on March 25, 2008. The Company is a provider of artificial-intelligence digital advertising solutions headquartered in Redwood City.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in Consolidated Financial Statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. The Condensed Consolidated Balance Sheet data as of December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial position and our results of operations and cash flows.

These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

The significant accounting policies and recent accounting pronouncements were described in Note 1 to the Consolidated Financial Statements included in the 2014 Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There have been no significant changes in or updates to the accounting policies since December 31, 2014 other than as presented below.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. A significant portion of the Company's cash is held at four major financial institutions that the Company's management has assessed to be of high credit quality. The Company has not experienced any losses in such accounts.

The Company mitigates its credit risk with respect to accounts receivable by performing credit evaluations and monitoring agencies' and advertisers' accounts receivable balances. As of June 30, 2015 and December 31, 2014, two agency holding companies and no single advertiser accounted for 10% or more of accounts receivable.

With respect to revenue concentration, the Company defines a customer as an advertiser that is a distinct source of revenue and is legally bound to pay for the advertising services that the Company delivers on the advertiser's behalf. The Company counts all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with the Company. During the three and six months ended June 30, 2015 and 2014, no single customer represented 10% or more of revenue.

The Company also monitors the percentage of revenue from advertising agencies, even though advertising agencies that act on behalf of the Company's advertisers are not considered customers based on the definition above. If all branches and divisions within each global advertising agency were considered to be a single agency for this purpose, two agency holding companies would have been associated with 10% or more of revenue during the three and six months ended June 30, 2015 and 2014.

Goodwill—The Company performs an annual impairment test towards the end of its fiscal year on December 1 and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the quarter ended June 30, 2015, the market capitalization of its publicly traded common stock sustained a decline. The Company determined the decline to be a change in circumstances triggering the necessity to test its goodwill for impairment. Since the Company operates its business in one reporting unit, the goodwill is tested for impairment at the enterprise level. Since the reporting unit's fair value based on quoted market prices of the Company's common stock was in excess of its carrying value, it concluded that there has been no impairment of

goodwill during the quarter ended June 30, 2015. If facts, circumstances or assumptions change in the future, the Company may be required to record impairment charges to reduce the carrying value of its goodwill.

Fair Value Measurement—The fair value of the money market funds presented as cash equivalents on our Consolidated Balance Sheets were $22.9 million as of June 30, 2015 and December 31, 2015. These are measured as level 1 inputs in the fair value hierarchy.

The fair values of our other financial instruments, not carried at fair value on the Consolidated Balance Sheets, including accounts receivable, accounts payable, accrued liabilities, term loan and revolving credit facility do not materially differ from their carrying amounts due to their short maturities and, in the case of the term loan and revolving credit facility, their variable, market-based interest rates.

Recently Issued and Adopted Accounting Pronouncements

On April 15, 2015, the Financial Accounting Standards Board ("FASB") issued accounting guidance which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. The guidance is effective for annual periods and interim periods therein beginning after December 15, 2015. The Company is evaluating the impact from the adoption of this guidance on its consolidated financial statements.

In April 2015, the FASB issued accounting guidance which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability under ASU 2015-03. The guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Earlier adoption is permitted for financial statements that have not been previously issued. The Company does not expect this guidance to affect our balance sheets as we currently present debt issuance costs as offsets to the related debt.

In August 2014, the FASB provided accounting guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures under ASU 2014-15. The amendments are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expects no material modifications to its financial statements.

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU 2014-09. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date January 1, 2017. The deferral results in the new revenue standard being effective January 1, 2018. The Company is currently evaluating the impact of this ASU on its consolidated financial position, results of operations and cash flows.

NOTE 2. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2015 and December 31, 2014, consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Capitalized internal-use software costs	$30,955	$23,385
Computer hardware and software	49,906	46,299
Furniture and fixtures	13,531	11,674
Leasehold improvements	39,147	36,811
Total	133,539	118,169
Accumulated depreciation and amortization	(46,820)	(28,728)
Total property, equipment and software, net	$86,719	$89,441

Total depreciation and amortization expense, excluding amortization of internal-use software costs, was $6.1 million and $2.7 million for the three months ended June 30, 2015 and 2014, respectively, and $12.1 million and $4.5 million for the six months ended June 30, 2015 and 2014, respectively. Amortization expense of internal-use software costs was $1.8 million and $1.2 million for the three months ended June 30, 2015 and 2014, respectively, and $3.4 million and $2.3 million for the six months ended June 30, 2015 and 2014, respectively. Refer to Note 4 for details of the

Company's capital leases as of June 30, 2015 and December 31, 2014.

In the three months ended June 30, 2015, the Company recorded an impairment charge of $2.7 million for certain of its leasehold improvements in connection with its restructuring activities. Refer to Note 5 for details of the Company's restructuring plan.

Total amortization expense related to intangible assets acquired in the business combination with [x+1] was $4.2 million and $8.5 million for the three and six months ended June 30, 2015, respectively.

NOTE 3. BUSINESS COMBINATIONS

On September 5, 2014, the Company acquired X Plus Two Solutions, Inc., a Delaware corporation (“X Plus Two”), which wholly owns X Plus One Solutions, Inc, known in the industry as [x+1] ("[x+1]"). The acquisition of [x+1] significantly expanded the market opportunity and accelerated the Company’s entry into the digital marketing enterprise software-as-a-service ("SaaS") market. At closing, all outstanding shares of [x+1]'s capital stock and stock options were canceled in exchange for an aggregate of $98.0 million in cash and approximately 5.3 million shares of the Company’s common stock. The total preliminary purchase consideration is as follows (in thousands):

Purchase consideration:	
Cash	$98,045
Fair value of 5,253,084 shares common stock transferred	82,421
Total preliminary purchase price	$180,466

The acquisition of [x+1] was accounted for in accordance with the acquisition method of accounting for business combinations with the Company as the accounting acquirer. The Company expensed the acquisition-related transaction costs in the amount of $4.9 million in general and administrative expenses. The total purchase price as shown in the table above was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The total purchase price was allocated using the information currently available for asset acquired and liabilities assumed and may be revised when these estimates change (in thousands):

Current assets	$32,005
Non-current assets	3,999
Current liabilities	(28,893)
Non-current liabilities	(16,216)
Net acquired tangible assets	(9,105)
Identifiable intangible assets	74,700
Goodwill	114,871
Total preliminary purchase price	$180,466

The goodwill was primarily attributable to synergies expected to be generated from combining the Company's and [x+1]’s technology and operations. None of the goodwill recorded as part of the acquisition will be deductible for U.S. federal income tax purposes.

The changes in the carrying amount of goodwill for the year ended December 31, 2014 are as follows (in thousands):

	Goodwill
Balance as of December 31, 2013	$—
Goodwill acquired	114,871
Goodwill adjustments recorded during the three months ended December 31, 2014 (1)	541
Balance as of December 31, 2014 and June 30, 2015	$115,412

(1) Pursuant to business combinations accounting guidance, goodwill adjustments, for the effect of changes to net assets acquired during the measurement period, may be recorded up to one year from the date of an acquisition. Goodwill adjustments were not significant to our previously reported operating results or financial position.

The results of operations of [x+1] have been included in the Company's condensed consolidated statements of operations from the acquisition date. The following unaudited pro forma condensed combined financial information reflects the Company's results of operations for the periods indicated and assumes that the business had been acquired at the beginning of fiscal year 2014. The pro forma results include adjustments for amortization associated with the acquired intangible assets. The pro forma results are presented for informational purposes only and are not necessarily indicative of results that would have occurred had the acquisition taken place at the beginning of the earliest period presented, or of future results (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Pro forma revenue	$114,753	$210,147
Pro forma revenue less media costs	$63,531	$116,745
Pro forma net loss	$(17,319)	$(35,154)

NOTE 4. CAPITAL LEASES

Property, equipment and software includes hardware and software related to our data centers, which are acquired under capital lease agreements. The remaining future minimum lease payments under these non-cancelable capital leases as of June 30, 2015 were as follows (in thousands):

Year ending December 31,	Future Payments
2015 (remaining 6 months)	$3,514
2016	7,028
2017	5,342
2018	2,329
2019	79
Thereafter	—
Total minimum lease payments	$18,292
Less: amount representing interest and taxes	(1,410)
Less: current portion of minimum lease payments	(6,233)
Capital lease obligations, net of current portion	$10,649

NOTE 5. RESTRUCTURING COSTS

In April 2015, the Company announced a plan intended to improve its operational efficiency, which included a reduction of its workforce, subletting of certain excess leased office space, and other cost reduction measures. During the three months ended June 30, 2015, the Company incurred approximately $3.4 million in employee severance costs and $0.3 million in broker costs associated with subleasing of the excess office space. The Company also incurred a $2.7 million non-cash impairment charge for leasehold improvements and certain other assets related to the subleased facility. The Company expects to complete any remaining cash obligations associated with these restructuring activities in the third quarter of 2015.

NOTE 6. DEBT

Loan Facility—On December 31, 2014, the Company entered into a Second Amended and Restated Revolving Credit and Term Loan Agreement with certain lenders, the ("2014 Loan Facility"), which was last amended on March 13, 2015. The 2014 Loan Facility amended and restated the Company's then-existing Loan and Security Agreement, dated as of April 7, 2010, (as amended, the "2010 Loan Facility"). The 2014 Loan Facility provides for an $80.0 million revolving credit facility that matures on December 31, 2017, with a $12.0 million letter of credit subfacility and a $2.5 million swingline subfacility, and a $30.0 million secured term loan that matures on December 31, 2019. Revolving loans may be advanced under the 2014 Loan Facility in amounts up to the lesser of (i) 85% of eligible accounts receivable and (ii) $80.0 million, less the then outstanding principal amount of the term loan. If at any time the aggregate amounts outstanding exceed the allowable maximum advance, then the Company must make a repayment in an amount sufficient to eliminate the excess.

If the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below $40.0 million, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility. The Company is also obligated to prepay the term loan with proceeds from the occurrence of certain events. The Company may repay revolving loans and term loans under the 2014 Loan Facility in whole or in part at any time without premium or penalty, subject to certain conditions.

As of June 30, 2015, $27.0 million in term loans, $40.0 million under the revolving credit facility and letters of credit in the amount of $7.0 million were outstanding. The term loan is being repaid in quarterly principal installments of $1.5 million. The Company paid customary closing fees and pays customary commitment fees and letter of credit fees.

Revolving loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2014 Loan Facility, plus a spread of 1.625% to 2.125%, or (ii) a LIBOR rate determined pursuant to the terms of the Loan Facility, plus a spread of 2.625% to 3.125%. Term loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2014 Loan Facility, plus a spread of 2.50% to 3.00%, or (ii) a LIBOR rate determined pursuant to the terms of the 2014 Loan Facility, plus a spread of 3.50% to 4.00%. In each case, the spread is based on the cash reflected on the Company’s balance sheet for the preceding fiscal quarter, plus an amount equal to the average unused portion of the revolving credit commitments during such fiscal quarter. The base rate is determined as the highest of (i) the prime rate announced by Comerica Bank, (ii) the federal funds rate plus a margin equal to 1.00% and (iii) the daily adjusted LIBOR rate plus a margin equal to 1.00%. Under certain circumstances, a default interest rate of 2.00% above the applicable interest rate will apply on all obligations during the existence of an event of default under the 2014 Loan Facility.

The Company is required to maintain a minimum of $30.0 million of cash on deposit with the lenders and comply with certain financial covenants under the 2014 Loan Facility, including the following:

EBITDA. The Company is required to maintain specified EBITDA, which is defined for this purpose, with respect to any trailing twelve month period, as an amount equal to the sum of (i) consolidated net income (loss) in accordance with GAAP, after eliminating all extraordinary nonrecurring items of income, plus (ii) depreciation and amortization; income tax expense; total interest expense; non-cash expenses or losses; stock-based compensation expense; costs and expenses from permitted acquisitions up to certain limits; costs and expenses in connection with the 2014 Loan Facility up to certain limits; certain legal fees up to certain limits incurred through December 2015; integration costs related to the [x+1] acquisition up to certain limits incurred through December 31, 2014 and any other expenses agreed with Comerica and the lenders; less (iii) all extraordinary and non-recurring revenues and gains (including income tax benefits).

Liquidity ratio. Under the 2014 Loan Facility, the ratio of (i) the sum of all cash on deposit with Comerica and certain other domestic financial institutions and the aggregate amount of all eligible accounts receivable to (ii) all indebtedness owed to the lenders under the 2014 Loan Facility must be at least 1.10 to 1.00.

The terms of the 2014 Loan Facility also require the Company to comply with certain other financial and non-financial covenants. As of June 30, 2015, the Company was in compliance with all covenants.

Future Payments

Future principal payments of term loan as of June 30, 2015 were as follows (in thousands):

Year ending December 31,	Future Payments
2015 (remaining 6 months)	$3,000
2016	6,000
2017	6,000
2018	6,000
2019	6,000
Total	27,000
Less: current portion of term loan	(6,000)
Term loan, net of current portion	$21,000

As of June 30, 2015, the $40.0 million balance outstanding under the revolving credit facility had a maturity date of December 31, 2017, and because the Company has the option to draw upon the facility or repay borrowed funds at any time, the balance is shown as a current liability in the accompanying condensed consolidated balance sheets. The debt on the condensed consolidated balance sheets is shown net of $0.8 million in debt issuance costs.

NOTE 7. STOCKHOLDERS' EQUITY

The following table summarizes information pertaining to our stock-based compensation from stock options and stock awards, which are comprised of restricted stock awards and restricted stock units (in thousands, except grant-date fair value and recognition period):

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Stock options:		
Outstanding at the beginning of the period	6,291	7,411
Options granted	375	487
Options exercised	(217)	(818)
Options forfeited	(364)	(154)
Outstanding at the end of the period	6,085	6,926
Total intrinsic value of options exercised	$1,426	$12,717
Total unrecognized compensation expense at period-end	$18,569	$30,405
Weighted-average remaining recognition period at period-end (in years)	2.0	2.4
Stock awards:		
Outstanding at the beginning of the period	2,515	382
Stock awards granted	1,628	520
Stock awards vested	(172)	(27)
Stock awards canceled	(561)	(31)
Outstanding at the end of the period	3,410	845
Weighted-average grant-date fair value	$12.76	$44.15
Total unrecognized compensation expense at period-end	$39,102	$27,238
Weighted-average remaining recognition period at period-end (in years)	3.2	3.5

Employee Stock Purchase Plan—In August 2013, the Company's board of directors adopted and the stockholders approved the Company's 2013 Employee Stock Purchase Plan (the "ESPP"), which became effective upon adoption by the Company's board of directors. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The offering periods generally start on the first trading day on or after June 1 and December 1 of each year and end on the first trading day on or before November 30 and May 31 approximately six months later. The administrator may, in its discretion, modify the terms of future offering periods. Due to the timing of the Company's initial public offering, the first offering period started on October 1, 2013 and ended on May 31, 2014. At the end of each offering period, employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period. As of June 30, 2015, total compensation costs related to outstanding rights to purchase shares of common stock under the ESPP offering period ending on the first trading day on or before November 30, 2015, were approximately $1.1 million, which will be recognized over the remaining offering period.

Stock-based Compensation—The fair value of options on the date of grant is estimated based on the Black-Scholes option-pricing model using the single-option award approach with the weighted-average assumptions set forth below. Expected term represents the period that the Company's stock-based awards are expected to be outstanding and is determined based on the simplified method. Due to the lack of historical exercise activity for the Company, the simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award. Volatility is estimated using comparable public company volatility for similar option terms until a sufficient amount of historical information regarding the volatility of the Company's share price becomes available. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term. As the Company has never paid cash dividends, and at present, has no intention to pay cash dividends in the future, expected dividends are zero. Expected forfeitures are based on the Company's historical experience. The

fair value of restricted stock unit awards is the grant date closing price of the Company's common stock.

