Rocket Fuel Inc.
Form 10-Q
November 08, 2016

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 September 30, 2016
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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 on common stock as of the latest practicable date. On October 31, 2016, there were 45,582,944 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)

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $78,663 | $ 78,560 |
| Accounts receivable, net | 113,169 | 124,998 |
| Prepaid expenses | 2,812 | 3,803 |
| Other current assets | 4,034 | 2,081 |
| Total current assets | 198,678 | 209,442 |
| Property, equipment and software, net | 65,431 | 82,781 |
| Restricted cash | 1,839 | 2,141 |
| Intangible assets, net | 38,639 | 50,919 |
| Deferred tax assets, net | 676 | 718 |
| Other assets | 640 | 1,053 |
| Total assets | $305,903 | $ 347,054 |
| Liabilities and Stockholders’ Equity | | |
| Current Liabilities: | | |
| Accounts payable | $64,068 | $ 71,292 |
| Accrued and other current liabilities | 33,623 | 40,734 |
| Deferred revenue | 3,556 | 2,116 |
| Current portion of capital leases | 8,807 | 8,602 |
| Current portion of debt | 71,112 | 45,720 |
| Total current liabilities | 181,166 | 168,464 |
| Debt—Less current portion | — | 17,617 |
| Capital leases—Less current portion | 7,911 | 11,855 |
| Deferred rent—Less current portion | 15,254 | 14,042 |
| Other liabilities | 850 | 1,176 |
| Total liabilities | 205,181 | 213,154 |
| Commitments and contingencies (Note 10) | | |
| Stockholders’ Equity: | | |
| Common stock, $0.001 par value— 1,000,000,000 authorized as of September 30, 2016 and December 31, 2015; 45,512,608 and 43,567,016 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively | 45 | 44 |
| Additional paid-in capital | 468,907 | 453,338 |
| Accumulated other comprehensive loss | (698 ) | (151 ) |
| Accumulated deficit | (367,532 ) | (319,331 ) |
| Total stockholders’ equity | 100,722 | 133,900 |
| Total liabilities and stockholders’ equity | $305,903 | $ 347,054 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | $109,720 | $111,836 | $331,433 | $336,235 |
| Costs and expenses: | | | | |
| Media costs | 47,092 | 43,673 | 140,573 | 138,389 |
| Other cost of revenue | 22,790 | 20,105 | 63,272 | 59,887 |
| Research and development | 7,913 | 11,022 | 27,990 | 34,136 |
| Sales and marketing | 29,084 | 41,681 | 102,114 | 126,309 |
| General and administrative | 11,912 | 12,328 | 38,998 | 44,663 |
| Impairment of goodwill | — | 117,521 | — | 117,521 |
| Restructuring | — | — | 1,567 | 6,471 |
| Total costs and expenses | 118,791 | 246,330 | 374,514 | 527,376 |
| Operating loss | (9,071) | (134,494) | (43,081) | (191,141) |
| Interest expense | 1,082 | 1,087 | 3,351 | 3,472 |
| Other (income) expense, net | 411 | 797 | 1,083 | 2,309 |
| Loss before income taxes | (10,564) | (136,378) | (47,515) | (196,922) |
| Income tax provision | 171 | 213 | 686 | 942 |
| Net loss | $(10,735) | $(136,591) | $(48,201) | $(197,864) |
| Basic and diluted net loss per share attributable to common stockholders | $(0.24) | $(3.19) | $(1.09) | $(4.67) |
| Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders | 44,353 | 42,763 | 44,167 | 42,350 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(10,735) | $(136,591) | $(48,201) | $(197,864) |
| Other comprehensive income (loss): (1) | | | | |
| Foreign currency translation adjustments | (73) | 25 | (547) | 32 |
| Comprehensive loss | $(10,808) | $(136,566) | $(48,748) | $(197,832) |

(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)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating Activities: | | |
| Net loss | $(48,201) | $(197,864) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Impairment of goodwill | — | 117,521 |
| Depreciation and amortization | 37,691 | 38,078 |
| Impairment of long-lived assets | 1,225 | 2,704 |
| Accelerated amortization of leasehold improvements | 7,059 | — |
| Stock-based compensation expense | 12,004 | 20,188 |
| Deferred taxes | 41 | — |
| Other non-cash adjustments, net | 2,717 | 1,115 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 9,929 | 24,133 |
| Prepaid expenses and other assets | (1,100) | 9,892 |
| Accounts payable, accrued and other liabilities | (5,599) | (15,120) |
| Deferred rent | (6,495) | 684 |
| Deferred revenue | 1,440 | 1,058 |
| Net cash provided by operating activities | 10,711 | 2,389 |
| Investing Activities: | | |
| Purchases of property, equipment and software | (5,032) | (10,797) |
| Business acquisition, net | — | (367) |
| Capitalized internal-use software development costs | (8,420) | (9,207) |
| Other investing activities | 424 | 636 |
| Net cash used in investing activities | (13,028) | (19,735) |
| Financing Activities: | | |
| Proceeds from issuance of stock, net of issuance costs | 1,632 | — |
| Proceeds from employee stock plans, net | 1,254 | 3,373 |
| Tax withholdings related to net share settlements of restricted stock units | (1,020) | (974) |
| Repayment of capital lease obligations | (6,409) | (4,337) |
| Proceeds from debt facilities, net of issuance costs | 31,350 | (242) |
| Repayment of debt | (24,000) | (4,500) |
| Net cash provided by (used in) financing activities | 2,807 | (6,680) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (387) | 53 |
| Change in Cash and Cash Equivalents | 103 | (23,973) |
| Cash and Cash Equivalents—Beginning of period | 78,560 | 107,056 |
| Cash and Cash Equivalents—End of period | $78,663 | $83,083 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION: | | |
| Cash paid for income taxes, net of refunds | $449 | $834 |
| Cash paid for interest | 2,876 | 2,930 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Purchases of property, equipment and software recorded in accounts payable and accruals | $556 | $1,664 |
| Property, equipment and software acquired under capital lease obligations | 2,670 | 5,116 |
| Vesting of early exercised options | 64 | 133 |
| Stock-based compensation capitalized in internal-use software costs | 1,881 | 2,018 |

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, California.

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, 2015 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, 2015.

The significant accounting policies and recent accounting pronouncements were described in Note 1 to the Consolidated Financial Statements included in the 2015 Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no significant changes in or updates to the accounting policies since December 31, 2015.

Recently Issued and Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) 842 (“ASC 842”), Leases which replaces the existing guidance in ASC 840, Leases. The amendment is effective for the Company for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The Company is evaluating the impact of the adoption on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09 ("ASU 2016-09"), Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company is currently evaluating the impact of this ASU to its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU 2016-10 ("ASU 2016-10"), Identifying Performance Obligations and Licensing, which provides more detailed guidance on identifying performance obligations and licenses of intellectual property related to the new revenue recognition guidance under ASC 606, Revenue. ASU 2016-10 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company is currently evaluating the impact of this ASU to its consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU 2016-12 ("ASU 2016-12"), Narrow-Scope Improvements and Practical Expedients, which provides clarification on some topics of the new revenue recognition guidance under ASC 606. ASU 2016-12 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company is currently evaluating the impact of this ASU and the adoption of ASC 606 to its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15 ("ASU 2016-15"), Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for public business entities for annual reporting periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this ASU to its consolidated financial statements and related disclosures.

With the exception of the new standards discussed above along with those described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2016 that are of significance or potential significance to the Company.

NOTE 2. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of September 30, 2016 and December 31, 2015, consisted of the following (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Capitalized internal-use software costs | $ 49,135 | $ 38,879 |
| Computer hardware and software | 60,603 | 57,827 |
| Furniture and fixtures | 12,519 | 13,619 |
| Leasehold improvements | 30,146 | 39,956 |
| Total | 152,403 | 150,281 |
| Accumulated depreciation and amortization | (86,972 ) | (67,500 ) |
| Total property, equipment and software, net | $ 65,431 | $ 82,781 |

Refer to Note 4 for details of the Company's capital leases.

The Company capitalized internal-use software development costs of $3.3 million and $4.0 million for the three months ended September 30, 2016 and 2015, respectively, and $10.3 million and $11.6 million for the nine months ended September 30, 2016 and 2015, respectively. Amortization expense of internal-use software costs was $2.9 million and $2.0 million for the three months ended September 30, 2016 and 2015, respectively, and $7.9 million and $5.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Total depreciation and amortization expense related to property, equipment and software, exclusive of the amortization of capitalized internal-use software costs, was $5.6 million and $6.2 million for the three months ended September 30, 2016 and 2015, respectively, and $24.5 million and $18.4 million for the nine months ended September 30, 2016 and 2015, respectively.

In addition, in the three months ended June 30, 2016, the Company recorded impairment and accelerated amortization of leasehold improvements and furniture and fixtures of $8.3 million primarily related to its terminated office lease in New York in connection with its restructuring activities. Refer to Note 5 for details of the Company's restructuring costs.

NOTE 3. BUSINESS COMBINATIONS

Acquisitions in Fiscal Year 2014

On September 5, 2014, the Company acquired X Plus Two Solutions, Inc., a Delaware corporation ("X Plus Two"), which wholly owned X Plus One Solutions, Inc. known in the industry as [x+1] ("[x+1]"). Management believed the acquisition of [x+1] would significantly expand the market opportunity and help accelerate the Company's entry into the digital marketing enterprise software-as-a-service ("SaaS") market. The total purchase consideration was as follows (in thousands):

Purchase consideration:

| | |
|---|---|
| Cash | $98,045 |
| Fair value of 5.3 million shares common stock transferred | 82,421 |
| Total 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 acquiror. 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 as of September 5, 2014, as set forth below. The Company finalized its estimates of fair value for certain of the acquired current assets and liabilities resulting in an adjustment of $2.1 million which was recorded during the three months ended September 30, 2015. The total purchase price was allocated as follows (in thousands):

| | |
|---|---|
| Current assets | $29,853 |
| Non-current assets | 3,999 |
| Current liabilities | (29,354) |
| Non-current liabilities | (16,253) |
| Net acquired tangible assets | (11,755) |
| Identifiable intangible assets | 74,700 |
| Goodwill | 117,521 |
| Total purchase price | $180,466 |

Due to a stock price decline during the third quarter of 2015, the Company's market capitalization declined to a value below the net book value of the Company's equity, triggering the Company to conduct a goodwill impairment test. The outcome of the goodwill impairment test resulted in a non-cash impairment of goodwill of $117.5 million, which was recorded in the third quarter of 2015. Identifiable intangible assets acquired are as follows:

| | | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|---|
| | Estimated Useful Life (in years) | Gross | Accumulated Amortization | Net Book Value | Gross | Accumulated Amortization | Net Book Value |
| Developed technology | 3-4 | $42,100 | $(23,988) | $18,112 | $42,100 | $(15,295) | $26,805 |
| Customer relationships | 7-8 | 27,700 | (7,173) | 20,527 | 27,700 | (4,573) | 23,127 |
| Trademarks | 5 | 2,000 | (2,000) | — | 2,000 | (2,000) | — |
| Non-compete agreements | 2 | 2,900 | (2,900) | — | 2,900 | (1,913) | 987 |
| Total | | $74,700 | (36,061) | 38,639 | $74,700 | $(23,781) | $50,919 |

Total amortization expense related to intangible assets acquired in the business combination with [x+1] was $4.0 million and $5.8 million for the three months ended September 30, 2016 and 2015, respectively, and $12.3 million and $14.3 million for the nine months ended September 30, 2016 and 2015, respectively. During the third quarter of 2015, the Company accelerated the amortization of the trademark assets, recording $1.6 million in amortization expense due to a change of its useful life.

NOTE 4. CAPITAL LEASES

Property, equipment and software includes hardware and software related to our data centers, which are typically acquired under capital lease agreements. The remaining future minimum lease payments under these non-cancelable capital leases as of September 30, 2016 were as follows (in thousands):

| Year ending December 31, | Future Payments |
|---|---|
| 2016 (remaining 3 months) | $ 2,677 |
| 2017 | 8,776 |
| 2018 | 5,280 |
| 2019 | 1,129 |
| 2020 | 84 |
| Total minimum lease payments | $ 17,946 |
| Less: amount representing interest and taxes | (1,228 ) |
| Less: current portion of minimum lease payments | (8,807 ) |
| Capital lease obligations, net of current portion | $ 7,911 |

NOTE 5. RESTRUCTURING COSTS

During the nine months ended September 30, 2016, the Company recorded $1.6 million of restructuring expenses, net of credits, consisting of accelerated amortization and impairment of leasehold and other assets of $8.3 million and $0.4 million of moving costs, primarily related to the termination and sublease of certain office spaces, and severance costs of $1.2 million; partially offset by the release of deferred rent liabilities of $8.3 million related to the aforementioned office spaces. The severance costs were incurred and paid during the nine months ended September 30, 2016.

During the nine months ended September 30, 2015, the Company recorded $6.5 million of restructuring expenses, net of credits, consisting of impairment of leasehold and other assets of $2.7 million and $0.3 million in broker costs related to the sublease of excess office space, and $3.4 million in employee severance costs.

There were no restructuring activities and related charges taken during the three months ended September 30, 2016 and 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"). The 2014 Loan Facility amended and restated the Company's then-existing Amended and Restated Revolving Credit and Term Loan Agreement, dated as of December 20, 2013. Through March 10, 2016, the 2014 Loan Facility provided for an $80.0 million revolving credit facility which matures on December 31, 2017, with a $12.0 million letter of credit sub-facility, a $2.5 million swing-line sub-facility, and a $30.0 million secured term loan that matures on December 31, 2019. Revolving loans could be advanced under the revolving credit 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 exceeded the allowable maximum advance, then the Company was required to make a repayment in an amount sufficient to eliminate the excess.

On March 10, 2016, the Company amended the 2014 Loan Facility and terminated the term loan. The then-remaining balance of the term loan was repaid and refinanced by an additional draw down on the revolving credit facility of $22.5 million. In the amendment, the minimum bank-defined EBITDA covenant and the liquidity ratio covenant were changed. Subsequently, on June 21, 2016, the Company further amended its credit agreement to increase the sublimit of eligible foreign account receivables to $12 million. The credit agreement, as so amended, is referred to in the report as the "2016 Loan Facility". The Company paid customary closing fees in connection with establishing and amending its credit agreement, and pays customary commitment fees and letter of credit fees.

On September 15, 2016, the Company further amended the 2016 Loan Facility. This amendment provides for a floor of zero percent (0%) for certain LIBOR definitions and a change in the timing for measuring whether the Company’s aggregated cash on deposit with the lenders and other domestic financial institutions falls below $40.0 million (calculating our balance on the last day of each month rather than on a continuous rolling basis) for purposes of determining whether the Agent has the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the Company's revolving credit facility.

Under the 2016 Loan Facility, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility if the aggregate cash balances on deposit with the lenders and certain other domestic financial institutions fall below $40.0 million at month-end. The Company may repay revolving loans under the 2016 Loan Facility in whole or in part at any time without premium or penalty, subject to certain conditions.

As of September 30, 2016, $71.5 million under the revolving credit facility and letters of credit in the amount of $5.8 million were outstanding.

Revolving loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 1.625% to 2.125%, or (ii) a LIBOR rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 2.625% to 3.125%. Term loans bore interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 2.50% to 3.00%, or (ii) a LIBOR rate determined pursuant to the terms of the 2016 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 2016 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 2016 Loan Facility, including the following:

Bank-defined EBITDA. The Company is required to maintain specified bank-defined 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 non-recurring 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 2016 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 2016 Loan Facility, the ratio of (i) the sum of all cash and accounts receivable to (ii) the sum of all accounts payable and all indebtedness owing to the lenders under the 2016 Loan Facility must be at least 1.00 to 1.00.

The terms of the 2016 Loan Facility also require the Company to comply with certain other financial and non-financial covenants. As of September 30, 2016, the Company was in compliance with all financial and non-financial covenants. The Company currently anticipates that its results for the period ending December 31, 2016 will likely cause it to fall short of the bank-defined EBITDA covenant for such period, in which case the Company intends to obtain a modification or waiver from the lenders for this covenant. In addition, the Company intends to seek an amendment of certain covenant requirements for fiscal year 2017. The Company has been able to negotiate waivers and amendments with its lender in the past and it expects to be successful in modifying the lending arrangement or obtaining a waiver for the anticipated covenant breach.

If the Company is not able to negotiate a waiver or amendment with the current lenders, it will seek alternative sources of financing from other financial institutions.

As of September 30, 2016, the $71.5 million balance outstanding under the 2016 Loan 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. This debt on the condensed consolidated balance sheets is shown net of $0.4 million in unamortized debt issuance costs.

NOTE 7. STOCKHOLDERS' EQUITY

Registration Statement

On May 10, 2016, the Company filed a shelf registration statement on Form S-3 with the SEC (the "Registration Statement"). The Registration Statement contains (i) a base prospectus that covers the offering, issuance and sale by the Company of up to a maximum aggregate offering price of $50.0 million of the Company's common stock, preferred stock, warrants, debt securities, subscription rights and units and (ii) the base prospectus along with an accompanying sales agreement prospectus supplement covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of $30.0 million of the Company's common stock that may be issued and sold from time to time under an "at-the-market" offering sales agreement with Cantor Fitzgerald & Co. (Cantor). The up to $30.0 million of common stock that may be issued and sold under the "at-the-market" sales agreement prospectus supplement is included in the $50.0 million of securities that may be offered and sold under the base prospectus. The Registration Statement was declared effective in August 2016.

During the three months ended September 30, 2016, the Company issued 697,405 shares through an "at-the-market" offering for a total of $1.4 million in proceeds, net of issuance costs which include 3% of sales commission paid to Cantor or approximately $0.1 million.

Stock Options and Stock Awards

The following table summarizes information pertaining to our stock-based compensation expense 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):

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|
| Stock options: | | |
| Outstanding at the beginning of the period | 5,387 | 6,291 |
| Options granted (1) | 6,654 | 396 |
| Options exercised | (230) | (423) |
| Options canceled and forfeited (1) | (4,056) | (628) |
| Outstanding at the end of the period | 7,755 | 5,636 |
| Total intrinsic value of options exercised | $443 | $2,619 |
| Total unrecognized compensation expense at period-end | $8,725 | $14,997 |
| Weighted-average remaining recognition period at period-end (in years) | 2.4 | 1.9 |
| | | |
| Stock awards: | | |
| Outstanding at the beginning of the period | 3,612 | 2,515 |
| Stock awards granted | 575 | 2,767 |
| Stock awards vested | (897) | (357) |
| Stock awards canceled | (1,064) | (1,032) |
| Outstanding at the end of the period | 2,226 | 3,893 |
| Weighted-average grant-date fair value | $9.67 | $13.28 |
| Total unrecognized compensation expense at period-end | $14,675 | $36,013 |
| Weighted-average remaining recognition period at period-end (in years) | 2.4 | 2.8 |

(1) Includes options canceled and issued in connection with the Company's tender offer to its employees during the three months ended June 30, 2016.

2016 Inducement Equity Incentive Plan

Effective March 4, 2016, the Company's board of directors adopted the 2016 Inducement Equity Incentive Plan (the “2016 Plan”) pursuant to Nasdaq Listing Rule 5635(c)(4) (the "Listing Rule"). The Listing Rule permits a company to adopt a plan without stockholder approval if each grant is made to a new employee of the Company, or an employee returning to the Company after a bona fide period of non-employment, and in each case was offered the grant as a material inducement for the employee to join the Company. The 2016 Plan permits the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to eligible participants.

A total of 2,200,000 shares of common stock were reserved for issuance upon initial adoption of the 2016 Plan. The 2016 Plan has a term of one year from its effective date. The compensation committee of the board of directors has the authority to approve the employees to whom equity awards are granted and to determine the terms of each award, subject to the terms of the 2016 Plan. The compensation committee may determine the number of shares subject to an award. Options and stock appreciation rights granted under the 2016 Plan must have a per share exercise price equal to at least 100% of the fair market value of a share of the Company's common stock as of the date of grant and may not expire later than 10 years from the date of grant.

As of September 30, 2016, 1.6 million shares and 5.7 million shares have been granted under the 2016 Plan and 2013 Plan, respectively.

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. 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 September 30, 2016, total compensation costs, representing the fair value 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, 2016 were approximately $0.6 million, which will be recognized over the offering period.

Effective January 15, 2016, the compensation committee of the Company's board of directors adopted an amendment and restatement of the ESPP that will apply to offering periods beginning on and after June 1, 2016. Pursuant to the amendment, future offering periods will start on the first trading day on or after June 1 and December 1 of each year and terminate on the first trading day or before the May 31 and November 30 that occurs approximately 24 months later. Each twenty-four month offering period will generally have four purchase periods of approximately six months in length, with the first purchase period of an offering period commencing on the date the offering period commences. At the end of each purchase period, employees are able to purchase shares, subject to any plan limitations, 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 purchase period. Offering periods may overlap. However, if the fair market value of the Company's stock has declined between the first date of an offering period and the end of a purchase period, the offering period will terminate on the purchase date that is at the end of that purchase period immediately after the purchase and participants in that offering period will automatically be re-enrolled in the immediately following 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Expected term (years) | 6.25 | 6.3 | 5.5 - 6.25 | 6.3 |
| Volatility | 55.0% | 50.7% - 58.0% | 55.0% | 50.7% - 58.0% |
| Risk-free interest rate | 1.09% - 1.37% | 1.57% - 1.85% | 1.09% - 1.93% | 1.57% - 1.85% |
| 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Expected term (years) | 0.5 | 0.5 | 0.5 | 0.5 |
| Volatility | 63.0% | 73.3% | 63.0% - 65.0% | 73.30% |
| Risk-free interest rate | 0.49% | 0.07% | 0.42% - 0.49% | 0.07% |
| Dividend yield | — | — | — | — |

Stock-based Compensation Allocation

The following table summarizes the allocation of stock-based compensation, net of amounts capitalized for internal-use software development, in the accompanying condensed consolidated statements of operations (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Other cost of revenue | $523 | $465 | $1,546 | $1,567 |
| Research and development | 451 | 1,688 | 2,797 | 5,769 |
| Sales and marketing | 1,011 | 2,478 | 3,857 | 7,634 |
| General and administrative | 1,127 | 1,676 | 3,804 | 5,218 |
| Total | $3,112 | $6,307 | $12,004 | $20,188 |

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 nine months ended September 30, 2016 and 2015, 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(10,735) | $(136,591) | $(48,201) | $(197,864) |
| Weighted-average shares used to compute basic and diluted net loss per share | 44,353 | 42,763 | 44,167 | 42,350 |
| Basic and diluted net loss per share | $(0.24) | $(3.19) | $(1.09) | $(4.67) |
| Common stock equivalents excluded from net loss per diluted share because their effect would have been anti-dilutive | 10,533 | 9,754 | 10,533 | 9,754 |

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 $0.2 million for each of the three months ended September 30, 2016 and 2015, and $0.7 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively, primarily due to foreign and state income taxes.

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 valuation allowances against such domestic assets as of September 30, 2016 and December 31, 2015.

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 and outside of the United States that expire at various dates through 2026.

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 $3.1 million and $3.9 million for the three months ended September 30, 2016 and 2015, respectively, and $11.7 million and $11.9 million for the nine months ended September 30, 2016 and 2015, respectively.

The approximate remaining future minimum cash lease payments under these non-cancelable operating leases as of September 30, 2016 were as follows (in thousands):

| Year ending December 31, | Future Payments |
|---|---|
| 2016 (remaining 3 months) | $ 4,016 |
| 2017 | 16,807 |
| 2018 | 15,511 |
| 2019 | 16,340 |
| 2020 | 7,113 |
| Thereafter | 20,883 |
| | $ 80,670 |

Please refer to Note 4 for details of the Company's capital lease commitments as of September 30, 2016.
Letters of Credit, Bank Guarantees and Restricted Cash—As of September 30, 2016 and December 31, 2015, the Company had irrevocable letters of credit for facilities leases of $5.8 million and $6.0 million, respectively. The letters of credit have various expiration dates, with the latest being March 2023.
As of September 30, 2016 and December 31, 2015, the Company had $2.0 million and $2.3 million, respectively, in cash reserved to support bank guarantees for certain office lease agreements. These amounts are classified as restricted cash and other assets 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 at the time. 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 initial public offering on September 19, 2013 (the "IPO") and the secondary offering on February 5, 2014 (the "Secondary Offering") were 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 alleged 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 alleged 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 purported 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 (the "Exchange Act" claims), and for violations of Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act" claims), 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 the IPO, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint sought monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the court granted in part and denied in part the defendants’ motions to dismiss. The court dismissed the Securities Act claims and all but one of the statements on which the Exchange Act claims were based. The court also dismissed all claims against the outside directors and the underwriters of the Company’s public offerings. We continue 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 the then-current and former officers and the Company’s board of directors at that time. The action is Davydov v. George H. John, et.al, Case No. CIV 53304. The complaint seeks monetary damages in an unspecified amount, restitution, and reform of internal controls. On March 29, 2016, a purported shareholder derivative complaint for breach of fiduciary duty and violation of California corporations code section 25402 was filed in San Francisco, California Superior Court against certain of the Company's current and former officers and certain of the Company's current and former directors. The action is Lunam v. William Ericson, et. al., Case No. CGC-16-551209. The complaint seeks monetary damages in an unspecified amount and reform of internal controls. Both of these state court actions were stayed pending the

resolution of the In re Rocket Fuel, Inc. Derivative Litigation action described above below. We intend to vigorously defend ourselves against these actions.