The Company uses the straight-line method for expense recognition over the vesting period of the award or option. The assumptions used to value options granted to employees were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Expected term (years)	6.3	5.5–6.3	6.3	5.5–6.3
Volatility	50.7%–58.0%	57.8%–58.0%	50.7%–58.0%	55.6%–58.0%
Risk-free interest rate	1.57%–1.85%	1.96%–1.97%	1.57%–1.85%	1.85%–1.97%
Dividend yield	—	—	—	—

The assumptions used to calculate our stock-based compensation for each stock purchase right granted under the ESPP were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Expected term (years)	0.5	0.5-0.7	0.5	0.5-0.7
Volatility	73.3%-77.2%	66.2%-77.4%	73.3%-77.2%	66.2%-77.4%
Risk-free interest rate	0.07%-0.08%	0.06%-0.07%	0.07%-0.08%	0.06%-0.07%
Dividend yield	—	—	—	—

Stock-based compensation allocation

The following table summarizes the allocation of stock-based compensation in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Other cost of revenue	$477	$276	$1,102	$528
Research and development	1,834	1,311	4,081	2,298
Sales and marketing	2,325	2,748	5,156	4,915
General and administrative	1,798	1,664	3,542	3,215
Total	$6,434	$5,999	$13,881	$10,956

NOTE 8. NET LOSS PER SHARE

Basic net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee stock-based awards. Because the Company had net losses for the three and six months ended June 30, 2015 and 2014, all these potentially dilutive shares of common stock were determined to be anti-dilutive and accordingly were not included in the calculation of diluted net loss per share.

The following table sets forth the computation of net loss per share of common stock (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Weighted-average shares used to compute basic and diluted net loss per share	42,296	35,172	42,140	34,606
Basic and diluted net loss per share	$(0.58)	$(0.28)	$(1.45)	$(0.61)
Common stock equivalents excluded from net loss per diluted share because their effect would have been anti-dilutive	9,606	7,993	9,606	7,993

NOTE 9. INCOME TAXES

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are intended to be reinvested indefinitely.

The Company recorded income tax provisions of $0.4 million and $0.2 million for the three months ended June 30, 2015 and 2014, respectively and $0.7 million and $0.5 million for the six months ended June 30, 2015 and 2014, respectively, primarily due to foreign and state income tax expense. The primary difference between the effective tax rate and the federal statutory tax rate in the United States relates to the valuation allowances on the Company’s net operating losses, state and foreign tax rate differences, and research and development credits.

Due to uncertainty as to the realization of benefits from deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, the Company has provided certain valuation allowance against such assets as of June 30, 2015 and December 31, 2014.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company has operating lease agreements for office space for administrative, research and development and sales and marketing activities in the United States that expire at various dates through 2025.

The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. Rent expense was $4.0 million and $3.6 million for the three months ended June 30, 2015 and 2014, respectively, and $8.0 million and $6.8 million for the six months ended June 30, 2015 and 2014, respectively.

The approximate remaining future minimum cash lease payments under these non-cancelable operating leases as of June 30, 2015 were as follows (in thousands):

Year ending December 31,	Future Payments
2015 (remaining 6 months)	$10,020
2016	20,701
2017	19,826
2018	18,686
2019	21,185
Thereafter	43,810
	$134,228

Please refer to Note 4 for details of the Company's capital lease commitments as of June 30, 2015.

Letters of Credit Bank Guarantees and Restricted Cash—As of June 30, 2015 and December 31, 2014, the Company had irrevocable letters of credit for facilities leases, with all financial institutions, in the amounts of $7.2 million and $6.8 million, respectively. The letters of credit have various expiration dates, with the latest being December 2023.

As of June 30, 2015, the Company had $2.3 million in cash reserved to support bank guarantees for certain office lease agreements. These amounts are classified as restricted cash on the Company's condensed consolidated balance sheets.

Indemnification Agreements—In the ordinary course of business, the Company enters into agreements providing for indemnification of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon the Company to provide indemnification under such agreements, and thus there are no claims that the Company is aware of that could have a material effect on the Company’s condensed consolidated balance sheets, condensed consolidated statements of operations, condensed consolidated statements of comprehensive loss, or condensed consolidated statements of cash flows.

Legal Proceedings—The Company is involved from time to time in claims, proceedings, and litigation, including the following:

On September 3, 2014 and September 10, 2014, respectively, two purported class actions were filed in the Northern District of California against the Company and certain of its officers and directors. The actions are Shah v. Rocket Fuel Inc., et al., Case No. 4:14-cv-03998, and Mehrotra v. Rocket Fuel Inc., et al., Case No. 4:14-cv-04114. The underwriters in the Company's initial public offering on September 19, 2013 (the “IPO”) and its secondary offering on February 5, 2013 (the “Secondary Offering”) are also named as defendants. These actions were consolidated and a consolidated complaint, In re Rocket Fuel Securities Litigation, was filed on February 27, 2015. The consolidated complaint alleges that the defendants made false and misleading statements about the ability of the Company's technology to detect and eliminate fraudulent web traffic, and about Rocket Fuel’s future prospects. The consolidated complaint also alleges that the Company's registration statements and prospectuses for the IPO and the Secondary Offering contained false and misleading statements on these topics. The consolidated complaint purports to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5, and for violations of Sections 11 and 15 of the Securities Act of 1933, as amended (the “Securities Act”), on behalf of those who purchased the Company's common stock between September 20, 2013 and August 5, 2014, inclusive, as well as those who purchased stock in its initial public offering on September 19, 2013, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint seeks monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint on April 13, 2015. The Company intends to vigorously defend itself against this purported class action.

On March 23, 2015, a purported shareholder derivative complaint for breach of fiduciary duty, waste of corporate assets, and unjust enrichment was filed in San Mateo, California Superior Court against certain of the Company's

officers and its board

of directors. The action is Davydov v. George H. John, et.al, Case No. CIV 53304. This state court action has been stayed pending the outcome of the defendants' motions to dismiss in In re Rocket Fuel Securities Litigation.
The outcomes of the Company's legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to its consolidated financial position, results of operations or cash flows by an unfavorable resolution of these actions. We cannot currently estimate a reasonably possible range of loss for these actions.
Legal fees are expensed in the period in which they are incurred.

NOTE 11. SEGMENTS

The Company considers operating segments to be components of the Company's business for which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reportable segment.
The following table summarizes total revenue generated through sales personnel located in the respective locations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
North America	$101,666	$77,924	$189,915	$140,571
All Other Countries	18,399	14,718	34,484	26,468
Total revenue	$120,065	$92,642	$224,399	$167,039

The following table summarizes total long-lived assets in the respective locations (in thousands):

	June 30, 2015	December 31, 2014
North America	$82,568	$85,355
All Other Countries	4,151	4,086
Total long-lived assets	$86,719	$89,441

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or the Exchange Act. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "wou "plan," "expect" and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- expectations for financial performance in 2015, including revenue, media costs, other costs or revenue, margins, levels of operating expenses in the areas of research and development, sales and marketing and general and administrative, and our goal of achieving positive non-GAAP adjusted EBITDA for the full year, cash flows form operations and free cash flows;

- the expected impact of our operational efficiency initiatives announced in April 2015;
- the expected impact of seasonality on our operating results;
- our expectations regarding our headcount levels in 2015;
- our ability to improve the productivity and efficiency of our resources and infrastructure;
- our ability to improve sales productivity;
- our ability to reduce certain operating expenses as a percentage of revenue;
- our expectation that capital expenditures will decline in 2015 from 2014 levels;
- the usefulness of non-GAAP financial measures for understanding and evaluating our operating results;
- our plans to finance data center hardware requirements through capital leasing facilities;
- the adequacy of our office facilities to meet or exceed our needs for the immediate future and our ability to sublease unused facilities;
- our expectation that existing cash and cash equivalents will be sufficient to meet our business requirements for at least the next 12 months;
- anticipated growth of the digital advertising market;
- the ability of our solutions to deliver intended results to customers;
- the impact of our September 2014 acquisition of [x+1] on our financial condition and results of operations, including but not limited to the impact of assumptions underlying the accounting treatment of the transaction;
- our ability to effectively integrate the operations of [x+1] and realize anticipated synergies and new market opportunities from this combination;
- our ability to fully integrate our DSP platform with our DMP platform to create a self-service platform and experience that is both engaging and effective for the advertiser;
- our ability to adapt our relationships with agencies and agency holding companies in light of the evolving competitive environment;
- our expectations regarding the number of sales representatives focused on direct advertisers;
- our expectations regarding an increase in the number of active customers;
- our ability to avoid serving ads on unsafe or inappropriate websites or to non-human targets;
- our ability to continue to expand internationally; and
- our intention to vigorously defend against a pending securities class action lawsuit.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results and circumstances described in the forward-looking statements will be achieved or occur. Moreover, we assume no responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

The following discussion should be read in conjunction with (i) our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q, (ii) the audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and (iii) the understanding that our actual results and circumstances may be materially different from our forward looking statements and/or expectations.

Overview

We are a technology company that has developed an Artificial Intelligence, or AI, and Big Data-driven predictive modeling and automated decision-making platform. We are focused on maintaining and expanding our AI platform and our R&D team is currently developing a next-generation AI system. Our technology is designed to address the needs of markets in which the volume and speed of information render real-time human analysis infeasible. We are focused on the large and growing digital advertising market that faces these challenges. Specifically, we have developed a media buying technology platform that uses AI to solve marketing’s age-old challenge: how to deliver better return-on-investment, or "ROI," on marketing initiatives by providing the right message to the right person at the right time, on addressable devices across the globe. Our media-buying platform, which we refer to as our Demand-Side Platform, or “DSP” is available to advertising agencies and advertisers as a managed service offering, whereby Rocket Fuel manages certain elements of advertising campaigns on behalf of an advertiser, and through a self-service offering, whereby an agency or advertiser licenses our technology to manage its own advertising campaigns.

Our DSP solutions are designed to optimize both direct-response campaigns focused on generating specific consumer purchases or responses, generally defined as cost per action goals, as well as brand campaigns geared towards lifting brand metrics, generally defined as cost-per-click and brand survey goals. During the year ended December 31, 2014, direct response campaigns contributed approximately two-thirds of our revenue, with the remaining one-third of our revenue generated through brand campaigns. Historically, our digital ads were delivered primarily through a computer display medium. More recently, the digital advertising industry is rapidly adopting programmatic buying for mobile, social and video advertising. Our technology works for advertisers across all of these channels, allowing us to compete for a larger share of advertisers’ digital advertising budgets.

In September 2014, we acquired X Plus Two Solutions, Inc., the parent company of [x+1], a privately held programmatic marketing technology company. Our acquisition of [x+1] added important assets to our offerings, principally a data management platform, or “DMP," and site optimization technology, which are software-as-a-service, or "SaaS" solutions that enable customers to use their own customer relationship data, or "first party data," and third party data to deliver timely and relevant advertising messages across paid, earned, and owned media channels, including an advertiser's own website.

The addition of these offerings gives us the opportunity to offer solutions to help marketers optimize the complete consumer journey, and to extend our core AI technology beyond paid advertising to more broadly address the advertisers' marketing challenges across a brand’s paid, earned and owned media.

During 2014, we served advertising impressions for 93 of the Advertising Age 100 Leading National Advertisers and 62 of the Fortune 100 companies. Additionally, in 2014, we had 143 customers with more than $1 million in lifetime spend with us, including 74 with over $2 million in lifetime spend and 22 with over $5 million in lifetime spend.

Non-GAAP Measures

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles applicable in the United States, or GAAP, we also monitor the non-GAAP metrics set forth below to help us evaluate growth and profitability, establish budgets, and assess our operational efficiencies (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Non-GAAP net revenue	$70,910	$54,712	$129,683	$99,402
Non-GAAP adjusted EBITDA	$1,394	$1,535	$(12,232)	$(856)
Non-GAAP adjusted net income (loss)	$(7,177)	$(3,660)	$(32,276)	$(9,929)
Non-GAAP adjusted net income (loss) per share	$(0.17)	$(0.10)	$(0.77)	$(0.29)

Non-GAAP net revenue

Non-GAAP net revenue is a non-GAAP financial measure defined by us as GAAP revenue less media costs. Media costs consist of costs for advertising impressions we purchase from real-time advertising exchanges and other third parties. We believe that non-GAAP net revenue is a meaningful measure of operating performance because it is frequently used for internal management purposes, indicates the performance of our solutions in balancing the goals of delivering exceptional results to advertisers while meeting our margin objectives and facilitates a more complete period-to-period understanding of factors and trends affecting our underlying revenue performance.

A limitation of non-GAAP net revenue is that it is a measure that we have defined for internal purposes that may be unique to us, and therefore it may not enhance the comparability of our results to other companies in our industry that have similar business arrangements but present the impact of media costs differently. Management compensates for these limitations by also considering the comparable GAAP financial measures of revenue, media costs and other cost of revenue. The following table presents a reconciliation of GAAP revenue to non-GAAP net revenue for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$120,065	$92,642	$224,399	$167,039
Less: Media costs	49,155	37,930	94,716	67,637
Non-GAAP net revenue	$70,910	$54,712	$129,683	$99,402

Non-GAAP Adjusted EBITDA

Non-GAAP adjusted EBITDA is a non-GAAP financial measure defined by us for the periods presented as GAAP net loss before interest expense, other income (expense), net, income tax provision (benefit), depreciation and amortization expense, stock-based compensation expense and related payroll taxes and acquisition or restructuring related expense.

We have presented non-GAAP adjusted EBITDA because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop operating plans. In particular, we believe that the exclusion of the expenses eliminated in calculating non-GAAP adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that non-GAAP adjusted EBITDA provides useful information to understand and evaluate our operating results.

However, our use of non-GAAP adjusted EBITDA has limitations and should not be considered in isolation or as a substitute to our financial results as reported under GAAP. Some of these limitations are as follows: although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and non-GAAP adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; non-GAAP adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; non-GAAP adjusted

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EBITDA does not consider the potentially dilutive impact of equity-based compensation; non-GAAP adjusted EBITDA does not reflect acquisition and restructuring related expenses, tax and interest expenses that may represent payments reducing the cash available to us; and other companies, including those in our industry, may calculate non-GAAP adjusted EBITDA differently, which reduces its usefulness as a comparative measure. Because of these limitations, our management considers non-GAAP adjusted EBITDA alongside other financial performance measures, including cash flow metrics, GAAP net income (loss) and our other GAAP results.

The following table presents a reconciliation of GAAP net loss to non-GAAP adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Adjustments:				
Interest expense, net	1,045	514	2,385	928
Income tax (benefit) provision	372	181	729	496
Depreciation and amortization expense	12,158	3,890	24,024	6,810
Stock-based compensation	6,434	5,999	13,881	10,956
Other (income) expense, net	(696)	425	1,512	444
Acquisition expense	—	100	—	100
Restructuring expense	6,471	—	6,471	—
Payroll tax expense related to stock based compensation	20	185	39	395
Total adjustments	25,804	11,294	49,041	20,129
Non-GAAP adjusted EBITDA	$1,394	$1,535	$(12,232)	$(856)

Non-GAAP Adjusted Net Income (Loss)

Non-GAAP adjusted net income (loss) and non-GAAP adjusted net income (loss) per diluted share are non-GAAP financial measures that are useful to us and investors because they present an additional measurement of our financial performance, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the impact of certain non-cash expenses such as amortization of intangible assets and stock-based compensation, and expenses such as acquisition and restructuring related expenses. We believe that analysts and investors use non-GAAP adjusted net income and non-GAAP adjusted net income (loss) per diluted share as supplemental measures to evaluate the overall operating performance of companies in our industry.

A limitation of non-GAAP adjusted net income (loss) is that it is a measure that may be unique to us and may not enhance the comparability of our results to other companies in the same industry that define adjusted net loss differently. This measure may also exclude expenses that may have a material impact on our reported financial results. Our management compensates for these limitations by also considering the comparable GAAP financial measure of net loss.