On October 6, 2015, a purported verified shareholder derivative complaint was filed in the Northern District of California. The action is Victor Veloso v. George H. John et al., Case No. 4:15-cv-04625-PJH. Beginning in January 2016, three substantially similar related cases, Gervat v. Wootton et al., 4:16-cv-00332-PJH, Pack v. John et al., 4:16-cv-00608-EDL, and McCawley v. Wootton et al., Case No. 4:16-cv-00812, also were filed in the Northern District of California on January 21, 2016, February 4, 2016 and February 18, 2016, respectively. The complaints in these related actions were based on substantially the same facts as the In re Rocket Fuel Securities Litigation, and name as defendants the Company’s board of directors at the time of filing and certain then-current and former executives. The four purported verified shareholder derivative complaints were consolidated by the Court in March 2016, and a complaint in the consolidated action, titled In re Rocket Fuel, Inc. Derivative Litigation, Case No. 4:15-cv-4625-PJH, was filed on April 14, 2016. All defendants moved to dismiss the consolidated complaint on May 19, 2016 and on October 6, 2016 In re Rocket Fuel Inc. Derivative Litigation was dismissed with prejudice. Following the dismissal with prejudice, former plaintiffs in In re Rocket Fuel Inc. Derivative Litigation sent us a letter dated October 12, 2016 (the “Shareholder Demand”) demanding that the Board of Directors take action to remedy purported breaches of fiduciary duties allegedly related to the claims asserted in In re Rocket Fuel, Inc. Derivative Litigation which were substantially the same as the asserted claims in In re Rocket Fuel Securities Litigation. The Company acknowledged the Shareholder Demand on October 19, 2016.

We cannot currently estimate a reasonably possible range of loss for these actions. The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to the Company's operating results and cash flows for a particular period.

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| United States | $89,068 | $90,601 | $260,438 | $275,765 |
| All Other Countries [1] | 20,652 | 21,235 | 70,995 | 60,470 |
| Total revenue | $109,720 | $111,836 | $331,433 | $336,235 |

(1) No individual country, other than the United States exceeded 10% of our total revenue for any period presented.

The following table summarizes total carrying values of property, equipment and software, in the respective locations (in thousands):

| | September 30, | December 31, |
|---|---|---|
| | 2016 | 2015 |
| United States | $ 60,228 | $ 77,038 |
| All Other Countries | 5,203 | 5,743 |
| Total property, equipment and software | $ 65,431 | $ 82,781 |

NOTE 12. GOODWILL

Due to a stock price decline during fiscal year 2015, the Company’s market capitalization declined to a value below the net book value of the Company’s equity, triggering the Company to test its goodwill for impairment.

The Company first tested its intangible assets (other than goodwill) and determined that these assets were not impaired.

Goodwill is tested for impairment in a two-step process. The first step is to determine if there is an indication of impairment by comparing the estimated fair value of the reporting unit to its carrying value including goodwill. Goodwill is considered impaired if the reporting unit’s carrying value exceeds its estimated fair value. Upon indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit’s goodwill with the carrying value of the goodwill. Since the Company operates its business in one reporting unit, goodwill is tested for impairment at the enterprise level.

In the first step of the goodwill impairment test, the Company estimated the fair value of its reporting unit using the market approach. Under the market approach, the Company utilized the market capitalization of its publicly-traded shares and comparable company information to determine revenue multiples which were used to determine the fair value of the reporting unit. Based on this approach, the Company determined that there is an indication of impairment as the carrying value including goodwill exceeded the estimated fair value of the reporting unit.

In the second step of the goodwill impairment test the Company estimated the fair value of its assets and liabilities to determine the implied fair value of goodwill, and then compared the implied fair value of the goodwill to its carrying value. The outcome of this second step resulted in a non-cash impairment of goodwill of 117.5 million, which was recorded during the third quarter of fiscal year 2015.

The inputs used to measure the estimated fair value of goodwill are classified as a Level 3 fair value measurement due to the significance of unobservable inputs based on company specific information.

NOTE 13. RELATED PARTY TRANSACTIONS

John J. Lewis served as Global President of Nielsen Holding Plc ("Nielsen") from July 2014 to June 2016 and joined the Board of Directors of Rocket Fuel Inc. on January 19, 2016. Mr. Lewis was also appointed to the Audit Committee of the Board.

Nielsen is one of the Company's data vendors. Total expense recognized for services delivered by Nielsen and its affiliates during the nine months ended September 30, 2016 was $1.0 million. Total accounts payable as of September 30, 2016 were $0.6 million.

NOTE 14. SUBSEQUENT EVENTS

In October 2016, the Company entered into a Lease Termination and Release Agreement (the “Termination Agreement”) with Google Inc. (the “Landlord”) which provides for an early termination, effective as of January 2, 2017, of the Company's headquarter office lease located at 1900 Seaport Boulevard, Redwood City, CA 94063. The lease was previously scheduled to expire on December 31, 2019. Following the termination, the Company will have no further rent obligations to the Landlord . The Company also entered into a new lease agreement in October 2016 and will move its headquarter to 2000 Seaport Boulevard, 4th Floor, Redwood City, CA 94063, effective in January 2017, which is approximately a third of the existing space.

The remaining future minimum cash lease payments under the Company's non-cancelable operating leases as presented in Note 10 decreased by approximately net $16.7 million as a result of these subsequent events.

## 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," "predict," "intend," "could," "should," "would," "project," "plan," "expect," "seek," "foresee," "forecast," or the negative of these words, 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 future financial performance, including revenue and the levels of operating expenses in the areas of research and development, sales and marketing and general and administrative;
- expectations related to financing;
- our expectation that, subject to achieving our operating plans, existing cash and cash equivalents and financing from the 2016 Loan Facility and any capital raises will be sufficient to meet our business requirements for at least the next 12 months;
- expected restructuring costs in 2016;
- the anticipated impact of the growth rates in the real-time advertising exchange market and digital advertising on our future performance;
- our belief that our programmatic marketing platform can enhance digital media buying across any programmatic inventory;
- our goal of gaining a larger share of current customers' budgets and attracting new high-value customers;
- the expected impact on our growth and profitability of focusing on our top 50 and top 250 customers;
- the expected increase in demand for programmatic brand advertising;
- our plans to reduce capital expenditures for property and equipment in 2016 compared to 2015, including our intention to finance data center hardware through capital leasing facilities;
- the impact that our sales strategies and our product mix between our Media Services and Platform Solutions will have on margins, media and other costs of revenue;
- the impact of working capital requirements on our goal of growing our business;
- the expected impact of seasonality on our operating results;
- our expectation that, as our foreign revenues and expenses increase, our operating results may be more affected by fluctuations in the exchange rates of the currencies in which we do business; and
- our intention to vigorously defend against pending securities lawsuits.

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 will occur. Moreover, we assume no responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason, 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, 2015, and (iii) the understanding that our actual results and circumstances may be materially different from our forward-looking statements and/or expectations.

Overview

Rocket Fuel brings the power of machine learning to the world of digital marketing, offering technology and services designed to help advertising agencies and their clients connect with consumers through digital media at moments when that connection is most likely to be influential and most likely to achieve the advertiser's objectives. Our platform autonomously purchases ad spots, or impressions, one at a time, on real-time advertising exchanges to create portfolios of impressions designed to optimize the goals of our advertisers, such as increased sales, heightened brand awareness and decreased cost per customer acquisition.

Our core service offerings are organized around two solutions - a Demand Side Platform (DSP) and a Data Management Platform (DMP) - which can be used independently or together, and can be integrated with a customer's other customer relationship management or marketing platforms. We refer to our DSP alone or our DSP plus DMP solutions as our programmatic marketing platform. We offer our programmatic marketing platform as a managed service, which we operate on behalf of our customers (our "Media Services"), and as a technology solution our customers acquire and operate themselves, or acquire and obtain supporting services from us (our "Platform Solutions").

Core to our ability to connect advertisers and consumers is our artificial intelligence (AI) engine, which consists of big data-driven predictive modeling and automated decision-making components. Our programmatic marketing platform uses a technology enabled by our AI that we call Moment Scoring™, which is designed to consider in a fraction of a second whether a particular advertising opportunity, or impression, is the right time to influence a consumer, based on our platform's real-time scoring - positive or negative - of the likelihood of consumer engagement with the advertising based on relevant attributes.

Our programmatic marketing platform is designed to learn from each advertising message it delivers and apply that learning to future decisions as the advertising campaign is being delivered - a feature we call Marketing that Learns™.

In September 2014, we acquired X Plus Two Solutions, Inc., the parent company of X Plus One Solutions, Inc. ("[x+1]"), a privately held programmatic marketing technology company. Our acquisition of [x+1] allowed us to add important assets to our technology solutions, including our DMP.

Factors Affecting Our Performance

We believe 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 and Availability 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 we address. These markets have grown rapidly in the past several years but are highly dynamic; any acceleration, or slowing, of this growth would affect our overall performance.

The availability of inventory on real-time advertising exchanges and our ability to access this inventory, could also impact our performance as we must optimize our solutions across the display (fundamentally desktop and laptop), mobile, social and video channels. We face different competitive landscapes in mobile, social and video channels. For example, at the beginning of 2015 Facebook eliminated access to the Facebook exchange platform, or "FBX," for some of their partners including us, requiring us to adapt our offering in order to continue to access some of the advertising inventory from Facebook. We adapted our technology offerings to address this change, but our sales efforts were impacted and our Facebook campaigns declined as we shifted to buying Facebook inventory through their APIs. Facebook continued to allow some other companies in our industry to purchase inventory through the FBX platform, which was available through November 1, 2016, and which has likely put us at a competitive disadvantage.

Another potential emerging trend that could impact our future performance is our ability to access inventory, particularly premium inventory through real-time bidding, or "RTB." Our DSP offering primarily relies on having access to RTB exchanges; however, some publishers have begun to remove their advertising inventory from RTB exchanges, notably the FBX restrictions noted above and changes to Google’s YouTube video inventory availability beginning in 2016.

Ability to Compete Effectively to Sell our Media Services and Platform Solutions
We are focused on developing direct response and brand advertising solutions for agencies, advertisers and publishers, available through our Media Services and our Platform Solutions. We believe we can offer a programmatic marketing platform that combines the functionality of our DSP with features of our DMP to enhance digital media buys across any programmatic inventory.

Our programmatic marketing platform offerings compete for digital advertising budgets with a variety of companies, including other companies with DSP offerings, agency trading desks, publishers that sell their inventory directly to agencies and advertisers, 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 data and third-party data. 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.
In July 2014, we announced our Platform Solutions in the United States and Europe, which allow us to compete more directly with companies that offer self-service platform solutions to agencies (as their trading desk solution) and to advertisers. To succeed, we must attract customers to our programmatic marketing platform, and establish relationships with systems integrators and other partners to integrate our functionality into their customers' marketing technology platforms. We must also compete with offerings that are often priced at a substantially lower percentage of media spend than our platform pricing. As we offer Platform Solutions to more customers across the globe, our costs of compliance with policies set by real time advertising exchanges for the use of their exchanges increases as these customers use our programmatic marketing platform to purchase inventory. We also take on risk that customers on our platform violate these policies through the distribution of malware or other policy violations, and those policy violations jeopardize our access to real time advertising exchanges on behalf of our Media Services customers and other Platform Solutions customers. We have terminated relationships with customers whose policy violations have jeopardized our access to real time advertising exchanges.
In addition to challenges created by the emergence of agency trading desks and competing self-service platforms, our insertion order, or "IO,"-based Media Services business has faced increased challenges within some of the major agency holding companies. These challenges include overcoming questions and objections regarding our pricing and related media margins, impression placements and the transparency of our results, and how our technology achieved them. We are focused on addressing these concerns with the major agency holding companies, their agencies and trading desks, and in some cases adjusted our pricing in order to better compete which reduced our media margin.
To expand our reach with advertisers we have a number of sales representatives dedicated to enterprise sales. We are also developing partnerships with marketing software companies, system integrators and direct response agency partners to enhance our ability to gain access to senior level marketing decision makers.
Our customers have many DSP and DMP solutions and technology partners to choose from. In order to increase the adoption of our programmatic marketing platform, we are enhancing its ease of use and working on proving the value of our solutions to agency holding companies, their affiliated operating agencies and advertisers.
Mix of Media Services versus Platform Solutions and Impact on Margins
Our strategy to offer our programmatic marketing platform as a Platform Solution has had, and we expect will continue to have, an impact on our revenue mix and profitability, and we expect our media margins to decline. Media Services agreements, in the form of insertion orders, typically have a term of a few weeks to months, and are most often priced on a cost-per-thousand impressions basis with the media spend optimized by our technology. Platform Solutions agreements, on the other hand, may have longer terms to use the technology at a predetermined percentage of media spend, which may vary based on volume. The media margin in Platform Solutions is typically materially lower than for Media Services. Our strategy to focus on a smaller number of high value customers is also impacting our margins, primarily due to lower rates provided to clients with larger media spend.
In Platform Solutions, our operating costs are higher up front as we train and assist our customers adopting our platform and as they increase the number of campaigns run on it, but we expect such costs to decline over time as our customers learn to use the platform or agree to pay us additional services fees for assistance we provide on a longer term basis. Our success in our Platform Solutions strategy depends upon our ability to train our platform customers

quickly and efficiently, to charge for services required over time, and to increase the number of campaigns these customers run through our platform.

Expanding our Business with Higher Value Customers

In order to achieve sustainable revenue growth, we must retain spend and gain a larger amount of our current customers’ advertising budgets, and attract new, high-value customers. Our strategy is to focus on expanding our business with a smaller set of larger, higher value customers rather than expanding our customer count. Accordingly, a key measure for us is revenue from our top 50 and 250 customers. During the three months ended September 30, 2016, revenue from our top 50 customers was 59% of total revenue, compared to 49% in the third quarter of fiscal year 2015. During the three months ended September 30, 2016, revenue from our top 250 customers was 86% of total revenue, compared to 80% in the third quarter of fiscal year 2015.

We believe that expanding our business with higher value customers is an important indicator of our ability to grow our business and achieve profitability through scale. Our goal is to increase our revenue period-over-period, and to increase the percentage of that revenue represented by these two customer sets.

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 and infrastructure to address the needs of our target markets, including offering our programmatic marketing platform as Media Services and Platform Solutions.

As part of this growth strategy, during 2014, we added sales, marketing, operations and customer support personnel. Our growth strategy also included continuing to invest in research and development to enhance our solutions, integrate our and [x+1]'s technology platforms, improve the self-service capabilities of our platform, and create additional offerings. As a result, as part of these investments in resources and growth, we saw operating expenses increase significantly in absolute dollars and increase as a percent of revenue. In 2015, we focused on streamlining our customer services, research and development, sales and marketing, and general and administrative areas with a goal of reducing the cost of those functions as a percentage of revenue in future periods, while maintaining our ability to service customers. As part of this effort, we reduced our workforce approximately 11% and implemented other cost reduction measures, recording $7.4 million in restructuring charges in fiscal year 2015. We have continued to streamline our operations in 2016, optimizing our use of office space in several locations and recording $1.6 million in net restructuring charges in the nine months ended September 30, 2016, further reducing our overall cost base. However, employee attrition and the resulting influx of new leaders and other employees in 2015 and 2016 have impacted our efficiency across the company as we expend the time and resources necessary to recruit and retain our talent, restructure our organizations, and train new employees.

We have experienced a continuing decline in our revenue growth rate in North America since the third quarter of 2013. In the short term, we expect our revenue to continue to be impacted as we refine our agency and enterprise sales capabilities. Looking ahead, we will focus on achieving revenue growth by focusing our sales efforts on fewer, higher value customers, and by increasing the adoption of our Platform Solutions by agencies and direct customers.

Our capital expenditures for property, equipment and software were $11.5 million during fiscal year 2015 as we completed the majority of our facilities. In the first nine months of fiscal year 2016, we invested $5.0 million into property, equipment and software, and we expect these expenditures to remain below prior year's. To minimize the upfront cash investment required to scale our data centers, we utilize capital leasing facilities, as available, to finance our data center hardware and software needs.

Working Capital

In all of our Media Services business and substantially all of our Platform Solutions business, we make media purchases to run our customers' advertising campaigns. In our industry, agencies and advertisers typically pay more slowly than we are required to make payments to media providers, resulting in payment terms that are approximately one-half of collection times. Our goal is to grow our business, but to do so will require either that we better align our collection and payment terms, obtain additional capital to support this working capital requirement, or develop alternatives to enable our customers to purchase media directly.

Ability to Grow Programmatic Advertising for Video Brand Campaigns

Our DSP solutions are designed to optimize campaigns for direct response and brand advertisers by generating specific consumer responses, and to drive brand awareness.

The digital advertising industry is rapidly adopting programmatic buying for video advertising and programmatic TV, or "pTV," which is dominated by brand campaigns. To measure our success in brand, we categorize and report video and pTV campaigns as brand, and report all non-video or non-pTV campaigns as direct-response. In the third quarter of fiscal year 2016, the revenue split between direct-response and brand was approximately 93% to 7%, compared to 94% to 6% in the third quarter of fiscal year 2015. We expect the demand for programmatic brand advertising to expand in the future, and thus we will continue our strategic focus on this opportunity. Our success in our brand strategy will depend in part upon our ability to further develop models to validate our video campaigns' performance to our customers.

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 be influenced by 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 video and social 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 DMP and DSP offerings and related professional services, which are generally recognized over the term of the performance period.

Costs and Expenses

We classify our expenses into these categories: media costs, other cost of revenue, research and development, sales and marketing, general and administrative, and restructuring expense. Personnel costs for each category of expense other than media costs generally include salaries, bonuses and sales commissions (for sales and marketing only), 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. Through the third quarter 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 Platform Solutions offerings, including our DMP and DSP, and also are successful in structuring large agency trading desk deals, we expect the resulting changes in revenue mix to increase 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 our platform 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 remain at a

similar percentage of total revenue in fiscal 2016 as in fiscal year 2015.

- 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 we will prioritize resources on the most critical projects. Consistent with GAAP, we capitalize a portion of our software development costs, and amortize such costs to Other Costs of Revenue over the useful periods of the projects' lives. In fiscal 2016, we expect research and development expenses (net of amounts capitalized in software development costs) to decrease as a percentage of total revenue from fiscal year 2015 levels.

- 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 solutions to generate awareness; (ii) increasing the adoption of our solutions by existing and new advertisers and agencies. In fiscal year 2016, we expect overall sales and marketing expenses to decrease from fiscal year 2015 levels.
- 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 and fees. In fiscal year 2016, we expect general and administrative expenses to decrease from fiscal year 2015 levels.
- Restructuring expense. Restructuring expense is related to severance payments to employees, exit costs for excess facilities, depreciation or impairments of lease-related assets and the release of deferred rent liabilities related to terminated leases. We expect to incur additional restructuring related expenses (net of gains) as we continue to restructure our facilities in fiscal year 2016.

Other Expense, Net

Interest expense. Interest expense is primarily related to our credit facility 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 Provision (Benefit)

Income tax provision (benefit) consists primarily of income taxes in foreign jurisdictions in which we conduct business. 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 full 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, except loss per share):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated Statements of Operations Data: | | | | |
| Revenue | $109,720 | $111,836 | $331,433 | $336,235 |
| Costs and expenses: | | | | |
| Media cost | 47,092 | 43,673 | 140,573 | 138,389 |
| Other cost of revenue (1) | 22,790 | 20,105 | 63,272 | 59,887 |
| Research and development (1) | 7,913 | 11,022 | 27,990 | 34,136 |
| Sales and marketing (1) | 29,084 | 41,681 | 102,114 | 126,309 |
| General and administrative (1) | 11,912 | 12,328 | 38,998 | 44,663 |
| Impairment of goodwill | — | 117,521 | — | 117,521 |
| Restructuring | — | — | 1,567 | 6,471 |
| Total costs and expenses | 118,791 | 246,330 | 374,514 | 527,376 |
| Operating loss | (9,071) | (134,494) | (43,081) | (191,141) |
| Interest expense | 1,082 | 1,087 | 3,351 | 3,472 |
| Other (income) expense, net | 411 | 797 | 1,083 | 2,309 |
| Loss before income taxes | (10,564) | (136,378) | (47,515) | (196,922) |
| Income tax (benefit) provision | 171 | 213 | 686 | 942 |
| Net loss | $(10,735) | $(136,591) | $(48,201) | $(197,864) |
| | | | | |
| Net loss per share, basic and diluted | $(0.24) | $(3.19) | $(1.09) | $(4.67) |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Other cost of revenue | $523 | $465 | $1,546 | $1,567 |
| Research and development | 451 | 1,688 | 2,797 | 5,769 |
| Sales and marketing | 1,011 | 2,478 | 3,857 | 7,634 |
| General and administrative | 1,127 | 1,676 | 3,804 | 5,218 |
| Total | $3,112 | $6,307 | $12,004 | $20,188 |

| | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Consolidated Statements of Operations Data Percentage of Revenue: * | | | | |
| Revenue | 100 % | 100 % | 100 % | 100 % |
| Costs and expenses: | | | | |
| Media cost | 43 | 39 | 42 | 41 |
| Other cost of revenue | 21 | 18 | 19 | 18 |
| Research and development | 7 | 10 | 8 | 10 |
| Sales and marketing | 27 | 37 | 31 | 38 |
| General and administrative | 11 | 11 | 12 | 13 |
| Impairment of goodwill | — | 105 | — | 35 |
| Restructuring | — | — | — | 2 |
| Total costs and expenses | 108 | 220 | 113 | 157 |
| Operating loss | (8 ) | (120) | (13 ) | (57 ) |
| Interest expense | 1 | 1 | 1 | 1 |
| Other (income) expense, net | — | 1 | — | 1 |
| Loss before income taxes | (10 ) | (122) | (14 ) | (59 ) |
| Income tax (benefit) provision | — | — | — | — |
| Net loss | (10 )% | (122)% | (15 )% | (59 )% |

*Certain figures may not sum due to rounding.

Comparison of the Three and Nine Months Ended September 30, 2016 and 2015

Revenue

| | Three Months Ended September 30, 2016 | 2015 | % Change | Nine Months Ended September 30, 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Revenue | $109,720 | $111,836 | (2 %) | $331,433 | $336,235 | (1 %) |

Revenue decreased 2% during the three months ended September 30, 2016 compared to the three months ended September 30, 2015, due primarily to lower North American agency business, partially offset by higher revenue from our Platform Solutions offerings and outside of North America operations. Media Services represented 81% and 92% of revenue and Platform Solutions was 19% and 8% of revenue for the three months ended September 30, 2016 and 2015, respectively. Revenue from outside North America operations increased for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, from 16% to 17% of revenue.

Revenue slightly decreased during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, due to the same factors mentioned above. Media Services represented 82% and 96% of revenue and Platform Solutions was 18% and 4% of revenue for the nine months ended September 30, 2016 and 2015, respectively. Revenue from outside North America increased for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, from 16% to 19% of revenue.

Media Costs and Other Cost of Revenue

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except headcount and percentages) | | | | | |
| Media costs | $47,092 | $43,673 | 8 % | $140,573 | $138,389 | 2 % |
| Other cost of revenue | $22,790 | $20,105 | 13 % | $63,272 | $59,887 | 6 % |
| Headcount (at period end) | 187 | 141 | 33 % | | | |

Media costs increased by $3.4 million, or 8%, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015 to approximately 43% as a percentage of revenue from 39% of revenue for the three months ended September 30, 2016 and 2015, respectively, partially due to the mix shift from Media Services to Platform Solutions. Our media margin (revenue minus media costs) is substantially lower for our Platform Solutions offerings.

Other cost of revenue increased by $2.7 million, or 13%, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This increase was primarily due to an increase in depreciation and amortization of $1.3 million, which includes capitalized internal-use software, acquired technology intangible assets and other fixed assets and an increase in personnel expense from an increase in headcount. Amortization of capitalized internal-use software was $2.9 million and $2.0 million for the three months ended September 30, 2016 and 2015, respectively.

Media costs increased by $2.2 million, or 2%, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 and was 42% and 41% of revenue for the nine months ended September 30, 2016 and 2015, respectively.

Other cost of revenue increased by $3.4 million, or 6%, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to an increase in depreciation and amortization of $3.0 million, which includes capitalized internal-use software, acquired technology intangible assets, and other fixed assets, and to a lesser extent, an increase of $1.4 million in personnel expense, partially offset by a decrease in data and inventory validation costs of $1.2 million resulting from optimized data usage. Amortization of capitalized internal-use software was $7.9 million and $5.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Research and Development

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except headcount and percentages) | | | | | |
| Research and development | $7,913 | $11,022 | (28 )% | $27,990 | $34,136 | (18 )% |
| Percent of revenue | 7 % | 10 % | | 8 % | 10 % | |
| Headcount (at period end) | 133 | 167 | (20 )% | | | |

Research and development expense decreased by $3.1 million, or 28%, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This decrease was due to a decrease in personnel expense from a reduction in average headcount as we continue to optimize our cost structure to support our business and provide operating leverage.