The following table presents a reconciliation of GAAP net loss to non-GAAP adjusted net income (loss) for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Adjustments:				
Stock-based compensation expense	6,434	5,999	13,881	10,956
Amortization of intangible assets	4,227	—	8,454	—
Acquisition expense	—	100	—	100
Restructuring expense	6,471	—	6,471	—
Tax impact of the above items	101	—	191	—
Non-GAAP adjusted net income (loss)	$(7,177)	$(3,660)	$(32,276)	$(9,929)
Basic and diluted net loss per share attributable to common stockholders	$(0.58)	$(0.28)	$(1.45)	$(0.61)
Non-GAAP adjusted net income (loss) per diluted share	$(0.17)	$(0.10)	$(0.77)	$(0.29)
Weighted average shares used in computing non-GAAP adjusted net income (loss) per diluted share	42,296	35,172	42,140	34,606

Factors Affecting Our Performance

We believe that the growth and any future profitability of our business and our future success depend on various opportunities, challenges and other factors, including the following:

Growth of the Real-time Advertising Exchange Market and Digital Advertising

Our performance is significantly affected by growth rates in both real-time advertising exchanges and the digital advertising channels that we address. These markets have grown rapidly in the past several years, and any acceleration, or slowing, of this growth would affect our overall performance. In 2014 we noted an expanding trend of customer concerns about inventory quality on real-time advertising exchanges that impacts the entire industry. In addition, a significant shift in the channel mix of digital advertising could also impact our performance as we must optimize our solutions for, and face a different competitive landscape in, the mobile, social and video channels. For example, Facebook recently announced restrictions on our access to the Facebook exchange platform, or FBX, requiring us to adapt our offering in order to continue to access advertising inventory from Facebook and expand into mobile advertising with Facebook. We are adapting our technology and offerings to address this challenge. Facebook allows some other companies in our industry to purchase inventory through the FBX platform. This could put us at a competitive disadvantage.

Ability to Market and Sell our Solutions to Advertisers and their Agencies and Agency Holding Companies

Our DSP offering competes for digital advertising budgets with a variety of companies, including other companies with DSP offerings, agency trading desks and companies that offer self-service platforms that allow advertisers to purchase inventory directly from advertising exchanges or other third parties, and to manage and analyze their own and third-party data. In our experience, it is our larger and longer tenured customers who are more likely to reduce spend with us in favor of self-service platforms, agency trading desks, or other media strategies. Beginning in 2014, we have experienced a decline in revenue from some customers when they utilized agency trading desks to a greater extent or adopted self-serve platforms. Furthermore, agencies have been effective at promoting the use of agency trading desks and are increasingly involved in helping to select self-service platform providers for the advertisers they represent. This trend has impacted, and may continue to impact, our ability to grow and/or retain revenue. In July 2014, we announced an expansion of our self-service platform to the United States and Europe, which we believe will allow us to compete more directly with companies that offer self-service platform solutions to agencies (as their trading desk solution) and to advertisers. We established a strategic agency selling team and have been entering into contracts in which agency holding companies

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utilize our technology for or with their trading desk solutions. Agency holding companies have many technology partners and we need to prove the value of our solutions.

Ability to Market and Sell Our Solutions and SaaS Technology Platform to Direct Advertisers

In September 2014, we acquired X Plus Two Solutions, Inc., the parent company of [x+1], a privately held programmatic marketing technology company. Our acquisition of [x+1] added important assets to our technology solutions, principally a Data Management Platform, or "DMP," and Site Optimization technology, which are enterprise solutions that enable customers to use their own customer relationship data and third party data to deliver timely and relevant advertising messages across paid, earned, and owned media channels, including an advertiser's own website. These additions have enabled us to broaden our solutions to help marketers optimize the consumer journey, and to extend our core AI technology beyond paid advertising to more broadly address advertisers' marketing challenges across paid, earned and owned media. As part of this strategy, we have increased, and expect to continue to increase, the number of sales representatives we have calling on direct advertisers.

These SaaS and self-service offerings have different margins and operating costs than our DSP offerings. Our strategy to sell to direct advertisers and to offer DMP as well as DSP platforms had, and will continue to have, an impact on our revenue mix and non-GAAP net revenue margins. To illustrate, during the second quarter of 2015, non-GAAP net revenue from direct advertisers increased to $15.4 million, or 22% of non-GAAP net revenue, compared to $4.9 million, or 9% of non-GAAP net revenue, for the second quarter of 2014. Our total non-GAAP net revenue, as a percentage of GAAP revenue, was 59% in the second quarter of 2015, the same percentage as in the second quarter of 2014.

Customer Growth and Retention

In order to continue our growth, we must improve our retention of customers, attract new customers, retain spend and gain a larger amount of our current customers' advertising budgets. Over the long term we aim to improve each of these dimensions, but the relative focus on onboarding new customers or developing existing customers will vary over time with our product offerings, sales and service capabilities, and efficiencies.

Our number of active customers increased to 1,592 as of June 30, 2015 from 1,444 as of June 30, 2014.We define an active customer as a customer from whom we recognized revenue in the last three months. Thus, active customers in a given quarter includes both new customers and longer-term customers returning to spend with us again. A customer can be either an advertiser who purchases our solution from us directly or an advertiser who purchases our solution through an advertising agency or other third party. We count all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with us. We believe that our ability to increase the number of active customers using our solution is an important indicator of our ability to grow our business, although we expect this number to fluctuate based on the seasonality in our business.

Our revenue retention rate was 121% for the twelve months ended June 30, 2015 and 128%, 130%, 135%, and 149% for each of the twelve months ended March 31, 2015, December 31, 2014, September 30, 2014 and June 30, 2014, respectively. We define our revenue retention rate with respect to a given twelve-month period as (i) the revenue recognized during such period from customers that contributed to revenue recognized in the prior twelve-month period divided by (ii) total revenue recognized in the prior twelve-month period.

New customers generally spend less than customers that have used our solution for longer periods of time. We also experienced decreased spending in recent periods by some of our larger customers, as measured by the amount of spend, when compared to the same period in prior fiscal years. Adding new customers that tend to spend less and declining spend from larger and longer tenured customers has contributed to the slowing rate of year-over-year revenue growth on a percentage basis since the third quarter of 2013, which we expect may continue.

Ability to Market and Sell to Multiple Digital Advertising Products via Multiple Channels

Our DSP solutions are designed to optimize both direct-response campaigns focused on generating specific consumer purchases or responses, generally defined as cost per action goals, as well as brand campaigns geared towards lifting brand metrics, generally defined as cost-per-click and brand survey goals. In fiscal year 2014, direct response campaigns contributed approximately two-thirds of our revenue, with the remaining one-third generated through brand campaigns. The digital advertising industry is rapidly adopting programmatic buying for mobile, social and

video advertising. Historically, our revenue has predominantly come from managed service display advertising, and we grew revenue from delivery to other channels, which include mobile, video and social channels, to 44% of our revenue in fiscal year 2014. As display advertising is now growing more slowly than other channels, our future performance is dependent in part on our ability to grow our share of these other channels.

Ability to Improve the Productivity and Efficiency of our Resources and Infrastructure

We have invested for long-term growth through the expansion of our offerings to address additional needs of marketers, including offering our DMP and DSP as self-service SaaS solutions in addition to our managed service offerings. As part of this growth strategy, we added sales, marketing, operations and customer support personnel. Our growth strategy also includes continuing to invest in research and development to enhance our solutions, integrate our technology platforms and create additional offerings. As a result of these investments in resources and growth, we saw operating expenses increase significantly in absolute dollars and increase as a percent of revenue during 2014. In 2015, we are focusing on automating and streamlining our customer service, operations, account management, IT, financial and administrative systems and controls with a goal of reducing the cost of those functions as a percentage of revenue in future periods. As part of our operational efficiency plan, on April 22, 2015 we announced a reduction in our workforce of approximately 11% and other cost reduction measures. As part of this plan, we incurred $6.5 million in restructuring charges in the second quarter of 2015.

We have experienced a continuing decline in sales productivity in North America since the second quarter of 2014. In the short term, we expect sales productivity to continue to be impacted as certain sales personnel transition from supporting our traditional business to supporting our enterprise solutions and as we continue to hire new sales personnel who require time to become productive. Looking ahead, we will focus on achieving improved sales productivity by better tailoring our sales model to differing sizes of customers and prospects, and by improving the focus of our sales representatives on our core offerings.

Our capital expenditures for property and equipment were approximately $48 million in 2014, a significant increase over 2013 as we opened and expanded many of our office facilities. For 2015, we expect these capital expenditures to decline significantly from 2014 levels as we have completed the majority of our facility expansion. In addition, in order to minimize the upfront cash investment required to scale our data centers, we attempt to utilize capital leasing facilities if available to finance our data center hardware needs and plan to continue this practice in 2015.

Seasonality

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Historically, the fourth quarter of the year reflects our highest level of advertising activity, and the first quarter reflects the lowest level of such activity. We expect our revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole. Despite the seasonal nature of our revenue, many of our costs, such as headcount related expenses, depreciation and amortization, and facilities costs, are relatively fixed in the short term and do not follow these same seasonal trends.

Components of Our Results of Operations

Revenue

We generate revenue primarily by delivering digital advertisements to consumers through the display channel and other channels such as mobile devices and through social and video channels. We predominantly contract with advertising agencies who purchase our solution on behalf of advertisers. When we contract with an agency, it acts as an agent for a disclosed principal, which is the advertiser. Our contracts typically provide that if the advertiser does not pay the agency, the agency is not liable to us, and we must seek payment solely from the advertiser. Our contracts with advertisers, including advertising agencies representing advertisers, are generally in the form of an insertion order that outlines the terms and conditions of an advertising campaign and its objectives. Our contracts typically have a term of less than a year, and we recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. To a lesser extent we generate revenue from license fees to access our SaaS DMP and DSP offerings and related professional services, which are generally recognized over the term of the performance period. Our revenue recognition policies are discussed in more detail in Note 1 to the Consolidated Financial Statements included in the 2014 Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Costs and Expenses

We classify our expenses into these categories: media costs, other cost of revenue, research and development, sales and marketing and general and administrative. Personnel costs for each category of expense generally include salaries, bonuses and sales commissions, stock-based compensation expense and employee benefit costs. Allocated costs

include charges for facilities, office expenses, utilities, telephones and other miscellaneous expenses.

- Media costs. These costs consist primarily of costs for advertising impressions we purchase from advertising exchanges, publishers and other third parties, which are expensed when incurred. We typically pay for these media costs on a per

impression basis. We anticipate that our media costs will continue to vary with the related seasonal changes in revenue and overall growth in revenue. In the first and second quarters of fiscal year 2015, we reported a sequential decline in media costs as a percentage of revenue as we continued to see the benefits of improvements in our AI-based targeting overall and migrated some former [x+1] DSP customers to the Rocket Fuel DSP with its higher performance targeting. Over the longer term, if we are successful with our efforts to sell self-service offerings, including our SaaS-based DMP and DSP, and also large agency trading desk deals, we expect the resulting changes in revenue mix to impact our media costs as a percentage of total revenue.

- Other cost of revenue. These costs include personnel costs, depreciation and amortization expense, amortization of internal-use software development costs, third-party inventory validation and data vendor costs, data center hosting costs and allocated costs. The personnel costs are primarily attributable to individuals maintaining our servers and members of our operations and analytics groups, which initiates, sets up, launches and monitors our advertising campaigns or implements and supports our platform. We capitalize costs associated with software that is developed or obtained for internal-use and amortize these costs in other cost of revenue over the internal-use software's useful life. Third-party inventory validation and data vendor costs consist primarily of costs to augment campaign performance and monitor our brand safety efforts. Other cost of revenue also includes third-party data center costs and depreciation of data center equipment. We anticipate that our other cost of revenue will increase in absolute dollars in future periods as we scale the capabilities of our operations to meet the demands of higher volumes.
- Research and development. Our research and development expenses consist primarily of personnel costs and professional services associated with the ongoing development and maintenance of our technology. We believe that continued investment in technology is critical to pursuing our strategic objectives, and as a result, we expect research and development expenses to remain approximately at the second quarter spending levels for the remainder of fiscal year 2015.
- Sales and marketing. Our sales and marketing expenses consist primarily of personnel costs (including sales commissions) and allocated costs, professional services, brand marketing, travel, trade shows and marketing materials. Our sales and marketing organization focuses on (i) marketing our solution to generate awareness; (ii) increasing the adoption of our solution by existing and new advertisers and agencies; and (iii) expanding our business geographically, primarily by growing our sales team in certain countries in which we currently operate and, to a limited extent, establishing a presence in additional countries. We expect sales and marketing expenses to remain approximately at the second quarter spending levels for the remainder of fiscal year 2015, increasing modestly with any revenue increases due to higher sales commissions associated with such revenue increases. However, over the longer term, we expect such costs to increase as we invest in selling efforts to enterprise businesses and expand to additional international markets.
- General and administrative. Our general and administrative expenses consist primarily of personnel costs associated with our executive, IT, finance, legal, human resources, compliance and other administrative functions, as well as accounting, audit and legal professional services fees, allocated costs and other corporate expenses. Other miscellaneous expenses primarily include local taxes, fees and charitable contributions. We expect to continue to invest in corporate infrastructure, such as automation projects, and incur additional expenses associated with legal and accounting costs and compliance costs associated with Section 404 of the Sarbanes-Oxley Act of 2002. As a result, we expect general and administrative expenses to remain approximately at the second quarter spending levels for the remainder of fiscal year 2015.

Other Expense, Net

- Interest expense. Interest expense is primarily related to our credit facilities, term debt and capital leases.
- Other (income) expense—net. Other (income) expense—net consists primarily of gains and losses on foreign currency transactions. We have foreign currency exposure related to our cash and accounts receivable that are denominated in currencies other than the U.S. dollar, primarily the Canadian dollar, British pound and the Euro. As our foreign sales and expenses increase, our operating results may be more affected by fluctuations in the exchange rates of the currencies in which we do business.

Income Tax (Benefit) Provision

Income tax (benefit) provision consists primarily of income taxes in foreign jurisdictions in which we conduct business and, to a lesser extent, of federal and state income taxes in the United States. Due to uncertainty as to the realization of benefits from our deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, we maintain

a valuation allowance against most of our deferred tax assets. We expect to maintain this valuation allowance at least in the near term.

Results of Operations

The following tables set forth our consolidated results of operations and our consolidated results of operations as a percentage of revenue for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated Statements of Operations Data:				
Revenue	$120,065	$92,642	$224,399	$167,039
Costs and expenses:				
Media cost	49,155	37,930	94,716	67,637
Other cost of revenue (1)	19,826	8,993	39,782	16,821
Research and development (1)	11,791	8,434	23,114	15,675
Sales and marketing (1)	41,750	33,789	84,628	63,548
General and administrative (1)	14,761	12,135	32,335	22,475
Restructuring	6,471	—	6,471	—
Total costs and expenses	143,754	101,281	281,046	186,156
Operating loss	(23,689)	(8,639)	(56,647)	(19,117)
Interest expense	1,045	514	2,385	928
Other (income) expense, net	(696)	425	1,512	444
Loss before income taxes	(24,038)	(9,578)	(60,544)	(20,489)
Income tax (benefit) provision	372	181	729	496
Net loss	$(24,410)	$(9,759)	$(61,273)	$(20,985)
Loss per share:				
Net loss per share, basic and diluted	$(0.58)	$(0.28)	$(1.45)	$(0.61)

(1) Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Other cost of revenue	$477	$276	$1,102	$528
Research and development	1,834	1,311	4,081	2,298
Sales and marketing	2,325	2,748	5,156	4,915
General and administrative	1,798	1,664	3,542	3,215
Total	$6,434	$5,999	$13,881	$10,956

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated Statements of Operations Data: *				
Revenue	100 %	100 %	100 %	100 %
Costs and expenses:				
Media cost	41	41	42	40
Other cost of revenue	17	10	18	10
Research and development	10	9	10	9
Sales and marketing	35	36	38	38
General and administrative	12	13	14	13
Restructuring	5	—	3	—
Total costs and expenses	120	109	125	110
Operating loss	(20)	(9)	(25)	(11)
Interest expense	1	1	1	1
Other (income) expense, net	(1)	—	1	—
Loss before income taxes	(20)	(10)	(27)	(12)
Income tax (benefit) provision	—	—	—	—
Net loss	(20)%	(11)%	(27)%	(13)%

*Certain figures may not sum due to rounding.