Research and development expense decreased by $6.1 million, or 18%, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This change was due to a decrease in personnel expense from a reduction in average headcount as described above.

We capitalized internal-use software development costs of $3.3 million and $4.0 million for the three months ended September 30, 2016 and 2015, respectively, and $10.3 million and $11.6 million for the nine months ended September 30, 2016 and 2015, respectively. The change was due to decreased headcount devoted to internal-use software development.

Sales and Marketing

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except headcount and percentages) | | | | | |
| Sales and marketing | $29,084 | $41,681 | (30 )% | $102,114 | $126,309 | (19 )% |
| Percent of revenue | 27 % | 37 % | | 31 % | 38 % | |
| Headcount (at period end) | 397 | 513 | (23 )% | | | |

Sales and marketing expense decreased by $12.6 million, or 30%, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This decrease was primarily due to a decline in average headcount, which decreased personnel expense by $5.9 million, allocated expenses (including depreciation and amortization) by $4.4 million, and travel and marketing related expenses by $1.9 million as we continue to optimize our cost structure to support our business and provide operating leverage.

Sales and marketing expense decreased by $24.2 million, or 19%, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This decrease was primarily due to a decline in average headcount, which decreased personnel expense by $13.1 million, allocated expenses (including depreciation and amortization) by $5.1 million, and travel and marketing related expenses by 5.2 million.

General and Administrative

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except headcount and percentages) | | | | | |
| General and administrative | $11,912 | $12,328 | (3 )% | $38,998 | $44,663 | (13 )% |
| Percent of revenue | 11 % | 11 % | | 12 % | 13 % | |
| Headcount (at period end) | 141 | 141 | — % | | | |

General and administrative expense decreased by $0.4 million, or 3%, during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This decrease was primarily due to lower personnel expenses because of lower stock-based compensation and contractor costs, as we continue to optimize our cost structure to support our business and provide operating leverage.

General and administrative expense decreased by $5.7 million, or 13%, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This decrease was primarily due to decreased personnel expenses by $4.8 million and professional services by $1.5 million, partially offset by increase in bad debt expense.

Restructuring

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except percentages) | | | | | |
| Restructuring charges | $— | $— | 0 % | $1,567 | $6,471 | (76 %) |
| Percent of revenue | —% | —% | | — % | 2 % | |

During the nine months ended September 30, 2016, we recorded $1.6 million of restructuring expenses, net of credits, consisting of accelerated amortization and impairment of leasehold assets of $8.3 million and $0.4 million of moving costs, primarily related to the termination and sublease of certain office spaces, and severance costs of $1.2 million; partially offset by the release of deferred rent liabilities of $8.3 million related to the aforementioned office spaces.

Total workforce declined from 962 at September 30, 2015 to 858 at September 30, 2016, as we continue to manage our workforce with a goal of better operating leverage.

Interest and Other Expense

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | % Change | 2016 | 2015 | % Change |
| | (in thousands, except percentages) | | | | | |
| Interest expense | $1,082 | $1,087 | 0 % | $3,351 | $3,472 | (3 )% |
| Other (income) expense, net | 411 | 797 | (48 )% | 1,083 | 2,309 | (53 )% |
| Total | $1,493 | $1,884 | (21 )% | $4,434 | $5,781 | (23 )% |

The decrease in interest and other expense during the three months ended September 30, 2016 compared to the three months ended September 30, 2015, was primarily due to lower foreign currency losses from less unfavorable exchange rate fluctuations .

Interest and other expense decreased during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to lower foreign currency losses resulting from less unfavorable exchange rate fluctuations in fiscal year 2016 compared to 2015.

Income Tax (Benefit) Provision

We recorded an income tax expense of $0.2 million for each of the three months ended September 30, 2016 and 2015, and $0.7 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively, primarily due to foreign income taxes.

Liquidity and Capital Resources

As of September 30, 2016, we had cash and cash equivalents of $78.7 million (of which $3.4 million was held by our foreign subsidiaries), $71.1 million in debt obligations (net of $0.4 million in debt issuance costs, under the 2016 Loan Facility) and $16.7 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 September 30, 2016.

On December 31, 2014, we entered into the Second Amended and Restated Revolving Credit and Term Loan Agreement with certain lenders, including Comerica Bank, or "Comerica," as administrative agent for the lenders (the "2014 Loan Facility"). The 2014 Loan Facility amended and restated our then-existing Amended and Restated Revolving Credit and Term Loan Agreement, dated December 20, 2013, between us, certain lenders, and Comerica as administrative agent for the lenders. The 2014 Loan Facility provided for a secured $80.0 million three year revolving credit facility, 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. If the borrowing base falls below our outstanding balance under the revolving credit facility, we may not have access to additional borrowing capacity and may have to repay some of the outstanding balance.

In March 2016, we amended the 2014 Loan Facility (the "2016 Loan Facility") and terminated the term loan. On March 11, 2016, the then remaining balance of the term loan was repaid and refinanced by an additional draw down on the revolving credit facility.

In September 2016, we further amended the 2016 Loan Facility. This amendment provides for a floor of zero percent (0%) for certain LIBOR definitions and a change in the timing for measuring whether the Company’s aggregated cash on deposit with the lenders and other domestic financial institutions falls below $40 million (calculating our balance on the last day of each month rather than on a continuous rolling basis) for purposes of determining whether the Agent has the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the Company's revolving credit facility.

The 2016 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 at month-end, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding

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balance of the revolving credit facility. We must comply with a minimum bank-defined EBITDA covenant (Refer to Note 6 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for details), maintain at least $30.0 million of cash on deposit with the lenders and maintain a minimum liquidity ratio. As of September 30, 2016, we were in compliance with all covenants under the 2016 Loan Facility which expires on December 31, 2017. We currently anticipate that our results for the quarter ending December 31, 2016 will likely cause us to fall short of the bank-defined EBITDA covenant for such period, in which case we intend to obtain a modification or waiver from the lenders for this covenant. In addition, we intend to seek an amendment of certain covenant requirements for fiscal year 2017. We have been able to negotiate waivers and amendments with our lender in the past and expect to be successful in obtaining a waiver for the anticipated covenant breach and modifying the lending arrangement.

If we are not able to negotiate a waiver or amendment with our current lenders, we will seek alternative sources of financing from other financial institutions.

As of September 30, 2016, we had $71.5 million of outstanding revolving loans and letters of credit had been issued amounting to $5.8 million under the 2016 Loan Facility. Our intra-quarter cash flows are highly cyclical, and therefore, our intra-quarter cash balances fluctuate and can present significant cash management challenges for us, and potentially trigger our lenders' rights to use future cash collections from accounts receivable directly to reduce our outstanding balance under the revolving credit facility.

In May 2016, we filed a registration statement on Form S-3 covering up to $50.0 million of our common stock and other types of securities. The Registration Statement was declared effective by the SEC in August 2016. We concurrently entered into a sales agreement for "at-the-market" offerings under which we may offer and sell shares of common stock into the market over time. This sales agreement gives us the flexibility to issue shares in the amount of up to $30.0 million. During the three months ended September 30, 2016, we sold 697,405 shares of common stock for $1.4 million in proceeds, net of issuance costs which include 3% of sales commission paid to Cantor or approximately $0.1 million, under this sales agreement.

We believe that, subject to achieving our operating plans, our existing cash and cash equivalents balance, our 2016 Loan Facility, including any future modifications or waivers we plan to obtain, and any potential capital raises will enable us to meet our business requirements for at least the next twelve months. 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 debt service 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 be forced to take additional measures to reduce expenses to offset any shortfall.

There can be no assurances that we will be able to raise additional capital through sales of equity, or through debt financing arrangements, or obtain any desired waivers or amendments of the 2016 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 credit 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):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Consolidated Statements of Cash Flows Data: | | |
| Cash flows provided by operating activities | $10,711 | $2,389 |
| Cash flows used in investing activities | (13,028) | (19,735) |
| Cash flows provided by (used in) financing activities | 2,807 | (6,680) |

| | | |
|---|---|---|
| Effects of exchange rate changes on cash and cash equivalents | (387) | 53 |
| Increase (decrease) in cash and cash equivalents | $103 | $(23,973) |

Operating Activities

Our primary source of cash from operating activities is from the collection of receivables from customer billings. Our primary use of cash in operating activities is for media costs. Cash from operating activities is primarily influenced by the volume of sales to advertising agencies representing advertisers and directly to advertisers, as well as by the amount of cash we invest in personnel and infrastructure. Cash from 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 accounts payable.

Our collection cycles can vary from period to period based on common payment practices employed by advertising agencies. 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. Typically, we expect that during the second and the fourth quarter of each year, our working capital needs may increase due to the seasonality of our business. This increase is driven by the fact that we have to make timely payments to publishers and exchanges, while 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 nine months ended September 30, 2016, cash provided by operating activities was $10.7 million, resulting from a net loss of $48.2 million, offset by non-cash expenses of $60.7 million, which mainly included depreciation, amortization, stock-based compensation expense and accelerated amortization charges related to our terminated office lease in New York. Cash used in operating activities was further affected by the $1.8 million increase in net working capital items, most notably a decrease in accounts receivable of $9.9 million due to the seasonality of advertising campaigns as well as timing of payments from customers and agencies which was more than offset by a decrease in accounts payable of $5.6 million, due to the seasonality of advertising campaigns as well as the timing of our payments to our vendors, a decrease in deferred rent of $6.5 million, and other items.

For the nine months ended September 30, 2015, cash used in operating activities was $2.4 million, resulting from a net loss of $197.9 million, offset by the non-cash goodwill impairment charge of $117.5 million and other non-cash expenses of $62.1 million, which mainly included depreciation, amortization and stock-based compensation expense and deferred taxes. The net loss was further offset by $20.6 million from the positive net change in working capital items, most notably a decrease in accounts receivable of $24.1 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 $9.9 million due to the collection of certain leasehold reimbursements from landlords, partially offset by a decrease in accounts payable of $13.6 million, due to the seasonality of advertising campaigns as well as the timing of our payments to our vendors.

Investing Activities

During the nine months ended September 30, 2016, investing activities primarily consisted of $5.0 million of capital expenditures for facilities, equipment and software and $8.4 million of capitalized internal-use software. We expect that facilities-related cash outflows for the remainder of the year will be lower.

During the nine months ended September 30, 2015, investing activities primarily consisted of $10.8 million of capital expenditures for facilities, equipment and software and $9.2 million of capitalized internal-use software.

Financing Activities

During the nine months ended September 30, 2016, cash provided by financing activities was $2.8 million, consisting of net proceeds from Loan Facility of $7.4 million and from issuance of common stock, including those from employee stock plans, of $1.9 million, offset by $6.4 million in principal payments towards our capital lease obligations.

During the nine months ended September 30, 2015, cash used in financing activities was $6.7 million, consisting primarily of $4.5 million in payments towards our Loan Facility, as well as $4.3 million in principal payments towards our capital lease obligations, partially offset by $2.4 million in net cash proceeds from the issuance of common stock, primarily under the employee stock purchase plan.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of September 30, 2016 or December 31, 2015 as defined in Item 303(a)(4) of Regulation S-K.

Contractual Obligations and Known Future Cash Requirements

Commitments

As of September 30, 2016, our principal commitments consisted of obligations under the 2016 Loan Facility, our operating leases for our offices, and capital lease agreements for computer hardware and software.

The following table summarizes our future minimum payments under these arrangements as of September 30, 2016 (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1–3 Years | 3–5 Years | More Than 5 Years |
| Operating lease obligations | $80,670 | $16,958 | $31,650 | $16,039 | $16,023 |
| Capital lease obligations | 16,718 | 8,807 | 7,712 | 199 | — |
| Revolving credit facility (1) | 71,500 | — | 71,500 | — | — |
| Total minimum payments | $168,888 | $25,765 | $110,862 | $16,238 | $16,023 |

(1) Accrues interest, at our option, at (i) a base rate determined in accordance with the 2016 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 3.40%, as of September 30, 2016, 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 generally accepted accounting principles in the United States, or "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 2015 Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no changes or updates to our critical accounting policies since the end of fiscal year 2015.

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.