Comparison of the Three and Six Months Ended June 30, 2015 and 2014

Revenue

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Revenue	$120,065	$92,642	30 %	$224,399	$167,039	34 %

Revenue increased $27.4 million, or 30%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014, driven in part by revenue from the acquired [x+1] business. Revenue from advertising delivered through the display channel was 61% and 56% of revenue for the three months ended June 30, 2015 and 2014, respectively. Revenue from advertising delivered through other channels was 39% and 44% of revenue for the three months ended June 30, 2015 and 2014, respectively. This is due in part to the Company’s transition from the Facebook exchange (FBX) to Facebook’s API for the purchase of Facebook inventory during the three months ended June 30, 2015. The mobile channel was 26% of revenue for the three months ended June 30, 2015, followed by the social channel and then the video channel.

The increase in revenue was attributable to the revenue from the former [x+1] customers following the acquisition in September 2014, increased spending by certain existing customers and an increase in the number of active customers adopting our solution. This increase was partially offset by, among other factors, decline in revenue from customers migrating their business to competitors or adopting third-party self-service platforms. Growth in our number of active customers was driven primarily by growth in new customers, which generally spend less than customers that have used our solution for longer periods of time. This growth in active customers and new customers also resulted in a 5% increase in the number of campaigns that ran across our platforms during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Due to the higher number of campaigns, the volume of impressions delivered increased by 27% during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. The average cost per mille (or cost per thousand impressions) or "CPM", decreased by 1%.

Revenue from outside of North America increased by 25% for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Revenue from outside of North America, as a percentage of revenue, decreased to 15% from 16% between the three months ended June 30, 2015 and 2014, respectively.

Revenue increased $57.4 million, or 34%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014, driven in part by revenue from the acquired [x+1] business. Revenue from the display channel was 60% and 58% of revenue for the six months ended June 30, 2015 and 2014, respectively. Revenue from other channels was 40% and 42% of revenue for the six months ended June 30, 2015 and 2014, respectively. The mobile channel was 25% of revenue for the six months ended June 30, 2015, followed by the social channel and then the video channel.

The increase in revenue was attributable to increased spending by certain existing customers and an increase in the number of active customers adopting our solution. This increase was partially offset by, among other factors, decline in revenue from customers migrating their business to competitors or adopting third-party self-service platforms. Growth in our number of active customers was driven primarily by growth in new customers, which generally spend less than customers that have used our solution for longer periods of time. This growth in active customers and new customers also resulted in a 6% increase in the number of campaigns that ran across our platforms during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Due to the higher number of campaigns, the volume of impressions delivered increased by 29% during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The average cost per mille (or cost per thousand impressions) or "CPM" remained flat. Revenue from outside of North America increased by 30% for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Revenue from outside of North America, as a percentage of revenue, decreased to 15% from 16% between the six months ended June 30, 2015 and 2014, respectively.

Media Cost and Other Cost of Revenue

	Three Months Ended June 30,			Six Months Ended June 30,			
	2015	2014	% Change	2015	2014	% Change	
	(in thousands, except percentages)						
Media Cost	$49,155	$37,930	30 %	$94,716	$67,637	40	%
Other cost of revenue	$19,826	$8,993	120 %	$39,782	$16,821	137	%
Headcount (at period end)	143	58	147 %				

Media costs increased by $11.2 million, or 30%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014 due to increased sales volume. Media costs were approximately 41% of revenue for both the three months ended June 30, 2015 and 2014, respectively.

Other cost of revenue increased by $10.8 million or 120%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to an increase in depreciation and amortization of $4.6 million, which includes capitalized internal-use software, other fixed assets and acquired technology intangible assets, an increase in personnel costs of $3.7 million, an increase in data and inventory validation costs of $1.2 million and an increase in hosting costs of $1.0 million. Amortization of acquired technology intangible assets was $2.9 million for the three months ended June 30, 2015. Amortization of capitalized internal-use software was $1.8 million and $1.2 million for the three months ended June 30, 2015 and 2014, respectively. The increase in personnel costs was primarily due to the addition of [x+1] personnel plus other hiring. The increase in data, inventory validation and hosting costs reflected the growth in revenue and expansion of our data centers.

Media costs increased by $27.1 million, or 40%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 due to increased sales volume. Media costs increased to approximately 42% of revenue from 40% of revenue for the six months ended June 30, 2015 and 2014, respectively. This increase was due to the mix of business and our acquisition of [x+1].

Other cost of revenue increased by $23.0 million or 137%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase was primarily due to an increase in depreciation and amortization of $9.0 million, which includes capitalized internal-use software, other fixed assets and acquired technology intangible assets, an increase in personnel costs of $8.5 million, an increase in data and inventory validation costs of $3.0 million and an increase in hosting costs of $1.9 million. Amortization of acquired technology intangible assets was $5.8 million for the six months ended June 30, 2015. Amortization of capitalized internal-use software was $3.4 million and $2.3 million for the six months ended June 30, 2015 and 2014, respectively. The increase in personnel costs was primarily due to the addition of [x+1] personnel plus other hiring. The increase in data, inventory validation and

hosting costs reflected the growth in revenue and expansion of our data centers.

Research and Development

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Research and development	$11,791	$8,434	40 %	$23,114	$15,675	47 %
Percent of revenue	10 %	9 %		10 %	9 %	
Headcount (at period end)	189	154	23 %			

Research and development expense increased by $3.4 million, or 40%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $2.5 million and, to a lesser extent, to an increase in depreciation and amortization expense of $0.7 million. The increase in personnel expense was primarily due the addition of [x+1] personnel plus other hiring.

Research and development expense increased by $7.4 million, or 47%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $5.1 million and, to a lesser extent, to an increase in depreciation and amortization expense of $1.9 million. The increase in personnel expense was primarily due the addition of [x+1] personnel plus other hiring.

We capitalized internal-use software development costs of $3.9 million and $2.2 million for the three months ended June 30, 2015 and 2014, respectively, and $7.2 million and $4.3 million for the six months ended June 30, 2015 and 2014, respectively. The increase was due to additional headcount devoted to internal-use software development.

Sales and Marketing

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Sales and marketing	$41,750	$33,789	24 %	$84,628	$63,548	33 %
Percent of revenue	35 %	36 %		38 %	38 %	
Headcount (at period end)	531	491	8 %			

Sales and marketing expense increased by $8.0 million, or 24%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $4.3 million and, to a lesser extent, an increase in depreciation and amortization expense of $2.9 million, primarily for the acquisition of intangible assets of [x+1]. The increase in personnel expense was primarily due to the expansion of our sales force through hiring and the addition of [x+1] personnel.

Sales and marketing expense increased by $21.1 million, or 33%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $11.9 million and, to a lesser extent, an increase in depreciation and amortization expense of $5.9 million, primarily for the acquisition of intangible assets of [x+1], and an increase in allocated costs, mostly facility costs, of $1.8 million. The increase in personnel expense was primarily due to the expansion of our sales force through hiring and the addition of [x+1] personnel.

General and Administrative

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
General and administrative	$14,761	$12,135	22 %	$32,335	$22,475	44 %
Percent of revenue	12 %	13 %		14 %	13 %	
Headcount (at period end)	145	123	18 %			

General and administrative expense increased by $2.6 million, or 22%, during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $1.6 million. The increase in personnel costs was driven by hiring and the addition of [x+1] personnel.

General and administrative expense increased by $9.9 million, or 44%, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase was primarily due to an increase in personnel expense of $5.4 million and, to a lesser extent, to an increase in professional services of $1.8 million and an increase in allocated costs, mostly facility costs, of $1.7 million. The increase in personnel costs was driven by hiring and the addition of [x+1] personnel. The increase in professional services was primarily due to legal and consulting fees.

Restructuring

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Restructuring charges	$6,471	$—	n/a	$6,471	$—	n/a
Percent of revenue	5 %	— %		3 %	— %	

Restructuring expense for the restructuring plan announced in April 2015 was $6.5 million, during the three and six months ended June 30, 2015. The Company incurred expenses for employee severance costs of $3.5 million, $0.3 million in broker costs and $2.7 million in asset impairment charges related to subletting of certain excess leased office space. Our total workforce declined from 1,183 at March 31, 2015 to 1,008 at June 30, 2015, due to the reduction in force and attrition.

Interest and Other Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
	(in thousands, except percentages)					
Interest expense	$1,045	$514	103 %	$2,385	$928	157 %
(Gain) loss on foreign currency transactions	(701)	432	(262)%	1,495	461	224 %
Other (income) expense, net	5	(7)	(171)%	17	(17)	(200)%
Total	$349	$939	(63)%	$3,897	$1,372	184 %

The decrease in interest and other expense during the three months ended June 30, 2015 compared to the three months ended June 30, 2014, was primarily due to foreign currency gains following the increases in the Canadian dollar, British pound and the Euro against the U.S. dollar during the three months ended June 30, 2015. Interest and other expense increased during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 primarily due to higher foreign currency transaction losses following the declines in the Canadian dollar, British pound and the Euro against the U.S. dollar during the six months ended June 30, 2015, as well as higher interest expense related to additional borrowings under our revolving credit facility, term debt, and higher capital leases.

Income Tax (Benefit) Provision

We recorded an income tax expense of $0.4 million and $0.2 million for the three months ended June 30, 2015 and 2014, respectively, and $0.7 million and $0.5 million for the six months ended June 30, 2015 and 2014, respectively, primarily due to foreign and state income tax expense.

Liquidity and Capital Resources

As of June 30, 2015, we had cash and cash equivalents of $81.1 million, of which $1.0 million was held by our foreign subsidiaries, $67.0 million in debt obligations, net of $0.8 million in debt issuance costs, under the amended and restated Revolving Credit and Term Loan Agreement (the "2014 Loan Facility") and $16.9 million in capital lease obligations. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of June 30, 2015.

From our incorporation in March 2008 through September 2013, we financed our operations, capital expenditures and working capital needs through private sales of convertible preferred stock, lines of credit and term debt. We received net proceeds of $60.6 million from the issuance of convertible preferred stock between 2008 and 2012. In September 2013, we completed our initial public offering whereby we sold 4,000,000 shares of common stock and certain of our stockholders sold 600,000 shares of common stock. The public offering price of the shares sold in the initial public offering was $29.00 per share. We did not receive any proceeds from the sales of shares by the selling stockholders. The total gross proceeds to us from the initial public offering were $116.0 million. After deducting underwriters' discounts and commissions, and offering expenses, the aggregate net proceeds we received totaled approximately $103.3 million.

In February 2014, we completed an underwritten follow-on public offering of our common stock in which 2,000,000 shares of common stock were sold by us and 3,000,000 shares of common stock were sold by selling stockholders. The public offering price of the shares sold in the offering was $61.00 per share. We did not receive any proceeds from the sale of shares by the selling stockholders. The total gross proceeds from the offering to us were $122.0 million. After deducting underwriters' discounts and commissions and offering expenses, the aggregate net proceeds we received totaled approximately $115.4 million.

On September 5, 2014, we acquired [x+1] for an aggregate purchase price of $98.0 million in cash and approximately 5.3 million shares of our common stock.

On December 31, 2014, we entered into the 2014 Loan Facility, with certain lenders, including Comerica Bank, or Comerica, as administrative agent for the lenders, which was last amended on March 13, 2015. The 2014 Loan Facility amended and restated our then-existing Loan and Security Agreement, dated as of April 7, 2010, (as amended, the "2010 Loan Facility"), between us and Comerica. The 2014 Loan Facility provides for a secured $80.0 million three year revolving credit facility, secured by accounts receivable, and a secured $30.0 million five-year term loan. Revolving loans may be advanced under the 2014 Loan Facility in amounts up to the lesser of (i) 85% of eligible accounts receivable and (ii) $80.0 million, less the then outstanding principal amount of the term loan.

The 2014 Loan Facility contains customary affirmative and negative covenants, that limit our ability to, among other things, incur additional debt, make acquisitions, make certain restricted payments, make investments or make capital expenditures. If the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below $40.0 million, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility. We must comply with a minimum EBITDA covenant, maintain at least $30.0 million of cash on deposit with the lenders and maintain a minimum liquidity ratio. As of June 30, 2015, we were in compliance with all covenants. However, if future operating results are less favorable than currently anticipated, we may need to seek waivers or amendments to modify our debt covenants.

As of June 30, 2015, we had $27.0 million of outstanding term loans, $40.0 million of outstanding revolving loans and issued letters of credit in an amount of $7.0 million under the 2014 Loan Facility. The term loan requires quarterly repayments of $1.5 million beginning in the first quarter of 2015 through the fourth quarter of 2019. In addition, if our outstanding balance under the revolving credit facility falls below the borrowing base defined in the agreement, we may not have access to additional borrowing capacity, and may have to repay amounts under the revolving credit facility from time-to-time.

We believe that our existing cash and cash equivalents balance will be sufficient to meet our business requirements for at least the next twelve months. If we require additional cash, we may attempt to raise additional capital through equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased fixed payment obligations and could also be subject to more restrictive covenants, such as limitations on our ability to

incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional funds, we may also take measures to reduce expenses to offset any shortfall. There can be no assurances that we will be able to raise additional capital or obtain such waivers or amendments of the 2014 Loan Facility on acceptable terms or at all, and the failure to do so would adversely affect our ability to achieve our business objectives. In addition, if our future operating performance is below our expectations, our liquidity and ability to operate our business could be adversely affected. See "Risk Factors - Our loan agreement contains operating and financial covenants that restrict our business and financing activities and, in some cases, could result in an immediate requirement to repay our outstanding loans."

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Six Months Ended June 30,	
	2015	2014
Consolidated Statements of Cash Flows Data:		
Cash flows used in operating activities	$(7,089)	$(5,922)
Cash flows used in investing activities	(15,497)	(24,899)
Cash flows (used in) provided by financing activities	(3,391)	120,481
Effects of exchange rates on cash	(14)	7
Increase (decrease) in cash and cash equivalents	$(25,991)	$89,667

Operating Activities

Our primary source of cash from operating activities is from collections of receivables from customer billings. Our primary use of cash in operating activities is for the payment to suppliers for media costs and salary and benefit payments for our personnel. Cash used in operating activities is primarily influenced by the volume of sales to advertisers and advertising agencies representing advertisers, as well as by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business. Cash used in operating activities has typically been due to net losses, adjusted for non-cash expense items such as depreciation, amortization and stock-based compensation expense, and by changes in our operating assets and liabilities, particularly in the areas of accounts receivable and accrued liabilities.

Our collection cycles can vary from period to period based on common payment practices employed by advertising agencies. Our days sales outstanding were 90 and 91 days as of June 30, 2015 and June 30, 2014, respectively. Our contracts with advertising inventory suppliers and exchanges typically are based on industry standard payment terms which are typically shorter than our corresponding payment terms with customers. Even though we are required to make timely payments to publishers and exchanges, our customer payments may be delayed beyond the contractual terms of the customers' invoices. As a result, the timing of cash receipts and vendor payments can significantly impact our cash used in operations for any period presented.

For the six months ended June 30, 2015, cash used in operating activities was $7.1 million, resulting from a net loss of $61.3 million, offset by non-cash expenses of $41.6 million, which mainly included depreciation, amortization, stock-based compensation expense and deferred taxes. These non-cash expenses increased due to additional depreciation generated by our capital expenditures, amortization from intangible assets acquired in the [x+1] acquisition and headcount growth. The net loss was further offset by $12.6 million from the positive net change in working capital items, most notably a decrease in accounts receivable of $15.4 million due to the seasonality of advertising campaigns as well as timing of payments from customers and agencies, a decrease in prepaid and other assets of $6.3 million due to the collection of certain leasehold reimbursements from landlords, and an increase in deferred revenue of $1.3 million, partially offset by a decrease in accounts payable of $11.5 million, due to the seasonality of advertising campaigns as well as the timing of our payments to our vendors.

For the six months ended June 30, 2014, cash used in operating activities was $5.9 million, resulting from a net loss of $21.0 million, offset by non-cash expenses of $18.1 million, which included depreciation, amortization, stock-based compensation expense, excess tax benefit from stock-based activity, losses on disposition of property, plant and equipment and the provision for doubtful accounts. The remaining use of funds of $3.0 million was from the net

change in working capital items, most notably an increase in prepaid and other assets of $14.6 million due to the timing of payments for software licenses and maintenance, deposits,

and other operating costs, and growth of the company and a decrease in accounts payable and accrued and other liabilities of $1.5 million, related to the timing of payments, compensation and other general expenses. These amounts were partially offset by an increase in deferred rent of $15.7 million due to the expansion of new office locations and a decrease in accounts receivable of $3.2 million due to the seasonality of advertising campaigns as well as the timing of payments from customers and agencies.

Investing Activities

During the six months ended June 30, 2015, investing activities primarily consisted of $10.1 million of capital expenditures for facilities, as well as, purchases of equipment and software and $6.0 million of capitalized internal-use software. We expect minimal facilities-related capital expenditures for the remainder of the year.

During the six months ended June 30, 2014, investing activities primarily consisted of $19.1 million of capital expenditures in the form of purchases of property, equipment, including hardware and software to support our growth, $3.6 million of capitalized internal-use software development costs as well as $2.2 million in restricted cash required to be deposited with financial institutions for security deposits for our London, United Kingdom and Paris, France office lease agreements.

Financing Activities

During the six months ended June 30, 2015, cash used in financing activities was $3.4 million, consisting primarily of $3.0 million in payments towards our 2014 Loan Facility, as well as $2.8 million in payments towards our capital lease obligations, partially offset by $3.1 million in net cash proceeds from the issuance of common stock, primarily under the employee stock purchase plan.

During the six months ended June 30, 2014, cash provided by financing activities was $120.5 million, consisting primarily of $116.5 million in proceeds from our follow-on public offering completed on February 5, 2014, partially offset by $1.4 million in cash used to pay costs related to our follow-on public offering. Cash was also provided by $3.8 million in proceeds from the issuance of common stock under the employee stock purchase plan and $1.9 million in proceeds from the exercise of stock options.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of June 30, 2015 or December 31, 2014 as defined in Item 303(a)(4) of Regulation S-K.

Contractual Obligations and Known Future Cash Requirements

Commitments

As of June 30, 2015, our principal commitments consisted of obligations under the 2014 Loan Facility that were scheduled to mature at various dates through 2019 and operating leases for our offices, as well as capital lease agreements for computer hardware and software.

The following table summarizes our future minimum payments under these arrangements as of June 30, 2015 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Operating lease obligations	$134,228	$10,020	$40,527	$39,871	$43,810
Capital lease obligations	16,882	6,233	9,541	1,108	—
Term debt (1)	27,000	6,000	12,000	9,000	—
Revolving credit facility (2)	40,000	—	40,000	—	—
Total minimum payments	$218,110	$22,253	$102,068	$49,979	$43,810

(1) Accrues interest, at our option, at (i) a base rate determined in accordance with the 2014 Loan Facility, plus a spread of 2.50% to 3.00%, or (ii) a LIBOR rate determined in accordance with the credit agreement, plus a spread of 3.50% to 4.00%, which was equal to approximately 3.90%, as of June 30, 2015, and is scheduled to mature in December 2019.

(2) Accrues interest, at our option, at (i) a base rate determined in accordance with the 2014 Loan Facility, plus a spread of 1.625% to 2.125%, or (ii) a LIBOR rate determined in accordance with the credit agreement, plus a spread of 2.625% to 3.125%, which was equal to approximately 3.10%, as of June 30, 2015, and has a final maturity date in December 2017.

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies, Estimates and Judgments

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions, estimates and judgments associated with revenue recognition, allowances for doubtful accounts and returns, internal-use software development costs, income taxes, stock-based compensation expense and impairment of goodwill and intangible assets have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see the notes to our condensed consolidated financial statements. The critical accounting policies, estimates and judgments are described in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2014 Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There have been no changes or updates to our critical accounting policies since the end of fiscal year 2014, other than as presented below.

Impairment of Goodwill

We perform our annual impairment test towards the end of the fiscal year on December 1 and whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the six months ended June 30, 2015, the market capitalization of our publicly traded common stock sustained a decline. We determined the decline to be a change in circumstances triggering the necessity to test our goodwill for impairment. Since we operate our business in one reporting unit, our goodwill is tested for impairment at the enterprise level. As our reporting unit's fair value based on quoted market prices of our common stock was in excess of its carrying value, we concluded that there has been no impairment of goodwill during the quarter ended June 30, 2015. If our assumptions, facts, or circumstances change in the future, we may be required to record impairment charges to reduce the carrying value of our goodwill.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, primarily interest rate and foreign currency exchange risks.

Interest Rate Fluctuation Risk

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Our cash and cash equivalents consist of cash, deposits and money market funds which, due to their relatively short maturity, are relatively insensitive to interest rate changes.

Our borrowings under our credit facility are subject to variable interest rates and thus expose us to interest rate fluctuations depending on the extent to which we utilize the credit facility. If market interest rates materially increase, our results of operations could be adversely affected. A hypothetical increase in market interest rates of 100 basis points would result in an increase in our interest expense of $0.1 million per year for every $10.0 million of outstanding debt under the credit facility.

Our borrowings under capital lease obligations are at fixed interest rates, and therefore do not expose us to additional interest rate fluctuation risk.

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Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Canadian dollar, the British Pound and the Euro. While a portion of our sales are denominated in these foreign currencies and then translated into the U.S. dollar, the vast majority of our media costs are billed in the U.S. dollar, causing both our revenue and, disproportionately, our operating loss and net loss to be impacted by fluctuations in the exchange rates. In addition, gains or losses from the translation of certain cash balances, trade accounts receivable balances and intercompany balances that are denominated in these currencies impact our net income (loss). As our foreign operations expand, our results may be more impacted by fluctuations in the exchange rates of the currencies in which we do business. At this time we do not, but we may in the future, enter into financial instruments to hedge our foreign currency exchange risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The phrase "disclosure controls and procedures" refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, or the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, or SEC. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our interim chief executive officer, or Interim CEO, and chief financial officer, or CFO, as appropriate to allow timely decision regarding required disclosure.

Our management, with the participation of our Interim CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act), as of June 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Interim CEO and CFO have concluded that as of June 30, 2015, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Interim CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the second quarter of 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are involved from time to time in claims, proceedings, and litigation, including the following:

On September 3, 2014 and September 10, 2014, respectively, two purported class actions were filed in the Northern District of California against us and certain of our officers and directors. The actions are Shah v. Rocket Fuel Inc., et al., Case No. 4:14-cv-03998, and Mehrotra v. Rocket Fuel Inc., et al., Case No. 4:14-cv-04114. The underwriters in our initial public offering on September 19, 2013 (the “IPO”) and our secondary offering on February 5, 2013 (the “Secondary Offering”) are also named

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as defendants. These actions were consolidated and a consolidated complaint, In re Rocket Fuel Securities Litigation, was filed on February 27, 2015. The consolidated complaint alleges that the defendants made false and misleading statements about the ability of our technology to detect and eliminate fraudulent web traffic, and about Rocket Fuel's future prospects. The consolidated complaint also alleges that our registration statements and prospectuses for the IPO and the Secondary Offering contained false and misleading statements on these topics. The consolidated complaint purports to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5, and for violations of Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act"), on behalf of those who purchased our common stock between September 20, 2013 and August 5, 2014, inclusive, as well as those who purchased stock in our initial public offering on September 19, 2013, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint seeks monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint on April 13, 2015. We intend to vigorously defend ourselves against this purported class action.

On March 23, 2015, a purported shareholder derivative complaint for breach of fiduciary duty, waste of corporate assets, and unjust enrichment was filed in San Mateo, California Superior Court against certain of our officers and our board of directors. The action is Davydov v. George H. John, et.al, Case No. CIV 53304. This state court action has been stayed pending the outcome of the defendants' motions to dismiss in In re Rocket Fuel Securities Litigation.

The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period.

We expense legal fees in the period in which they are incurred.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see the first two pages in Part I, Item 2 of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Our Business and Our Industry

Our limited operating history makes it difficult to evaluate our business and prospects.

We were incorporated in 2008 and, as a result, have only a limited operating history upon which our business and future prospects may be evaluated. Although we have experienced substantial revenue growth in our limited history, our rate of growth has been declining since the third quarter of 2013. We may not be able to slow or reverse this decline in revenue growth rate, and we may not be able to maintain our current revenue levels. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly developing and changing industries, including challenges related to recruiting, integrating and retaining qualified employees; making effective use of our limited resources; achieving market acceptance of our existing and future offerings; competing against companies with greater financial and technical resources; acquiring and retaining customers and maintaining relationships with advertising agencies; and developing new offerings, either internally or through acquisitions.

As a growing company in a rapidly evolving industry, our business prospects depend in large part on our ability to:

- develop, offer and provide effective service and support for competitive technology platforms and offerings that meet our advertisers' and their agencies' needs as they change;
- build a reputation for superior solutions and create trust and long-term relationships with advertisers and advertising agencies;
- partner with advertising agencies to offer solutions to their customers;
- attract, hire, integrate and retain qualified and motivated employees, including but not limited to exceptional executive talent with public company experience;

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- successfully complete the integration of [x+1], a provider of programmatic marketing and data management solutions that we acquired in September 2014, including but not limited to the integration of the [x+1] technology platform with ours;
- expand our expertise in technologies required for our offerings, such as our self-service DSP and DMP enterprise solutions, that involve developing solutions for use directly by others, including user interface development, user documentation and ongoing customer support and maintenance;
- effectively execute on our recently announced operating efficiency initiatives, to create more leverage in our business;
- distinguish ourselves from competitors in our industry while at the same time working with those competitors that also offer advertising inventory for our acquisition and placement;
- maintain and expand our relationships with the sources of quality inventory through which we execute our customers' advertising campaigns, including but not limited to Facebook inventory;
- respond to evolving industry standards, government regulations and customer requirements that impact our business, particularly in the areas of data collection and consumer privacy;
- prevent or otherwise mitigate failures or breaches of security or privacy; and
- expand our business internationally

If we are unable to meet one or more of these objectives or otherwise adequately address the risks and difficulties that we face, our business may suffer, our revenue may decline and we may not be able to achieve further growth or long-term positive profitability or cash flow.

We may experience fluctuations in our operating results, which make our future results difficult to predict and could cause our operating results or future guidance that we issue to fall below our expectations or those of investors or analysts.

Our quarterly and annual operating results have fluctuated in the past. Similarly, we expect our future operating results to fluctuate for the foreseeable future due to a variety of factors, many of which are beyond our control. Our fluctuating results could cause our performance to fall below the expectations of investors and securities analysts, and adversely affect the price of our common stock. Because our business is changing and evolving rapidly, our historical operating results may not be useful in predicting our future operating results. Factors that may increase the volatility of our operating results include the following:

- the addition or loss of advertisers, advertising agencies or enterprise customers;
- changes in demand and pricing for our solutions;
- the seasonal nature of our customers' spending on digital advertising campaigns;
- changes in our pricing policies or the pricing policies of our competitors;
- the pricing of advertising inventory or of other third-party services;
- the introduction of new technologies, product or service offerings by our competitors;
- changes in our customers' advertising budget allocations, agency affiliations, or marketing strategies, which could affect their interest in our solutions;
- changes and uncertainty in the regulatory environment for us or our advertisers;
- changes in the economic prospects of our advertisers or the economy generally, which could alter current or prospective advertisers' spending priorities, or could increase the time or costs required to complete sales to advertisers;
- changes in the availability of advertising inventory through real-time advertising exchanges, or in the cost to reach end consumers through digital advertising;

- fluctuations in our non-GAAP net revenue, which varies based on our pricing and on our costs for the purchase of advertising (non-GAAP net revenue is a non-GAAP measure; please see Part I, Item 2 of this Quarterly Report on Form 10-Q, “Non-GAAP Measures," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);
- the rate of our investment in people and related infrastructure as we build and create leverage in our organization to handle increased sales and the associated volume of transactions, and as we expand operations outside of North America;
- changes in our capital expenditures and/or lease obligations as we acquire the computer hardware, equipment and other assets required to support our business;
- costs related to acquisitions of people, businesses or technologies, such as our recent acquisition of [x+1]; and
- the cost and potential outcomes of existing and future litigation, including, without limitation, the purported stockholder class action and stockholder derivative lawsuits described below under “Risks Related to the Securities Markets and Ownership of our Common Stock—The price of our common stock has been volatile and the value of our common stock could decline.”

Based upon all of the factors described above and others that we may not anticipate, including those beyond our control, we have a limited ability to forecast our future revenue, costs and expenses and the resulting profit or loss and cash flows. As a result, our actual operating results may from time to time fall below our estimates or the expectations of investors and analysts. Furthermore, our projected results may from to time fall below our initial estimates or the expectations of investors and analysts. These situations have occurred several times since our initial public offering and resulted in substantial declines in our stock price. See “Risks Related to the Securities Markets and Ownership of our Common Stock—We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline,” below.

We have a history of losses and may not achieve or sustain profitability in the future.

We incurred net losses of $64.3 million, $20.9 million and $10.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of June 30, 2015, we had an accumulated deficit of $170.1 million. We may not achieve profitability in the foreseeable future, if at all. Although our revenue increased significantly through the second quarter of 2015, the rate of revenue growth has been declining since the third quarter of 2013, and we may not be able to sustain revenue growth. For example, our operating expenses increased more rapidly than our revenue in 2014, primarily due to substantial investments in our business, including an 81% increase in our headcount during 2014, and due to leases and tenant improvements at our growing number of office locations. We expect our costs and expenses to continue to increase in absolute dollars in the foreseeable future as we continue to expand our business by adding sales and related support employees, particularly in support of increased sales efforts for our technology solutions, and the continued expansion of international sales efforts. We are also adding engineering employees to support continued investments in our technology platforms, including efforts to complete integration of the offerings we acquired with [x+1].

In order to achieve sustained profitability and positive cash flow, we must change our operational infrastructure and practices. For example, we must manage our expenses to create operating leverage and manage our financial and capital resources more effectively. If we fail to implement the necessary changes to our operations on a timely basis, or if we are unable to implement them effectively or at all, our business may suffer. We cannot provide assurance that we will be successful in addressing these and other challenges we may face in the future.

Our recent acquisition of [x+1] has required, and will continue to require, significant management attention and resources to integrate [x+1]'s operations, workforce and technology offerings into our existing operations, workforce and offerings. If the integration is not successfully completed, we may not realize the anticipated benefits of the transaction. The acquisition resulted in dilution to our stockholders.

In September 2014, we acquired [x+1], a provider of programmatic marketing and data management solutions. This acquisition involves significant risks to our business. It may not ultimately strengthen our competitive position. It could be viewed negatively by our advertisers, advertising agencies and investors, which could have an adverse impact on our business and the value of our common stock. In addition, completion of the integration will continue to require significant management attention and resources. If we are unsuccessful at completing the integration of [x+1]'s

employees or technologies, our financial condition and results of operations, including revenue growth and net income, as well as our corporate culture, could be adversely affected.