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). A hypothetical decrease in all foreign currencies against the US dollar of 10 percent, would result in a foreign currency loss of approximately $3.0 million on foreign-denominated balances, excluding our intercompany loans with our subsidiaries, at September 30, 2016. 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" (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act)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 SEC. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decision regarding required disclosure.
Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of September 30, 2016, 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 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 third quarter of 2016 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 at the time. 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 initial public offering on September 19, 2013, or the "IPO," and the secondary offering on February 5, 2014, or the "Secondary Offering," were 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 alleged that the defendants made false and misleading statements about the ability of our technology to detect and eliminate fraudulent web traffic, and about our future prospects. The consolidated complaint also alleged that our registration statements and prospectuses for the IPO and the Secondary Offering contained false and misleading statements on these topics. The consolidated complaint purported to assert claims for violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 (the "Exchange Act claims"), and for violations of Sections 11 and 15 of the Securities Act (the "Securities Act claims"), on behalf of those who purchased the our common stock between September 20, 2013 and August 5, 2014, inclusive, as well as those who purchased common stock in the IPO, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint sought monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the court granted in part and denied in part the defendants' motions to dismiss. The court dismissed the Securities Act claims and all but one of the statements on which the Exchange Act claims were based. The court also dismissed all claims against the outside directors and the underwriters of the public offerings. We continue 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 then-current and former officers and our board of directors at that time. The action is Davydov v. George H. John, et.al, Case No. CIV 53304. The complaint seeks monetary damages in an unspecified amount, restitution, and reform of internal controls.

On March 29, 2016, a purported shareholder derivative complaint for breach of fiduciary duty and violation of California corporations code section 25402 was filed in San Francisco, California Superior Court against certain of the Company's current and former officers and certain of the Company's current and former directors. The action is Lunam v. William Ericson, et. al., Case No. CGC-16-551209. The complaint seeks monetary damages in an unspecified amount and reform of internal controls. Both of these state court actions were stayed pending the resolution of the In re Rocket Fuel, Inc. Derivative Litigation action described below. We intend to vigorously defend ourselves against these actions.

On October 6, 2015, a purported verified shareholder derivative complaint was filed in the Northern District of California. The action is Victor Veloso v. George H. John et al., Case No. 4:15-cv-04625-PJH. Beginning in January 2016, three substantially similar related cases, Gervat v. Wootton et al., 4:16-cv-00332-PJH, Pack v. John et al., 4:16-cv-00608-EDL, and McCawley v. Wootton et al., Case No. 4:16-cv-00812, also were filed in the Northern District of California on January 21, 2016, February 4, 2016 and February 18, 2016, respectively. The complaints in these related actions were based on substantially the same facts as the In re Rocket Fuel Securities Litigation, and name as defendants the Company's board of directors at the time of filing and certain then-current and former executives. The four purported verified shareholder derivative complaints were consolidated by the Court in March 2016, and a complaint in the consolidated action, titled In re Rocket Fuel, Inc. Derivative Litigation, Case No. 4:15-cv-4625-PJH, was filed on April 14, 2016. All defendants moved to dismiss the consolidated complaint on May 19, 2016 and on October 6, 2016 In re Rocket Fuel Inc. Derivative Litigation was dismissed with prejudice. Following the dismissal with prejudice, former plaintiffs in In re Rocket Fuel Inc. Derivative Litigation sent us a letter dated October 12, 2016 (the "Shareholder Demand") demanding that the Board of Directors take action to remedy purported breaches of fiduciary duties allegedly related to the claims asserted in In re Rocket Fuel, Inc. Derivative Litigation which were substantially the same as the asserted claims in In re Rocket Fuel Securities Litigation. The Company

acknowledged the Shareholder Demand on October 19, 2016.
The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period.
Legal fees are expensed 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 revenue 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 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 advertisers and advertising agency customers; and developing new offerings, either internally or through acquisitions.

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

- develop, offer, sell 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;
- 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 customers, including user interface development, user documentation and ongoing customer support and maintenance;
- effectively execute on cost-cutting and other operating efficiency initiatives in order 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;
- expand our business internationally; and
- obtain additional funding.

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. We have only a few longer term contracts, and we book, bill and recognize a substantial portion of our revenue on a month-to-month basis; both factors make our business less predictable. Our fluctuating results have in the past and could in the future 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 for predicting our future operating results. Factors that may increase the volatility of our operating results include the following:

- the addition or loss of customers;
- changes in demand and pricing for our solutions;
- changes in our revenue mix and shifts in media margins related to changes in our sales strategies or product mix that impact our profitability;
- the unpredictable nature of agency relationships;
- 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 that we require;
- 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 customers;
- changes in the economic prospects of our customers or the economy generally, which could alter current or prospective customers’ spending priorities, or could increase the time or costs required to complete sales to customers;
- changes in the availability of advertising inventory through real-time advertising exchanges, or in the cost to reach end consumers through digital advertising;
- the rate of our investment in people and related infrastructure;
- the extent to which we expand operations outside of North America;
- changes in our capital expenditures and/or lease obligations as we acquire the computer hardware, equipment, facilities and other assets required to support our business; 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 has declined substantially since our IPO."

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 own estimates or the expectations of investors and analysts. Furthermore, our projected results may from time to time fall below our initial estimates or the expectations of investors and analysts. These situations have occurred several times since we became a public company and resulted in substantial declines in our stock price. See “Risks Related to the Securities Markets and Ownership of our Common Stock—We have failed in the past, and may fail in the future, to meet our publicly announced guidance or other expectations about our business and future operating results. Such past failures have caused, and future failures would likely cause, our stock price to decline,” below.

Our credit 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 credit 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. (See Note 6 of the unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a detailed description of this agreement.) Our credit 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 credit agreement requires us to comply with minimum bank-defined EBITDA (as defined in Note 6 of our unaudited Condensed Consolidated Financial Statements in Part I, Section 1 of this Quarterly Report on Form 10-Q) 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 credit 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 and ultimately have a material adverse effect on our business. 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 lenders will waive such violations in the future. We currently anticipate falling short of the bank-defined EBITDA covenant for the quarter ending December 31, 2016. 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 credit agreement. Future defaults, if not waived, could cause all of the outstanding indebtedness under our credit 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 ongoing operations and 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 may require additional capital to support operational needs, business growth and to respond to business challenges, including the management of intra-quarter cash flow cyclicality, the need to develop new features or enhance our platform, improve our operating infrastructure or acquire complementary businesses and technologies. In implementing our business strategy, we may decide to, or need to, engage in public or private equity, equity-linked or debt financings to secure additional funds to strengthen our balance sheet, and support our business plans through the end of this year and into 2017. Our failure to obtain capital when needed could limit our operational flexibility and force us to delay, reduce or eliminate our growth plans and technology development.
We may raise funds in equity or debt financings or enter into credit facilities in order to access funds for our capital needs. We cannot be certain that additional capital will be available to us as needed on acceptable terms, or at all. Our 2016 Loan Facility expires in December 2017. While we intend to seek an extension of the bank credit beyond December 2017, we may not be able to secure additional financing from lenders on favorable terms, or at all, to meet our future capital needs.

On May 10, 2016, we filed an S-3 registration statement, supplemental prospectus, and entered into a sales agreement for "at-the-market" offerings enabling us to sell common shares into the market over time. 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 complete equity or debt offerings on terms favorable to us, if at all. If we are unable to obtain capital on terms satisfactory to us when we require it, our ability to support business growth and respond to business challenges could be significantly impaired, and our business could be adversely affected.
We have a history of losses and may not achieve or sustain profitability in the future.
We incurred net losses of $210.5 million, $64.3 million and $20.9 million for the years ended December 31, 2015, 2014 and 2013, respectively and a net loss of $(10.7) million for the three months ended September 30, 2016. As of September 30, 2016, we had an accumulated deficit of $367.5 million. We may not achieve profitability in the foreseeable future, if at all. For example, in 2015 our operating expenses increased more rapidly than our revenue primarily due to non-cash goodwill impairment and amortization and depreciation charges, as well as restructuring expenses related to our reduction in force in April 2015 and corresponding adjustments to physical facilities. Our operating expenses are largely based on personnel and facilities, and are relatively fixed in the short term. Hence, our operating expenses increased more rapidly than our revenue in 2014, primarily due to a shortfall in our revenue compared to our forecasts combined with substantial continued investments we were making 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 sell Platform Solutions in addition to Media Services. Some of these sales may result in the deferral of platform revenues over the term of the subscription. However, our sales costs, including commissions on such sales, will generally be incurred up front, which could result in additional losses as we ramp this business, even though the aggregate revenues from such activities exceed the associated aggregate costs of acquiring and providing such services over the full course of the term. In addition, Platform Solutions arrangements typically have lower margins compared to Media Services arrangements. Our strategy to focus on a smaller number of high value customers is also impacting our margins. Our Media Services agreements vary and we have entered into agreements with lower media margins with our larger Media Services customers. As a result of these developments, we expect our margins to continue to decline.
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. Our bank covenants require us to improve our bank-defined EBITDA (as defined in Note 6 of our unaudited Condensed Consolidated Financial Statements in Part I, Section 1 of this Quarterly Report on Form 10-Q) results materially over the course of fiscal year 2016. If we fail to achieve such improvements, the banks could revoke our loans. Any future losses will continue to impair our liquidity, which could ultimately cause us to become insolvent. Furthermore, our goal to grow our business will require either that we improve our working capital management, by better aligning the time it takes to collect on customer invoices with our vendor payment terms, which are typically shorter, or obtain additional capital to support this working capital requirement. In July and August 2016, we increased our borrowing under the 2016 Loan Facility to

$71.5 million fully utilizing the full borrowing capacity available to us under the 2016 Loan Facility. Our intra-quarter cash flows are highly cyclical, and therefore, our intra-quarter cash balances fluctuate and can present significant cash management challenges for us. We cannot provide assurance that we will be successful in addressing these and other challenges we may face in the future.

We have experienced a slowing rate of revenue growth since the third quarter of 2013. During the third quarter of 2015, revenue declined compared to the second quarter of 2015; during the fourth quarter of 2015, revenue declined compared to the fourth quarter of 2014; and during the third quarter and the first nine months of 2016, revenue declined compared to the third quarter and first nine months of 2015. Our revenue growth will continue to suffer if we do not improve our capabilities to attract key former and potential customers, retain our customers and sell more solutions to these customers.

In the short term, we expect our revenue growth to continue to be impacted as we continue building our enterprise sales capabilities and as we continue to hire new sales personnel, including senior sales leaders, who require time to become productive. To sustain or increase our revenue longer-term, we must add and retain new customers and encourage longer-term customers to purchase additional offerings from us, including our newer enterprise solutions. In 2016, we focused our sales and customer service personnel on attracting new high-value customers and on expanding our relationships with our largest existing customers, with a focus on increasing revenue from our top 50 and 250 customers. 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 has been and could continue to be challenged. Some advertisers that are repeat users of our Media Services have increased their spending 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 or have already reached 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 fluctuations in average customer spend, as well as the loss of, or decline in spend by, some of our larger customers. If we are unable to reverse this trend, continue to attract more new high value customers and obtain additional business from existing customers, our revenue and operating results will continue to be adversely affected.

Our ability to slow or reverse this declining rate of revenue 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. Since 2014, we have been experiencing declines in revenue from some customers that directed more spend through agency trading desks that did not use our Media Services. Our ability to compete successfully and return to consistent revenue growth will depend in part on our ability to identify opportunities to work collaboratively with agencies and agency trading desks. Even where advertising agencies choose to use or continue using our solutions, they may choose to use our Platform Solutions for their advertiser clients at a lower margin than our Media Services.
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 the 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, in the past, 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 solutions, 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, MSN and The Rubicon Project. 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. Furthermore, these portals may not offer some of their premium, or even all of their inventory, for sale, but instead, use it in their own captive advertising activities. 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, broadcast 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.

Any expense reduction initiatives that we have undertaken or may undertake may not deliver the expected results and these initiatives 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. In April 2015 we committed to a plan intended to improve our operational efficiency. This plan included a reduction of approximately 11% of our workforce that was completed during the second quarter of 2015, and other cost reduction measures that extended throughout 2015. As we have taken and continue to take actions to better align our operating expenses with our revenue, manage our costs better, and more efficiently manage our business, such actions have resulted and could result in disruptions to our operations and our workforce, and adversely affect our business. In particular, higher voluntary attrition, and the resulting influx of new leaders and other employees, has impacted our efficiency across the company as we expend the time and resources necessary to recruit and retain talent, restructure our organizations, and train new employees.

Expense reduction and greater operational efficiency continue to be priorities in 2016. To effectively manage our business and operations with fewer employees, we have spent and may need to continue spending 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 and effectively support our customers; and
- enhancing our internal controls to ensure timely, accurate and highly efficient billing processes.