The acquisition has required, and will continue to require significant time and resources. In connection with our acquisition of [x+1], we paid approximately $98.0 million in cash and 5.3 million shares of our common stock, subject to adjustment pursuant to the merger agreement. In addition, we have incurred $11.5 million in acquisition and integration costs, principally consulting fees and retention bonuses. The use of cash to pay for this acquisition has limited our ability to use our cash for other potential uses, including investments in our sales and marketing and product development organizations, and in infrastructure to expand our operations to support growth in revenue and volume of transactions. The issuance of equity in the transaction resulted in dilution to our stockholders.

Any expense reduction initiatives that we have undertaken or may undertake may not deliver the expected results and these actions may adversely affect our business.

In early 2015, we announced that we intended to take measures to move toward profitability and improve our operating leverage, including slowing our headcount growth considerably, managing our expenses more effectively, and minimizing our capital spending requirements. On April 22, 2015 we committed to a plan intended to improve our operational efficiency, which included a reduction of approximately 11% of our workforce, which was completed during the second quarter of 2015 and other cost reduction measures that will continue throughout fiscal year 2015. As we take these or other actions to better align our operating expenses with our revenue, manage our costs better, and more efficiently manage our business, such actions could result in disruptions to our operations and our workforce (including higher voluntary attrition), and adversely affect our business. To effectively manage our business growth and operations with fewer than anticipated employees, we will need to spend significant resources to further automate our business processes, improve our technology infrastructure, our operational, financial and management controls, and our reporting systems and procedures by, among other things:

- monitoring and updating our technology infrastructure to maintain high performance and the security of our data centers and network;
- enhancing and automating work processes of our customer service and operations teams to ensure that our service professionals can efficiently support our customers; and
- enhancing our internal controls to ensure timely and accurate billing processes, and reporting of our results of operations.

These enhancements and improvements will require capital expenditures and allocation of valuable management and employee resources. We expect to continue to actively monitor our operating expenses; however, if we do not fully realize the anticipated benefits of any expense reduction initiatives, including reductions in headcount, our business could be adversely affected. In addition, we cannot be sure that our efforts to manage expenses and improve our operating leverage will be successful in reducing our overall expenses as expected or that additional expenses will not offset any such reductions. If our operating expenses are higher than we expect or if we do not maintain adequate control of our costs and expenses, our operating results will suffer.

If we do not manage our growth effectively, (i) the quality of our solutions and services and our relationships with our customers may suffer, and/or (ii) our ability to perform essential administrative functions may be impaired. Either or both of these results could have an adverse impact on our business, financial condition and results of operations.

Our business has grown rapidly. We rely heavily on information technology ("IT") systems to manage critical customer-related functions such as advertising campaign management and operations, data center operations and data management platform hosting. We must expand, improve and automate these systems to maintain the quality of our solutions as we grow and, in particular, to avoid service interruptions, security breaches and slower system performance for our enterprise solutions, including our self-service DSP and our data management platform ("DMP"). We also depend on IT systems to manage essential functions such as revenue recognition, budgeting, forecasting, financial reporting and other administrative functions, and we must continue to expand and improve these IT systems as well. Despite the use of IT systems, many of our processes remain manual in nature, and thus we must also continue to manage our employees, operations, finances, research and development and capital investments efficiently. Our productivity and the quality of our solutions may be adversely affected if we do not quickly and effectively integrate and train our new employees, including employees acquired as part of our recent acquisition of [x+1], and if we fail to appropriately coordinate across our executive, engineering, finance, human resources, legal, marketing, sales, operations and customer support teams. Our growth may continue to place a strain on our resources,

our infrastructure and our ability to maintain the quality of our solutions. Our rapid growth has resulted in challenges, and if we do not adapt to meet these evolving challenges, and if the current and future members of our management team do not effectively scale with our growth, the quality of our solutions may suffer, our relationships with our customers may be harmed and our corporate culture may be adversely impacted. Failure to

manage our future growth effectively could cause our business to suffer, which, in turn, could have an adverse impact on our financial condition and results of operations.

If we fail to make the right investment decisions in our offerings and technology platforms, we may not attract and retain advertisers and advertising agencies and our revenue and results of operations may decline.

We compete for advertisers, which are often represented by advertising agencies, who want to purchase digital media for advertising campaigns and/or invest in enterprise solutions for the purchase of digital media, data management and/or personalization of web properties. Our industry is subject to rapid changes in standards, technologies, products and service offerings, as well as in advertiser demands and expectations. We continuously need to make decisions regarding which offerings and technology to invest in to meet advertiser demand and evolving industry standards and regulatory requirements. We may make wrong or untimely decisions regarding these investments. If new or existing competitors offer more attractive offerings, we may lose advertisers, or advertisers and their agencies may decrease their spending on our solutions. New advertiser demands, superior competitive offerings or new industry standards could render our existing solutions unattractive, unmarketable or obsolete and require us to make substantial unanticipated changes to our technology platforms or business models. Our failure to adapt to a rapidly changing market or to anticipate advertiser demand could harm our business and our financial performance.

Our entry into the enterprise software-as-a-service ("SaaS") market is relatively new, and if we are not recognized as a technology company that can deliver effective SaaS solutions to enterprise clients and agencies, then our prospects and clients may be unwilling to use our solutions and our business will suffer.

As we expand our offerings to include SaaS solutions for enterprise clients and agencies, we must develop new skills that are critical to delivering a SaaS offerings, and invest significantly in training employees to support a SaaS business and the long term client relationships that we want to maintain and further develop. Although we acquired an experienced team and well-known products with [x+1], we must expand our expertise in technologies required for those offerings, and develop a reputation for regularly developing and delivering software updates and new features to long term clients. We must continue to develop and provide an easy to use, intuitive user interface for our solutions and provide robust client training programs and professional services to support our clients' use of our software. We must also provide a secure infrastructure that clients trust to house their customer data, devote significant resources to cyber and physical security, and regularly test, audit, and augment our security protocols and practices. In addition, we must have skilled sales and customer service employees that are capable of working with clients to assess their use of our software. We must be able to develop and execute product roadmaps for clients to facilitate ongoing software feature development and ensure continued client use of our SaaS offerings, including the use of our technology for purchasing digital media for advertising and implementing marketing campaigns.

Because the sales cycle for SaaS solutions can be long and unpredictable and requires considerable time and expense, and client relationships may take a long time to grow and mature, it may be many quarters or years before we know whether our investment in SaaS solutions is a profitable business for us. If we do not develop and maintain a good reputation as a SaaS provider, and we are not successful in generating revenue from our SaaS solutions and the resulting client relationships, then we may not recoup our investments in the SaaS business, and our results of operations will be harmed.

If we are unable to attract and retain new advertising customers and sell additional and new offerings to our longer-term customers, our revenue will be adversely affected.

To sustain or increase our revenue, we must add and retain new advertisers and encourage longer-term advertisers (both of which are often represented by advertising agencies) to purchase additional offerings from us, including our new enterprise solutions. As the digital advertising industry matures and as competitors introduce lower cost or differentiated products or services that compete with or are perceived to compete with ours, our ability to sell our solutions to new and existing advertisers based on our offerings, pricing, technology platform and functionality could be impaired. Some advertisers that are repeat users of our DSP managed service solution have increased their spend over time. Conversely, some advertisers that are newer to our solution tend to spend less than, and may not return at all, or as frequently as, advertisers that have used our solution for longer periods of time. With long-time advertisers, we may reach a point of saturation at which it is challenging to continue to grow our revenue from those advertisers

because of their unfamiliarity with the breadth of our product suite, as well as factors beyond our control such as internal limits that advertisers or their agencies may place on the allocation of their advertising budgets to digital media, to particular campaigns, to a particular provider, or for other reasons not known to us. Since 2014, we have been experiencing a decline in average customer spend compared to prior year periods, as well as a decline in spend by some of our larger customers and the loss of some of our larger customers. If we are unable to reverse this trend, continue to attract new advertisers or obtain additional business from existing advertisers, our revenue growth and our business will be adversely affected. We have experienced a slowing rate of revenue growth since the third quarter of 2013. Our ability to slow or reverse this declining rate of growth will depend in part upon the successful introduction of new offerings (including our ability to cross-sell our full suite of offerings).

We operate in a highly competitive market, and there can be no assurance that these new offerings will gain significant levels of market acceptance.

In particular, the market for our enterprise solutions is relatively new. Advertisers may be reluctant to make significant investments in these solutions. The sales cycle for enterprise solutions can be long and unpredictable and require considerable time and expense. Even if we generate a sale, we incur upfront costs associated with onboarding advertisers to our enterprise platforms, which can be a complex process as we must support a wide range of customer data formats and capabilities, and integrate with a wide range of applications and technology and process infrastructures. We may not recoup our investment if we do not maintain the advertiser relationship over time.

We compete for allocation of advertising budgets with agencies that may prefer to allocate their clients' advertising spend to their own internal agency trading desks or other solutions, reducing our ability to grow or retain revenue from customers represented by agencies even if our solutions are more effective.

Among our principal competitors for our solutions are advertising agencies that operate agency trading desks, either directly or through affiliates. Customers often rely on agencies to direct and allocate their advertising spend for advertising in digital media among various providers. We rely predominately on advertising agencies to purchase our solution on behalf of advertisers, and certain of those agencies or agency holding companies have, or are creating competitive solutions, referred to as agency trading desks. If these agency trading desks are successful in leveraging their relationships with the advertisers, we may be unable to compete for advertisers’ budgets even if our solution is more effective. Many agencies that we work with are also owned by large agency holding companies. For various reasons related to the agencies’ own priorities or those of their holding companies, they may not recommend our solution, even though it may be more effective, and we may not have the opportunity to demonstrate our value to advertisers. Furthermore, agencies are increasingly involved in helping to select self-service platform providers for the advertisers they represent. This trend has impacted, and may continue to impact, our ability to grow revenue from those advertisers. During 2014 and the first half of 2015, we experienced a decline in revenue from some customers that directed more spend through agency trading desks. Our ability to continue competing successfully, grow and retain revenue will depend in part on our ability to identify opportunities to work collaboratively with agencies and agency trading desks.

We may not be able to compete successfully against current and future competitors because competition in our industry is intense, and our competitors may offer solutions that are perceived by our customers to be more attractive than ours or leverage captive inventory or data to their advantage. These factors could result in declining revenue, or inability to grow our business.

Competition for our advertisers’ advertising budgets is intense, as is competition for broader advertising solutions such as data management platforms. We operate in a market that is subject to rapid development and introduction of product and service offerings, changing branding objectives and evolving customer demands, all of which affect our ability to remain competitive. For example, during 2014, we experienced a decline in revenue from some customers that adopted competitors' DSP and/or DMP solutions rather than our own similar solutions. We expect competition to increase as the barriers to enter our market are low and consolidation is increasing. Increased competition may force us to charge less for our solutions, or offer pricing models that are less attractive to us and decrease our margins. Our principal competitors for our media buying solutions include traditional advertising networks, and advertising agencies that operate an agency trading desk, either directly or through an affiliate. Competitors for our self-service solutions include other companies that offer self-service DSP and/or DMP platforms, such as Salesforce, Adobe and Oracle (BlueKai), that allow advertisers to purchase inventory directly from advertising exchanges or other third parties and manage and analyze their own consumer data and third party data. Other competitors for our solutions include in-house tools and custom solutions currently used by brand advertisers to manage their customer data and advertising and marketing activities. As our platforms evolve and we introduce new technologies, features and functionality, we may face competition from new sources.

We also compete with services offered through large online portals that have significant brand recognition, such as Yahoo!, Google, AOL and MSN. These large portals have substantial proprietary digital advertising inventory that may provide them with competitive advantages, including far greater access to Internet user data, and the ability to significantly influence pricing for digital advertising inventory. We also compete for a share of advertisers’ total

advertising budgets with online search advertising, for which we do not offer a solution, and with traditional advertising media, such as direct mail, television, radio, cable and print. Some of our competitors have also established reputations for specific services, such as retargeting with dynamic creative, for which we do not have an established market presence. Many current and potential competitors have competitive advantages relative to us, such as longer operating histories, greater name recognition, larger client bases, greater access to advertising inventory on premium websites and significantly greater financial, technical, sales and marketing resources. Increased competition may result in reduced pricing for our solutions, longer sales cycles or a decrease of our market share, any of which could negatively affect our revenue and future operating results and our ability to grow our business.

Our ability to continue competing successfully and growing revenue will depend in part on our ability to retain business from our larger and longer tenured customers; win business from new customers through the successful introduction of new offerings for mobile, video and brand advertising campaigns that continue to differentiate us from our competitors, including agency trading desks; and attract customers to our self-service platform offering and new enterprise solutions, including the DMP acquired through [x+1]. If a significant portion of our larger and longer tenured customers spend less with us, or stop spending altogether, and we fail to attract sufficient offsetting new business from new customers, our business, financial condition and results of operations would be harmed.

Our loan agreement contains operating and financial covenants that restrict our business and financing activities and, in some cases, could result in an immediate requirement to repay our outstanding loans.

Borrowings under our loan agreement with certain lenders and Comerica Bank, or Comerica, as agent for the lenders, are secured by substantially all of our assets, including our intellectual property. Our loan agreement also restricts our ability to, among other things:

- dispose of or sell our assets;
- make material changes in our business or management;
- consolidate or merge with other entities;
- incur additional indebtedness;
- create liens on our assets;
- pay dividends;
- make investments, including capital expenditures;
- enter into transactions with affiliates; and
- pay off or redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our loan agreement requires us to comply with minimum EBITDA covenants, maintain minimum cash balances with the lenders and maintain minimum liquidity ratios, among other requirements, and gives the lenders the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility, if the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below $40.0 million. If the lenders were to exercise this right, our ability to pay the costs of our operations, including payroll and vendor costs, would be adversely impacted, and could lead to insolvency or bankruptcy.

The operating and financial restrictions and covenants in the loan agreement, as well as any future financing agreements that we may enter into, could restrict our ability to finance our operations and to engage in, expand or otherwise pursue business activities and strategies that we or our stockholders may consider beneficial. We have failed to comply with similar covenants in the past. For example, as of December 31, 2012, September 30, 2013, and September 30, 2014, we were not in compliance with certain financial and non-financial covenants in applicable secured loan and security agreements, including covenants related to permitted indebtedness for a corporate credit card account balance and limitations on our capital expenditures. Although we have been able to obtain a waiver for each such covenant violation in the past, there is no guarantee that our lender will waive such violations in the future. Our ability to comply with these covenants may be affected by events beyond our control, and future breaches of any of these covenants could result in a default under the loan agreement. Future defaults, if not waived, could cause all of the outstanding indebtedness under our loan agreement to become immediately due and payable and would permit the lenders to terminate all commitments to extend further credit and permit Comerica, on behalf of the lenders, to proceed against the collateral in which we granted Comerica a security interest.

If we do not have or are unable to generate sufficient cash available to repay our debt obligations when they become due and payable, either upon maturity or in the event of a default, we may not be able to obtain additional debt or equity financing on favorable terms, if at all. This could materially and adversely affect our liquidity and financial condition and our ability to operate and continue our business as a going concern.

We may require additional capital to support growth, and such capital might not be available on terms acceptable to us, if at all. This could hamper our growth and adversely affect our business.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our platform, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in public or private equity, equity-linked or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, including the ability to pay dividends. This may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and respond to business challenges could be significantly impaired, and our business could be adversely affected.

Our liquidity could be adversely impacted by adverse conditions in the financial markets.

As of June 30, 2015, we had $81.1 million in cash and cash equivalents. Of this balance, $30.0 million is required to be on deposit with our loan facility lenders as of the 15th and the last days of each month. At any point in time, we have funds in our operating accounts that are with third party financial institutions that exceed the Federal Deposit Insurance Corporation, or FDIC, insurance limits. These cash balances could be impacted if the underlying financial institutions fail or become subject to other adverse conditions in the financial markets.