These enhancements and improvements have required and will continue to 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. 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 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 market for our Platform Solutions is relatively new, and if we are not recognized as a technology company that can deliver effective, reliable and secure platform 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 our Platform Solutions for enterprise clients and agencies, we must develop new skills that are critical to delivering such offerings, and invest significantly in training employees to support a the business model and the long term enterprise client relationships that we want to maintain and further develop. 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 enterprise 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 platform. In addition, we must have skilled sales and customer service employees that are capable of working with clients to assess their use of our platform. 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 platform offerings, including the use of our technology for purchasing digital media for advertising and implementing marketing campaigns. 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.

Because the sales cycle for enterprise 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 these solutions will be a profitable business for us. If we do not develop and maintain a good reputation as an enterprise solutions provider, and we are not successful in generating revenue from these solutions and the resulting enterprise client relationships, then we may not recoup our investments in the these solutions, and our results of operations will be harmed.

We must continue to invest significant time and resources to develop successful strategies for marketing and selling our programmatic marketing platform, and to train our marketing and sales personnel on these strategies.

Our programmatic marketing platform, which combines our DSP and DMP solutions into a single platform, is a new offering for us that we have developed since we acquired [x+1] and its DMP in September 2014. Our ability to achieve success with this combined platform depends to a great extent on our ability to develop appropriate marketing and sales strategies, which are different from the strategies that our marketing and sales personnel rely on for our other offerings. We must continue to invest time and resources to further refine them and to provide additional training to marketing and sales personnel. If we fail to develop and implement successful marketing and sales strategies for our programmatic marketing platform, our revenue will be adversely impacted.

If we do not manage our information technology systems and infrastructure 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.

We rely heavily on information technology, or "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 going forward and, in particular, to avoid service interruptions, security breaches and slower system performance for our enterprise solutions. We also depend on IT systems to help us manage essential functions such as revenue recognition, budgeting, forecasting, financial reporting, invoicing, collections 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 on our systems, processes and security protocols, and if we fail to appropriately coordinate across our functional groups and offices. If we do not adapt to meet the evolving challenges or our business, and if we do not effectively and efficiently scale our operations to support our business, then the quality of our solutions may suffer, our IT systems and infrastructure may be more prone to security breaches and service interruptions, and relationships with our customers may be harmed, which, in turn, could have an adverse impact on our financial condition and results of operations.

Our future success depends on the continuing efforts of our executive team, senior managers and other key employees, and on our ability to recruit, hire, train, motivate and retain additional employees at all levels of our workforce.

We promoted E. Randolph Wootton III from chief revenue officer for North America to chief executive officer, or "CEO," in November 2015. Stephen Snyder is expected to join the Company as chief financial officer, "CFO," in November 2016. We also hired additional senior leaders in 2015 and the first nine months of 2016 including a chief revenue officer, a chief marketing officer, a chief customer officer, managing director of international operations, senior vice president of engineering, and other sales and business development roles. Our future success depends upon us successfully integrating these leaders into their new roles, as well as our ability to attract and retain additional management team members and other highly skilled employees, including software engineers, analytics and operations employees and sales professionals.

Over the past year we have experienced significant turnover within our executive team. George John, co-founder and former CEO and chairman of our board of directors, David Sankaran, CFO, and Abhinav Gupta, our former vice president of engineering, left the company in the fourth quarter of 2015. Dominic Trigg, our senior vice president and general manager, EMEA, resigned as an employee in March 2016. Manu Thapar, our senior vice president of research and development, left the Company in April 2016. Rex S. Jackson, CFO, left the Company in October 2016. Since November 2014, we have hired several senior executives as well as others in senior leadership roles. We have open positions on our senior leadership teams and throughout the Company for which we are seeking qualified applicants, and we have made organizational changes in many functions, including sales and engineering. Our future success depends on the swift and effective integration of all new executives and other employees into our business operations and company culture. None of our executives 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, where we face significant competition for talent from large technology companies such as Google, Facebook and LinkedIn. 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 marketing and sales efforts have required significant investments, which may not yield returns in the foreseeable future, if at all.

We have invested significant resources in our marketing and sales teams to educate the marketplace about the value of our solutions and to sell the solutions to prospective advertisers and advertising agencies. We evolved our marketing strategy in 2015 to place more emphasis on our comprehensive programmatic marketing platform and our Moment-Scoring technology. On the sales side, 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 the market perception of our solutions and on 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. In order to support our sales teams more effectively in an extremely competitive environment, our marketing efforts must continue to 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 marketing and sales organizations.

If we do not effectively train and provide tools and technology to support our sales, 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, customer service and operations teams 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 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 direct response and brand offerings and 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. We 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.

Our liquidity could be adversely impacted by adverse conditions in the financial markets.
As of September 30, 2016, we had $78.7 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.
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 will cause material fluctuations on our quarterly operating results and cash flows.
Our revenue, operating results, and other key operating and performance metrics 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, or potentially unfavorable "Do Not Track" standards or government regulations are created, 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 device 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. We use these cookies for reasons such as 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 devices at any time. In addition, the Safari browser blocks third party cookies by default, and other publishers of other browsers may choose to modify their software defaults in this way in the future. Unless such default settings in browsers are altered by Internet users, we will be able to set fewer of our cookies on users' devices, which could adversely affect our business. In addition, companies such as Google have publicly disclosed their intention to move away from cookies to other forms of persistent, unique identifiers, or IDs, to indicate Internet users in the bidding process on advertising exchanges. This could have a negative impact on our ability to locate the same anonymous user across different web properties, and reduce the effectiveness of our solution.
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 history 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 and may not be required to adhere to the same Do Not Track policy standard that we must adhere to, 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 2015" was introduced in the United States Senate in December 2015. In October 2016, the European Commission suggested that a "Do Not Track" setting could provide a method for regulatory compliance in the European Union. 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



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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.
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 General Data Protection Regulation, which was ratified in December 2015 and adopted by the Council of Europe and the European Parliament in April 2016, is being readied for implementation in the European Union. The General Data Protection Regulation is an EU-wide regulation, which would be enforced in all member states, that could restrict how data is collected in the EU, what type of user consent must be obtained prior to data collection, and other rules related to the collection, storage and usage of data gathered from EU citizens. 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.
Ad blocking technology can limit our access to advertising inventory and our ability to reach the intended recipients of the ads we serve. If the use of ad-blocking technology becomes more prevalent, the performance of our campaigns could decline, we could lose advertisers, and our revenue, costs and other results of operations could be negatively impacted.

In order to serve advertisements to consumers on behalf of our customers, we require access to digital inventory. Some consumers download and use "ad-blocking" software, which can prevent web browsers (for example, Firefox, Google Chrome and others) from interacting with or downloading advertising, or that can prevent ads from being displayed once the advertising is served. If the use of ad blocking software and technology becomes more prevalent, it could hamper our ability to optimally serve advertisements for marketing campaigns, and our business could be harmed. In addition, it could limit the amount of free, advertising-supported content available to consumers online, or otherwise restrict our access to available inventory and could drive up the price of available inventory, which could increase the media costs we pay. Also, some companies that distribute ad blocking software make money by charging companies like ours a fee to serve advertising to consumers that have installed their "ad blocking" software. We currently do not pay fees to such companies because we do not consider those consumers receptive to advertising; however, if we did pay such fees, our costs would increase. An increase in media costs would affect our total operating cost and margins and ultimately our results of operations. Finally, the mere existence of ad blockers, regardless of their effectiveness, may generate concern regarding the health of the digital advertising industry, which could impact the value of companies in the industry generally.

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 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 (although we moved to a reseller model in Brazil in 2016). 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, would harm our business, growth prospects, financial condition and results of operations.

Historically, our customers have predominantly purchased our solution for display advertising. We expect that display advertising will continue to be a significant channel used by our customers. Should our customers lose confidence in the value or effectiveness of display advertising, the demand for our display solution could decline.

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, advertising exchanges, or other suppliers. Any 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 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, advertising exchanges and other suppliers, regarding our security policies and practices, and often are subject to their terms and conditions. If we do not adequately implement and enforce these security policies to the satisfaction of our customers, advertising exchanges or other business partners, this could result in a loss of customer or supplier 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; or the introduction of computer viruses or malware into our systems. 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, or the distribution of malicious software. 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 and other business partners, 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 commercially reasonable measures to prevent advertisers’ advertisements from appearing on undesirable websites or on certain websites that they identify, and we use a combination of proprietary technology and third-party services to help us meet those commitments. We use third party technology, and our own proprietary technology, to detect suspected invalid 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 fraud and 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 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 media 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, and we purchase inventory subject to their terms and conditions. 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 and other digital advertising suppliers 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 and other advertising inventory, or if real-time advertising exchanges or other suppliers decide not to make their advertising inventory available to us for violations of their terms and conditions or otherwise, 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. In 2015 Facebook eliminated our access to the Facebook exchange platform, or FBX. This required us to adapt our offering in order to continue to access advertising inventory from Facebook but our access does not appear to be as effective as direct access to FBX. Google also announced changes to YouTube video inventory availability beginning in 2016 that eliminated our access to video inventory on YouTube through real-time bidding exchanges.

We may not win the right to deliver advertising from 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, brand and reputation, 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 APIs. 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 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. Precise location data, gathered from mobile devices, is one important factor in running successful mobile advertising campaigns for our advertisers. If the rules for how precise location is gathered and used change, it could adversely affect our ability to optimize mobile advertising campaigns for our advertisers.

Certain self-regulatory organizations of which we are a part released mobile-specific privacy principles that became effective in September 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 thousands of 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 platforms cannot scale to meet demand, or if there are errors in our execution of any of these functions on our platforms, 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 platforms. 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. In addition, many of our customers use third-party services to measure campaign results, such as ad delivery, viewability, and fraud detection, and the accuracy of these services may differ. There may be discrepancies between our measurements and the measurements of these third parties which make it challenging for us to deliver on our advertisers' goals as measured in these different ways. 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 the need for advertiser "make-goods," the standard credits given to advertisers for campaigns that have not been delivered properly. These campaign measurement issues add complexity, cost, and risks associated with performance and quality to some of the campaigns we deliver. 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, 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 business prospects depend, 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 business 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 impairment or prevention of 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 and the Digital Advertising Alliance of Canada in Canada. 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 history. We also offer Internet users the ability to opt out of receiving interest-based advertisements based on historical data that we have collected. 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, continuous growth in our employee base. However, in April 2015 we announced a reduction in force affecting approximately 11% of our employee base. We had 858 employees (667 in the United States and 191 employees overseas) as of September 30, 2016, compared with 962 employees (799 and 163 employees in the United States and overseas, respectively), as of September 30, 2015. Both rapid growth and layoffs can make it difficult to effectively maintain our corporate culture. We believe our corporate culture has been a critical component of our success as we believe it fosters innovation, teamwork, and focus on customers and execution, while facilitating knowledge sharing across our organization. As we change, we may find it difficult to preserve our corporate culture, which could reduce our ability to innovate and operate effectively. In turn, the failure to preserve our culture could negatively affect our ability to attract, recruit, integrate and retain employees and effectively execute our business strategy.

We rely predominately on advertising agencies to purchase our solution on behalf of advertisers, and we incur the cost of an advertising campaign before we bill for services. Such agencies may have or develop high-risk credit profiles, which may result in credit risk to us.

We must consider the effect of credit risk in transactions with agencies or other third parties and advertisers. A substantial portion of our business is sourced through advertising agencies, and we contract with these agencies as an agent for a disclosed principal, which is the advertiser. Typically, the advertising agency pays for our services once it has received payment from the advertiser for our services. 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. Contracting with these agencies, which in certain cases have or may develop high-risk credit profiles, subjects us to greater credit risk than where we contract with advertisers directly. This credit risk may vary depending on the nature of an advertising agency’s aggregated advertiser base. As of September 30, 2016, two agency holding companies, accounted for 10% of more of accounts receivable. There can be no assurances that we will not experience additional bad debt expense in the future. Any such write-offs for bad debt could have a materially negative effect on our results of operations for the periods in which the write-offs occur. Even if we are not paid, we are still obligated to pay for the media we have purchased for the advertising campaign, and as a consequence, our results of operations and financial condition could be adversely impacted.

Fluctuations in the exchange rates of foreign currencies have resulted in, and could in the future result in currency transaction losses that negatively impact our financial results.

We currently have foreign sales primarily denominated in British pounds, euros, Japanese yen and Canadian dollars and may, in the future, have sales denominated in the currencies of additional countries in which we establish or have established sales offices. In addition, we incur a portion of our operating expenses in British pounds, euros, Canadian dollars and Hong Kong dollars. We expect international sales to become an increasingly important part of our business. Any adverse fluctuation in the exchange rates of these foreign currencies could negatively impact our business, financial condition and results of operations. We have not previously engaged in foreign currency hedging. If we decide to attempt to hedge our foreign currency exposure, we may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide us from foreign currency fluctuations and can themselves result in losses. The recent appreciation of the U.S. dollar has caused a decline in the U.S. dollar value of revenue billed in foreign currencies, and we expect this negative impact on revenue and net loss may continue.