If we do not effectively train and provide tools and technology to support our sales and customer service and operations teams, we may be unable to maintain or increase sales to our existing customers or maintain customer satisfaction, and our business would be adversely affected.

We are substantially dependent on our sales and customer service and operations teams team to maintain and increase sales from our existing customers and on our customer service and operations teams to maintain customer satisfaction. Our ability to achieve significant revenue growth will depend, in part, on our success in recruiting, training, integrating and retaining sufficient numbers of sales and customer service and operations personnel to support our growth and maintain customer satisfaction, and providing them the tools and technology that they need to efficiently do their jobs and satisfy customer demands. As we expand our offerings within mobile, social and video channels, and with our self-service platforms, our sales teams are also required to spend time learning new offerings and become more effective at cross-selling. Our customer service and operations teams are required to spend time learning to support the new offerings and troubleshooting customer issues. If we cannot provide the tools and training to our teams to support new and repeat customer growth, we will continue to see declines in our revenue retention rate that we have experienced since the beginning of 2014, and fail to maintain satisfactory customer relationships. With the introduction of our enterprise self-service solution and our acquisition of [x+1] and its enterprise offerings, we now require sales and customer service and operations teams to meet the demands of two distinctly different types of customers with different types of offerings; those that purchase managed services from us, and those that invest in our technology as an enterprise solution. Our sales and customer service and operations teams have been primarily trained and experienced in selling and supporting our managed service solutions to and servicing advertising agencies, which often control advertisers' budgets. Our enterprise solutions are marketed and sold to agencies, enterprise customers and other channel partners directly. We are expanding our capabilities in enterprise sales and customer service and operations, and we have invested in existing personnel to sell solutions to advertising agencies, large brand advertisers and channel partners and provide customer support.

In recent quarters, we have experienced sales productivity declines. If we are unable to train sufficient numbers of sales personnel, or the sales personnel are not effective in obtaining new customers or increasing sales to our existing customer base, our business would be adversely affected.

We expect the ongoing investment of time on sales hiring, training and education efforts to continue to negatively impact sales productivity in the short term. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. Sales productivity for current sales personnel may not improve in the near term. As a result of the growth in our sales

organization, a large portion of our sales team is still new to the company and our solutions. If we are unable to train sufficient numbers of sales personnel (including enterprise sales personnel), and/or the sales personnel are not effective in obtaining new customers or increasing sales to our existing customer base through cross-selling, our business would be adversely affected.

Our future success depends on the continuing efforts of our key employees, including our founders, and on our ability to recruit and retain a new Chief Executive Officer, as well as to hire, train, motivate and retain additional employees, including executives with public company experience.

Our future success depends heavily upon our hiring of a new Chief Executive Officer, the continuing services of our key employees, including our founders, George John, Chairman of our Board; Richard Frankel, our President; and Abhinav Gupta;, and on our ability to attract and retain management team members and other highly skilled employees, including software engineers, analytics and operations employees and sales professionals.

Over the past nine months we have experienced significant turnover within the executive team. In March 2015 we announced a CEO succession plan pursuant to which Board member Monte Zweben replaced George John as Chief Executive Officer on an interim basis and our Board commenced a search for a permanent Chief Executive Officer. Since November 2014 we have hired four senior executives, including a Chief Financial Officer, a Chief Revenue Officer for North America, a Senior Vice President of Research and Development and a Senior Vice President of Human Resources. Our future success depends on a timely and successful CEO search and the swift and effective integration of all new executives into our business operations and company culture. None of our founders or other key employees has an employment agreement for a specific term, and any of our employees may terminate their employment with us at any time.

The market for talent in our key areas of operations, including California, New York, Chicago and London, is intensely competitive. Our engineering group is primarily based in Redwood City, California, and we face significant competition for talent from large technology companies such as Google, Facebook, LinkedIn, Twitter and Yahoo!. These companies may provide more generous compensation and benefits, more diverse opportunities and better chances for career advancement, than we do. Some of these advantages may be more appealing to high-quality candidates and employees than those we have to offer. In addition, the decline in our stock price has created additional challenges related to our ability to compete effectively with respect to equity compensation. New employees often require significant training and, in many cases, take significant time before they achieve full productivity. As a result, we may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. In addition, as we move into new geographies, we will need to attract and recruit skilled employees in those areas. We have limited experience with recruiting in geographies outside of the United States, and may face additional challenges in attracting, integrating and retaining international employees.

Even if we are successful in hiring qualified new employees, we may be subject to allegations that we have improperly solicited such employees while they remained employed by our competitors, that such employees have improperly solicited other colleagues of theirs employed by the same competitors or that such employees have divulged proprietary or other confidential information to us in violation of their agreements with such competitors. If we are unable to attract, integrate and retain suitably qualified individuals, our business, financial position and results of operations would be harmed.

Our sales and marketing efforts have required significant investments, which may not yield returns in the foreseeable future, if at all.

We have invested significant resources in our sales and marketing teams to educate the marketplace and sell to prospective advertisers and advertising agencies the value of our solutions. We often spend substantial time and resources explaining how our solutions can optimize advertising campaigns, and responding to requests for proposals from potential advertisers and their advertising agencies, including developing material specific to the needs of such potential advertisers. Our business depends in part upon advertisers' confidence, and the confidence of the advertising

agencies that represent those advertisers, that our solutions are superior to other methods of purchasing digital advertising. Our business also depends in part on our ability to effectively market our expanded offerings in the video, mobile and social channels, brand solutions and our self-service platform. In order to support our sales teams more effectively in an extremely competitive environment, our marketing efforts must continually keep pace with the evolution of our business and educate the market about our technology advantages and capabilities. We may not be successful in attracting new advertisers despite our investment in our sales and marketing organizations.

Through 2013, our historical revenue growth partially masked seasonal fluctuations in advertising activity. However, as our revenue growth rate has declined and/or to the extent seasonal advertising patterns become more pronounced, seasonality could cause material fluctuations on our quarterly operating results and cash flows.

Our revenue, operating results, and other key operating and performance metrics may vary from quarter to quarter due to the seasonal nature of our advertisers' spending on digital advertising campaigns. For example, advertisers tend to devote more of their advertising budgets to the fourth calendar quarter to coincide with consumer holiday spending. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand for advertising inventory. Our historical high revenue growth through the first half of 2013 partially masked the impact of seasonality, but as our growth rate has declined since the third quarter of 2013, and to the extent seasonal spending becomes more pronounced, seasonality could cause material fluctuations on our revenue, cash flow, operating results and other key operating and performance metrics from period to period.

If the use of "third party cookies" is rejected by Internet users, restricted or otherwise subject to unfavorable regulation, our performance could decline and we could lose advertisers and revenue.

We use "cookies" (small text files) to gather important data to help deliver our solution. These cookies are placed through an Internet browser on an Internet user's computer and correspond to a data set that we keep on our servers. Our cookies are known as "third party" cookies because we do not have a direct relationship with the Internet user. Our cookies collect anonymous information, such as when an Internet user views an ad, clicks on an ad, or visits one of our advertisers' websites. On mobile devices, we may also obtain location-based information about the user's device. We use these cookies to help us achieve our advertisers' campaign goals, to help us ensure that the same Internet user does not unintentionally see the same advertisement too frequently, to report aggregate information to our advertisers regarding the performance of their advertising campaigns and to detect and prevent fraudulent activity throughout our network of inventory. We also use data from cookies to help us decide whether to bid on, and how much to bid on, an opportunity to place an advertisement in a certain location, at a given time, in front of a particular Internet user. A lack of data associated with cookies may detract from our ability to make decisions about which inventory to purchase for an advertiser's campaign, and undermine the effectiveness of our solution.

Cookies may easily be deleted or blocked by Internet users. All of the most commonly used Internet browsers (including Chrome, Firefox, Internet Explorer, and Safari) allow Internet users to prevent cookies from being accepted by their browsers. Internet users can also delete cookies from their computers at any time. Some Internet users also download "ad blocking" software that also prevents cookies from being stored on a user's computer. If more Internet users adopt these settings or delete their cookies more frequently than they currently do, our business could be harmed. In addition, the Safari browser blocks third party cookies by default, and other browsers may do so in the future. Unless such default settings in browsers are altered by Internet users, we will be able to set fewer of our cookies in browsers, which could adversely affect our business. In addition, companies such as Google have publicly disclosed their intention to move away from cookies to another form of persistent unique identifier, or ID, to indicate Internet users in the bidding process on advertising exchanges. If companies do not use shared IDs across the entire ecosystem, this could have a negative impact on our ability to find the same anonymous user across different web properties, and reduce the effectiveness of our solution.

In addition, in the European Union, or EU, Directive 2009/136/EC, commonly referred to as the "Cookie Directive," directs EU member states to ensure that accessing information on an Internet user's computer, such as through a cookie, is allowed only if the Internet user has given his or her consent. We may not be able to develop or implement additional tools that compensate for the lack of data associated with cookies. Moreover, even if we are able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than our current use of cookies. The Data Protection Regulation, which was endorsed by the European Union Parliament in March 2014, is being reviewed by the European Union Council of Ministers and the European Union Commission. If enacted into law, possible new rules regarding data collection could limit or change the way we collect information, and could have a negative impact on our ability to optimize our clients' advertising campaigns. Potential "Do Not Track" standards or government regulation could negatively impact our business by limiting our access to the anonymous user data that informs the advertising campaigns we run, and as a result could degrade our performance for our customers.

As the use of cookies has received ongoing media attention over the past several years, some government regulators and privacy advocates have suggested creating a “Do Not Track” standard that would allow Internet users to express a preference, independent of cookie settings in their web browser, not to have their website browsing recorded. All the major Internet browsers have implemented some version of a “Do Not Track” setting. In the past, Microsoft’s Internet Explorer 10 included a “Do Not Track” setting that was selected “on” by default. However, there is no definition of “tracking,” no consensus regarding what message is conveyed by a “Do Not Track” setting and no industry standards regarding how to respond to a “Do Not Track”

preference. It is possible that we could face competing policy standards, or standards that put our business model at a competitive disadvantage to other companies that collect data from Internet users, standards that reduce the effectiveness of our solution, or standards that require us to make costly changes to our solution. The Federal Trade Commission, or FTC, has stated that it will pursue a legislative solution if the industry cannot agree upon a standard. The "Do-Not-Track Online Act of 2013" was introduced in the United States Senate in February 2013. If a "Do Not Track" web browser setting is adopted by many Internet users, and the standard either imposed by state or federal legislation, or agreed upon by standard setting groups, requires us to recognize a "Do Not Track" signal and prohibits us from using non-personal data as we currently do, then that could hinder growth of advertising and content production on the web generally, and limit the quality and amount of data we are able to store and use, which would cause us to change our business practices and adversely affect our business.

Our international expansion subjects us to additional costs and risks and may not yield returns, including anticipated revenue growth, in the foreseeable future, and our continued expansion internationally may not be successful.

Our significant investment in international expansion subjects us to many challenges associated with supporting a rapidly growing business across a multitude of cultures, customs, monetary, legal and regulatory systems and commercial infrastructures. We have a limited operating history outside of the United States, and our ability to manage our business and conduct our operations internationally requires considerable attention and resources. We began operations in the United Kingdom in 2011. Our UK subsidiary has employees in the United Kingdom, France, Italy, Spain, Sweden and Australia. We established subsidiaries in Germany and Canada in 2013 and in Brazil in 2014. In addition, in 2012, we licensed a third party to make our solution available in Japan. We expect to significantly expand our international operations in the future.

Our international expansion and the integration of international operations present challenges and risks to our business and require significant attention from our management, finance, analytics, operations, sales and engineering teams to support advertising campaigns abroad. For example, as a direct result of our relationship with our Japan licensee, we have undertaken engineering and other work to support campaigns for Japanese advertisers and localize our technology platform for language, currency and time zone, and have made substantial investments to train our Japan licensee's sales team to sell our solution in Japan. Moreover, our Japan licensee is a wholly-owned subsidiary of a large advertising agency holding company, which has other subsidiaries that may offer services that compete with us. As a result, there is a risk that conflicts of interest may arise that could reduce our ability to gain market share in the Japanese market. Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business abroad, could interfere with our ability to offer our solutions competitively to advertisers and advertising agencies in one or more countries and expose us or our employees to fines and penalties. In some cases, our advertisers might impose additional requirements on our business in efforts to comply with their interpretation of their own or our legal obligations. These requirements might differ significantly from the requirements applicable to our business in the United States and could require engineering and other costly resources to accommodate. Laws and regulations that could impact us include but are not limited to tax laws, employment laws, data privacy regulations, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials and private entities, such as the U.K. Bribery Act. Violations of these laws and regulations could result in monetary damages, criminal sanctions against us, our officers, or our employees, and prohibitions on the conduct of our business. We will likely incur significant operating expenses as a result of our international expansion, and it may not be as successful as we anticipate. Our international business also subjects us to the impact of global and regional recessions and economic and political instability, differing regulatory requirements, costs and difficulties in managing a distributed workforce, potentially adverse tax consequences in the United States and abroad, fluctuations in foreign currency exchange rates and restrictions on the repatriation of funds to the United States. Our failure to manage these risks and challenges successfully could materially and adversely affect our business, financial condition and results of operations.

Our solutions are primarily dependent on advertisers purchasing display advertising. A decrease in the use of display advertising, or our inability to further penetrate display, mobile, social and video advertising channels would harm our business, growth prospects, operating results and financial condition.

Historically, our customers have predominantly purchased our solution for display advertising. The demand-side platform that we acquired with [x+1] is also predominantly used for display advertising. We expect that display advertising will continue to be a significant channel used by our customers. Recently, the market for display advertising, excluding mobile, social and video, has been declining as overall digital advertising growth has been driven by mobile, social and video advertising. Should our customers lose confidence in the value or effectiveness of display advertising, the demand for our display solution could decline. In addition, many of our customers may think of us as only providing display advertising solutions, and we must develop marketing strategies that help our sales representatives cross-sell non-display products to our existing customer base. Our failure to achieve market acceptance of our solutions for mobile, social and video advertising, as well as our enterprise solutions, including our DMP and web optimization solutions, would harm our growth prospects, financial condition and results of operations.

If we fail to maintain adequate security and supporting infrastructure as we scale our systems, we may experience outages and disruptions of our services, and we may be in breach of our security obligations to our enterprise customers. Either of these occurrences could harm our brand and reputation; result in loss of customer information and related indemnity obligations and other liabilities; and negatively impact our revenue and results of operations.

As we grow our business, we expect to continue to invest in technology services, hardware and software, including data centers, network services, storage and database technologies. Creating the appropriate support for our technology platforms, including Big Data and our computational infrastructure, is expensive and complex, and our execution could result in inefficiencies or operational failures and increased vulnerability to cyber-attacks. We make representations to our customers regarding our security policies and practices. If we do not adequately implement and enforce these security policies to the satisfaction of our customers, this could result in a loss of customer confidence, damage to our reputation and a loss of business. Further, security breaches could not only diminish the quality of our services and our performance for advertisers; they could also be a violation of security obligations to our enterprise customers that are designed to protect the data that we collect, store and transmit for them. Cyber-attacks could include denial-of-service attacks impacting service availability (including the ability to deliver ads) and reliability; the exploitation of software vulnerabilities in Internet facing applications; social engineering of system administrators (tricking company employees into releasing control of their systems to a hacker); or the introduction of computer viruses or malware into our systems with a view to steal confidential or proprietary data. Cyber-attacks of increasing sophistication may be difficult to detect and could result in the theft of our intellectual property, our data and/or our customers' data. In addition, we are vulnerable to unintentional errors as well as malicious actions by persons with authorized access to our systems that exceed the scope of their access rights, or unintentionally or intentionally alter parameters or otherwise interfere with the intended operations of our platforms. The steps we take to increase the reliability, integrity and security of our systems may be expensive and may not prevent system failures or unintended vulnerabilities resulting from the increasing number of persons with access to our systems, complex interactions within our technology platforms and the increasing number of connections with the technology of customers, third party partners and vendors. Operational errors or failures or successful cyber-attacks could result in damage to our reputation and loss of current and new advertisers and other business partners, as well as exposure to indemnity claims and other liability to our enterprise solution customers, which could harm our business. In addition, we could be adversely impacted by outages and disruptions in the online platforms of our key business partners, such as the real-time advertising exchanges, who we rely upon for access to inventory.

We typically do not have long-term commitments from our advertisers, and we may not be able to retain advertisers or attract new advertisers that provide us with revenue that is comparable to the revenue generated by any advertisers we may lose.

Most of the advertisers that use our solution do business with us by placing insertion orders for particular advertising campaigns. If we perform well on a particular campaign, then the advertiser, or most often, the advertising agency representing the advertiser, may place new insertion orders with us for additional advertising campaigns. We rarely have any commitment from an advertiser beyond the campaign governed by a particular insertion order. We use the Interactive Advertising Bureau, or IAB, standard terms and conditions, pursuant to which our insertion orders may also be canceled by advertisers or their advertising agencies prior to the completion of the campaign without penalty. As a result, our success is dependent upon our ability to outperform our competitors and win repeat business from existing advertisers, while continually expanding the number of advertisers for whom we provide services. In addition, it is relatively easy for advertisers and the advertising agencies that represent them to seek an alternative provider for their advertising campaigns because there are no significant switching costs. Agencies, with which we do the majority of our business, often have relationships with many different providers, each of which may be running portions of the same advertising campaign. Because we generally do not have long-term contracts, it is difficult for us to accurately predict future revenue streams. We cannot provide assurance that our current advertisers will continue to use our solution, or that we will be able to replace departing advertisers with new advertisers that provide us with comparable revenue.

The sales cycle for our enterprise solutions can be long and unpredictable and requires considerable time and expense before winning a sale or not; this can make it difficult to predict when, if at all, we will obtain new enterprise

customers and when we will generate revenue from those customers.

The sales cycle for our enterprise business from initial contact with a sales prospect to contract execution and technology implementation, typically takes a significant amount of time and is difficult to predict. The sales cycle in some cases can take up to twelve months or more. Our sales efforts involve educating our customers about the use, technical capabilities and benefits of our platform. Some of our customers undertake a significant evaluation process that frequently involves not only our platform but also the offerings of our competitors. This process is costly and time-consuming. As a result, it is difficult to predict if and when we will obtain new customers and begin generating revenue from these new customers. Because of the long sales cycle, we may incur significant expenses before we have an opportunity to win the sale and execute a definitive agreement with a prospective customer and even more time before we are able to generate any revenue from any agreement. We have no assurance that the substantial time and money spent on our sales efforts will generate significant revenue, or that the customer engagement will

ultimately be profitable. If conditions in the marketplace generally or with a specific prospective customer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any of these expenses.

If we serve our advertisers' advertisements on undesirable websites or fail to detect fraud (including bot traffic), our reputation will suffer, which would harm our brand and reputation and negatively impact our business, financial condition and results of operations.

Our business depends in part on providing our advertisers with a service that they trust. We have contractual commitments to take reasonable measures to prevent advertisers' advertisements from appearing on undesirable websites or on certain websites that they identify, and we use third-party services to help us meet those commitments. We use third party technology, and our own proprietary technology, to detect bot traffic, as well as click fraud, which is an automated computer-generated click on an advertisement rather than a click by a human. In 2014 there was a significant amount of negative publicity about bot traffic within our industry, including negative publicity directed at us. As a result, our abilities to both combat bot traffic and to communicate proactively about our capabilities in this area have become increasingly important. In addition, we use proprietary technology to block inventory that we know or suspect to be fraudulent, including "tool bar" inventory, which is inventory that appears within an application, often called a "tool bar," and that overlays a website and displaces any advertising that would otherwise be displayed on that website. Preventing and combating fraud, which is an industry-wide issue, requires constant vigilance, and we may not always be successful in our efforts to do so or in our efforts to address negative press on the topic.

If we serve advertising on inventory that is objectionable to our advertisers or fraudulent, we may lose the trust of our advertisers, which would harm our brand and reputation and negatively impact our business, financial condition and results of operations. We may also purchase inventory inadvertently that proves to be unacceptable for advertising campaigns, in which case we are responsible for the cost and cannot bill that cost to any campaign. If we buy substantial volumes of unusable inventory, this could negatively impact our results of operations.

If our access to quality advertising inventory is diminished or if we fail to acquire new advertising inventory, our revenue could decline and our growth could be impeded.

We must maintain a consistent supply of attractive advertising inventory, meaning the digital space on which we place advertising impressions, including websites, proprietary social networks, such as Facebook, and mobile applications. Our success depends on our ability to secure quality inventory through real-time advertising exchanges on reasonable terms across a broad range of advertising networks and exchanges and premium publishers, including real time advertising exchanges, such as Google's DoubleClick Ad Exchange or AppNexus; suppliers of video and mobile inventory, including premium publishers with which we may seek direct relationships; and inventory available on social media platforms through application program interfaces, or APIs, including Facebook.

The amount, quality and cost of inventory available to us can change at any time. Our suppliers are not bound by long-term contracts. As a result, we cannot provide any assurance that we will have access to a consistent supply of quality inventory through real-time advertising exchanges. Moreover, the number of competing intermediaries that purchase advertising inventory from real-time advertising exchanges continues to increase, while the number of suppliers may decline due to consolidation trends in the industry; both of these factors could put upward pressure on inventory costs. If we are unable to compete favorably for advertising inventory available on real-time advertising exchanges, or if real-time advertising exchanges decide not to make their advertising inventory available to us, we may not be able to place advertisements at competitive rates or find alternative sources of inventory with comparable traffic patterns and consumer demographics in a timely manner. Furthermore, the inventory that we access through real-time advertising exchanges may be of low quality or misrepresented to us, despite attempts by us and our suppliers to prevent fraud and conduct quality assurance checks. We may also seek to acquire access to premium inventory directly from publishers for display, mobile and video impressions. Other companies, including large integrated companies that own or have exclusive relationships with publishers, ad exchanges and ad networks, may compete with us and restrict our access to media inventory from their wholly-owned properties or other publishers. Suppliers control the bidding process for the inventory they supply, and their processes may not always work in our favor. For example, suppliers may place restrictions on our use of their inventory, including restrictions that prohibit the placement of advertisements on behalf of certain advertisers. We may not win the right to deliver advertising to

the inventory that we select and may not be able to replace inventory that is no longer made available to us.
If we are unable to maintain a consistent supply of quality inventory for any reason, our business, advertiser retention and loyalty, financial condition and results of operations would be harmed.

Currently, our social media offering is almost entirely dependent on access to Facebook's inventory. We no longer have access to FBX inventory and now access Facebook inventory through API's. If our access to quality inventory in social media (including through Facebook) is diminished or if we fail to acquire new advertising inventory in social media, our growth could be impeded and our revenue could decline.

Currently, our social media offering is almost entirely limited to Facebook's platform. As a result, our ability to grow revenue in the social channel is directly tied to the availability of Facebook ad inventory. We historically accessed Facebook inventory through FBX, which was launched in the second half of 2012. Since April 1, 2015, we no longer have access to Facebook's FBX platform, though Facebook allows other companies in our industry to purchase inventory through the FBX platform. This could put us at a competitive disadvantage. We instead access Facebook inventory (including Facebook mobile and video inventory) through an application program interface, or API. If we are unable to compete favorably for advertising inventory on Facebook through the API, our social media offering may not be successful. Also, we cannot provide assurance that Facebook will continue to make its advertising inventory available to us upon reasonable terms or at all, and we may not be able to replace the FBX advertising inventory with inventory that meets our advertisers' specific goals with respect to social media. In addition, advertisers may prefer to work with companies that have access to FBX inventory in addition to the Facebook APIs, have access to advertising opportunities on social media platforms other than Facebook or that have a longer history of integration with social media platforms. If we are unable to run advertising campaigns on Facebook, integrate with social media platforms that may become more available and/or more popular in the future or otherwise find alternative sources of quality social media inventory, our business could be harmed.

If mobile connected devices, their operating systems or content distribution channels, including those controlled by our competitors, develop in ways that prevent our advertising campaigns from being delivered to their users, our ability to grow our business will be impaired.

There is rapid growth in content consumption on mobile devices. Our success in the mobile channel depends on our ability to access mobile inventory from suppliers, which may also be competitors, on reasonable terms. These suppliers may decide to offer their own solutions and exclude us from reaching quality inventory that they control. Our success also depends upon the ability of our technology platform to integrate with mobile inventory suppliers and provide advertising for most mobile connected devices, as well as the major operating systems that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems is controlled by third parties with whom we do not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability to access specified content on mobile devices. If our solution was unable to work on these devices or operating systems, either because of technological constraints or because an operating system or application developer, device maker or carrier wished to impair, or inadvertently impaired, our ability to purchase inventory and provide advertisements, our ability to generate revenue could be significantly harmed.

Certain self-regulatory organizations of which we are a part (but over which we have limited influence) released mobile-specific privacy principles toward the end of 2014, with enforcement expected to begin on September 1, 2015. If we fail to comply with these principles, or if we must modify our business practices in a way that reduces our ability to provide quality service to clients, it could affect our ability to generate new mobile channel business.

Errors or failures in our software and systems could adversely affect our operating results and growth prospects.

We depend upon the sustained and uninterrupted performance of our technology platforms to operate and execute over 2,500 campaigns at any given time; manage our inventory supply (including inventory quality controls); bid on inventory for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data to optimize campaign performance in real time; and provide billing information to our financial systems. If our technology platform cannot scale to meet demand, or if there are errors in our execution of any of these functions on our platform, then our business could be harmed. Because our software is complex, undetected errors and failures may occur, especially when new versions or updates are made. We do not have the capability to test new releases or updates to our code on a small subset of campaigns, which means that bugs or errors in code could impact all campaigns on our platform. Despite testing by us, errors or bugs in our software have in the past, and may in the future, not be found until the software is in our live operating environment. For example, we have experienced failures

in our bidding system to recognize or respond to budget restrictions for campaigns, resulting in overspending on media, and we may in the future have failures in our systems that cause us to buy more media than our advertisers are contractually obligated to pay for, which could be costly and harm our operating results. Errors or failures in our software could also result in negative publicity, damage to our brand and reputation, loss of or delay in market acceptance of our solution, increased costs or loss of revenue, loss of competitive position or claims by advertisers for losses sustained by them. In such an event, we may be required or choose to expend additional resources to help mitigate any problems resulting from errors in our software. We may make errors in the measurement of our campaigns causing discrepancies with our advertisers' measurements leading to a lack of

confidence in us or, on occasion, the need for advertiser "make-goods," the standard credits given to advertisers for campaigns that have not been delivered properly. Material defects or errors in our enterprise platform, including our DMP solution, could also result in unanticipated costs and harm to our reputation. The software systems underlying the enterprise solutions, including the DMP, are inherently complex and may contain errors that could cause disruption in availability and other performance issues. Such performance issues could result in customers making warranty or other claims against us. Alleviating problems resulting from errors in our software could require significant expenditures of capital and other resources and could cause interruptions, delays or the cessation of our business, any of which would adversely impact our reputation as well as our financial position, results of operations and growth prospects.

As customers increase usage of our enterprise solutions, including our data management platform and site optimization services, we will need to continually improve our hosting infrastructure.

We expect our enterprise solutions to continue to add customers, transactions and data that our hosting infrastructure will be required to support. We seek to maintain sufficient excess capacity in the hosting infrastructure to meet the needs of all of our enterprise customers. We also seek to maintain excess capacity to facilitate the increase in new customers and transactions. For example, if we secure a large customer or a group of enterprise customers that require significant amounts of bandwidth or storage, we may need to increase bandwidth, storage, power or other elements of our application architecture and our infrastructure, and our existing systems may not be able to scale in a manner satisfactory to our existing or prospective customers. As use of the platforms grows, we will need to devote additional resources to improving our application architecture and our infrastructure in order to maintain the performance of our enterprise solutions. We may need to incur additional costs to upgrade or expand our computer systems and architecture in order to accommodate increased or expected increases in demand. These costs could impact our results of operations.

Our growth depends, in part, on the success of our strategic relationships with third parties, including ready access to hardware in key locations to facilitate the delivery of our solution and reliable management of Internet traffic.

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. We continue to pursue additional relationships with third parties, such as technology and content providers, real-time advertising exchanges, social media companies, data and market research companies, publishers, co-location facilities and other strategic partners. Identifying, negotiating and documenting relationships with third parties requires significant time and resources as does integrating third-party data and services. Our agreements with channel partners and providers of technology, computer hardware, co-location facilities, content and consulting services and real-time advertising exchanges are typically non-exclusive, do not prohibit them from working with our competitors or from offering competing services and do not typically have minimum purchase commitments. Our competitors may be effective in providing incentives to third parties to favor their products or services over ours or to otherwise prevent or reduce purchases of our solutions. In addition, these third parties may not perform as expected under our agreements with them, and we may have disagreements or disputes with such third parties, which could negatively affect our brand and reputation.

In particular, our continued growth depends on our ability to source computer hardware, including servers built to our specifications, and the ability to locate those servers and related hardware in co-location facilities in the most desirable locations to facilitate the timely delivery of our services. Disruptions in the services provided at co-location facilities that we rely upon can degrade the level of services that we can provide, which could harm our business. We also rely on our integration with many third-party technology providers to execute our business on a daily basis. We must efficiently direct a large amount of network traffic to and from our servers to consider tens of billions of bid requests per day, and each bid typically must take place in approximately 100 milliseconds. We rely on a third-party domain name service, or DNS, to direct traffic to our closest data center for efficient processing. If our DNS provider experiences disruptions or performance problems, this could result in inefficient balancing of traffic across our servers as well as impairing or preventing web browser connectivity to our site, which could harm our business.

Our solutions rely on third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our solutions.

Our technology platforms, including our computational infrastructure, rely on software licensed to us by third-party authors under “open source” licenses. The use of open source software may entail greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar solutions with less development effort and time and ultimately put us at a competitive disadvantage.

Although we monitor our use of open source software to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our services. Moreover, we cannot guarantee that our processes for controlling our use of open source software will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue operating our platforms on terms that are not economically feasible, to re-engineer our platforms or the supporting computational infrastructure to discontinue use of certain code, or to make generally available, in source code form, portions of our proprietary code, any of which could adversely affect our business, financial condition and results of operations.

Failure to comply with industry self-regulation could harm our brand, reputation and business.

We have committed to complying with the Network Advertising Initiative's Code of Conduct and the Digital Advertising Alliance's Self-Regulatory Principles for Online Behavioral Advertising in the United States, as well as similar self-regulatory principles in Europe adopted by the Interactive Advertising Bureau—Europe and the European Digital Advertising Alliance. Our efforts to comply with these principles include offering Internet users notice and transparency when advertising is served to them based, in part, on web browsing data recorded by cookies. We also offer Internet users the ability to opt out of receiving interest-based advertisements based on a cookie we place. However, we have made mistakes in our implementation of these guidelines in the past, and if we make mistakes in the future, or our opt out mechanisms fail to work as designed, or if Internet users misunderstand our technology or our commitments with respect to these principles, we could be subject to negative publicity, government investigation, government or private litigation, or investigation by self-regulatory bodies or other accountability groups. Any such action against us could be costly and time consuming, require us to change our business practices, cause us to divert management's attention and our resources and be damaging to our reputation and our business.

Our corporate culture has contributed to our success. If we cannot maintain it as the size of our employee base fluctuates, we could lose the innovation, creativity and teamwork fostered by our culture, and our business could be harmed.

Through the second quarter of 2015, we had undergone rapid growth in our employee base. For example, we had 1,008 employees (837