Legislation and regulation of online businesses, including privacy and data protection regimes, could create unexpected costs, subject us to enforcement actions for compliance failures, or cause us to change our technology platform or business model, which could have a material adverse effect on our business.

Government regulation could increase the costs of doing business online. U.S. and foreign governments have enacted or are considering legislation related to online advertising and we expect to see an increase in legislation and regulation related to advertising online, the use of geo-location data to inform advertising, the collection and use of anonymous Internet user data and unique device identifiers, such as IP address or unique mobile device identifiers, and other data protection and privacy regulation. Recent revelations about bulk online data collection by the National Security Agency, and news articles suggesting that the National Security Agency may gather data from cookies placed by Internet advertisers to deliver interest-based advertising, may further interest governments in legislation regulating data collection by commercial entities, such as advertisers and publishers and technology companies that serve the advertising industry. Such legislation could affect the costs of doing business online, and could reduce the demand for our solutions or otherwise harm our business, financial condition and results of operations. For example, a wide variety of provincial, state, national and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. While we have not collected data that is traditionally

considered personal data, such as name, email address, address, phone numbers, social security numbers, credit card numbers, financial or health data, we typically do collect and store IP addresses and other device identifiers, that are or may be considered personal data in some jurisdictions or otherwise may be the subject of legislation or regulation. Evolving and changing definitions of personal data, within the EU, the United States and elsewhere, especially relating to classification of IP addresses, machine or device identifiers, pseudonymous identifiers, location data and other information, have in the past and could in the future, cause us to change our business practices, or limit or inhibit our ability to operate or expand our business. Data protection and privacy-related laws and regulations are evolving and could result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. The referendum held in June 2016 by the United Kingdom in which voters approved an exit from the European Union, commonly referred to as “Brexit,” could also lead to further legislative and regulatory changes. We use anonymous and pseudonymous data to buy media for, target and effectively optimize our clients' marketing campaigns. We do not knowingly collect personally identifiable information (PII), allow our clients to send us PII or store PII in our platform. It is possible that the definition of PII that government regulatory bodies operate under may be modified or expanded in markets where we does business. If this occurs, and if we can no longer collect or use specific types of data in markets where we previously had access to it, the performance of our clients' marketing campaigns may suffer and our ability to efficiently and cost-effectively purchase media may be adversely affected. These possible changes could impact revenue and other results of operations.
We must comply with government laws and regulations regarding the collection and use of certain kinds and classifications of data, such as the Children's Online Privacy Protection Act and the Health Insurance Portability and Accountability Act. Failure to comply with such government regulations could result in fines, penalties and negative press for us.

While we take measures to protect the security of information that we collect, use and disclose in the operation of our business, and to offer certain privacy protections with respect to that information, our measures may not always be effective. In addition, while we take steps to avoid collecting personally identifiable information about consumers, we may inadvertently receive this information from advertisers or advertising agencies or through the process of delivering advertising. Our failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement action against us, including fines, imprisonment of our officers and public censure, claims for damages by consumers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse impact on our business, financial condition and results of operations. Even the perception of privacy concerns, whether or not valid, could harm our reputation and inhibit adoption of our solutions by current and future advertisers and advertising agencies.
In 2016, the Department of Commerce and the European Union completed the negotiation of the "Privacy Shield" framework, which allows US-based companies to transfer personal data about European citizens from the EU to the United States, after the US-based company has certified compliance with the "Privacy Shield" framework with the US Department of Commerce. This "Privacy Shield" framework replaces a previous framework, which was called "Safe Harbor". When companies certify that they are compliant with "Privacy Shield", they are reporting that they comply with specific obligations and practices detailed in the framework. We are a "Privacy Shield" certified company. If it were to be determined that we were not complying with our obligations under the "Privacy Shield" framework, and we lost our "Privacy Shield" certification from the Department of Commerce, it could result in a reluctance for clients to do business with us, or the loss of existing business.

Our proprietary rights may be difficult to enforce. This could enable others to copy or use aspects of our solution without compensating us, which could erode our competitive advantages and harm our business.
Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop under the intellectual property laws of the United States, so that we can prevent others from using our inventions and proprietary information. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business could be adversely affected. We rely on trademark, copyright, trade secret and patent

laws, confidentiality procedures and contractual provisions to protect our proprietary methods and technologies. Our patent strategy is still in its early stages and while we have a small number of pending patent applications, valid patents may not be issued from our pending applications, and the claims eventually allowed on any patents may not be sufficiently broad to protect our technology or offerings and services. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages to us. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States, including the recent America Invents Act, and other national governments and from interpretations of the intellectual property laws of the United States and other countries by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain adequate patent protection, or to prevent third parties from infringing upon or misappropriating our intellectual property.

Unauthorized parties may attempt to copy aspects of our technology or obtain and use information that we regard as proprietary. We generally enter into confidentiality and/or license agreements with our employees, consultants, vendors and advertisers, and generally limit access to and distribution of our proprietary information. However, we cannot provide assurance that any steps taken by us will prevent misappropriation of our technology and proprietary information. Policing unauthorized use of our technology is difficult. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those of the United States, and mechanisms for enforcement of our proprietary rights in such countries may be inadequate. From time to time, legal action by us may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Such litigation could result in substantial costs and the diversion of limited resources and could negatively affect our business, financial condition and results of operations. If we are unable to protect our proprietary rights (including aspects of our technology platform), we may find ourselves at a competitive disadvantage to others who have not incurred the same level of expense, time and effort to create and protect their intellectual property.

We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Third parties may assert claims of infringement of intellectual property rights in proprietary technology against us or against our advertisers for which we may be liable or have an indemnification obligation. We may be more at risk of infringement claims when we offer enterprise solutions used directly by our clients because our technology is more accessible to potential claimants, and also because through the [x+1] acquisition we acquired a substantial amount of additional technology and intellectual property. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from operating our business.

Although third parties may offer a license to their technology, the terms of any offered license may not be acceptable and the failure to obtain a license or the costs associated with any license could cause our business, financial condition and results of operations to be materially and adversely affected. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and ultimately may not be successful. Furthermore, a successful claimant could secure a judgment or we may agree to a settlement that prevents us from distributing certain products or performing certain services or that requires us to pay substantial damages, including treble damages if we are found to have willfully infringed a claimant’s patents or copyrights, royalties or other fees. Any of these events could seriously harm our business financial condition and results of operations.

Legal claims against us resulting from the actions of our customers could damage our reputation and be costly to defend.

We receive representations from our customers that the content of the advertising that we place on their behalf is lawful. We also rely on representations from our customers that they maintain adequate privacy policies that allow us to place pixels on their websites and collect data from users that visit those websites to aid in delivering our solution. However, we do not independently verify whether we are permitted to deliver advertising to our customers’ Internet users or that the content of the advertisements we deliver is legally permitted. If any of our customers’ representations are untrue and our customers do not abide by foreign, federal, state or local laws or regulations governing their content or privacy practices, we could become subject to legal claims against us, we could be exposed to potential liability (for which we may or may not be indemnified by our advertisers), and our reputation could be damaged.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with advertisers, advertising agencies, and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our products, services or other contractual obligations. The term of these indemnity provisions generally survives termination or expiration of the applicable agreement. Large indemnity payments would harm our business, financial condition and results of operations.

We have identified material weaknesses in our internal controls in the past, and if we do not continue to develop effective internal controls, we may not be able to accurately report our financial results or prevent fraud, and our business could suffer as a result.

When we are no longer an “emerging growth company,” as defined in the Jumpstart our Business Startups Act, or the "JOBS Act," we will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal controls over financial reporting. We will need to disclose any material weaknesses (as defined by SEC rules) in our internal controls over financial reporting that are identified by our management, as well as provide a statement that our independent registered public accounting firm has issued an opinion on our internal controls over financial reporting. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal controls over financial reporting until our first annual report filed with the SEC following the later of (i) the date we are deemed to be a "large accelerated filer," as defined in the Exchange Act, or (ii) the date we are no longer an emerging growth company.

In connection with the audit of our financial statements for the year ended December 31, 2010, we identified certain material weaknesses in our internal controls resulting from a lack of qualified personnel within our accounting function that possessed an appropriate level of expertise to perform certain functions. We have since remediated these material weaknesses. We are continuing to develop our internal controls, processes and reporting systems by, among other things, hiring qualified personnel with expertise to perform specific functions, and implementing software systems to manage our revenue and expenses and to allow us to budget and undertake multi-year financial planning and analysis. This process has been and will be time-consuming, costly and complicated. We may not be successful in implementing these systems or in developing other internal controls, which could undermine our ability to provide accurate, timely and reliable reports on our financial and operating results. For example, in connection with filing a registration statement for our initial public offering, errors were identified in the unaudited consolidated statement of cash flows for the six months ended June 30, 2012. We have since corrected these errors and concluded that the corrections were immaterial. However, if we identify additional errors that are caused by material weaknesses in our internal controls over financial reporting and we do not detect the errors on a timely basis, our financial statements could be materially misstated. If we identify new material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting when requested to do so, investors could lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. As a result of any such failures, we could also become subject to investigations by the NASDAQ Global Select Market, the SEC, or other regulatory authorities, and become subject to lawsuits by stockholders, which could harm our reputation and financial condition and divert financial and management resources from our core business.

Economic downturns and political and market conditions beyond our control could adversely affect our business, financial condition and results of operations.

Our business depends on the overall demand for advertising and on the economic health of our current and prospective advertisers. Economic downturns or instability in political or market conditions may cause current or new advertisers to reduce their advertising budgets. Adverse economic conditions and general uncertainty about economic recovery in the U.S. or abroad, are likely to affect our business prospects. In addition, concerns over the sovereign debt situation in certain countries in the EU, the impact of Brexit, as well as continued geopolitical turmoil in many parts of the world have, and may continue to, put pressure on global economic conditions, which could lead to reduced spending on advertising.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below the expectations of investors and securities analysts, which could result in a decline in our stock price.

The preparation of financial statements in conformity with generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. Our operating results could be adversely affected if our assumptions change or if actual circumstances differ from those reflected in our assumptions. If, as a result, our operating results fall below the expectations of investors and securities analysts, our stock price could decline. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, allowances for doubtful accounts and returns, internal-use software and development costs, income taxes, stock-based compensation expense and impairment of goodwill and intangible assets.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations, which could subject our business to higher tax liability.
We may be limited in the portion of net operating loss carry-forwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes. At December 31, 2015, we had U.S. federal net operating loss carry-forwards, or NOLs, of $219.5 million and state NOLs of $76.9 million. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We believe that we experienced an ownership change under Section 382 of the Code in prior years that may limit our ability to utilize a portion of the NOLs and future changes in our stock ownership could result in additional ownership changes under Section 382 of the Code. Our NOLs may also be impaired under similar provisions of state law. We have recorded a valuation allowance related to our NOLs and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets. Our NOLs may expire unutilized or underutilized, which would prevent us from offsetting future taxable income.
Forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, we cannot provide assurance that our business will grow at similar rates, if at all.
Market growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Forecasts relating to the expected growth in the digital advertising and real-time bidding markets may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.
We may invest in or acquire other businesses in the future. These activities require significant management attention and resources to integrate new businesses into our existing operations. These activities could disrupt our business, dilute stockholder value and adversely affect our financial condition and results of operations.
As part of our business strategy, we may make investments in or acquisitions of complementary companies, products or technologies. These activities involve significant risks to our business. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. The acquisitions we do complete may not ultimately strengthen our competitive position. Any acquisitions we complete 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, if we are unsuccessful at integrating acquired employees or technologies, our financial condition and results of operations, including revenue growth, could be adversely affected. Any acquisition and subsequent integration will require significant time and resources. We have only completed one acquisition to date and have not yet completed our integration of the acquired business. As a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to successfully evaluate and use the acquired technology or employees, or otherwise manage the acquisition and integration processes successfully. We will be required to pay cash, incur debt and/or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition and the value of our common stock. The use of cash to pay for acquisitions will limit other potential uses of our cash, including investments in our sales and marketing and product development organizations, and in infrastructure to support scalability. The issuance or sale of equity or convertible debt securities to finance any such acquisitions will result in dilution to our stockholders and could negatively impact earnings per share. If we incur debt in connection with any future acquisition, it would result in increased fixed obligations and could also impose covenants or other restrictions that could impede our ability to manage our operations.
Anticipated and unanticipated charges to earnings resulting from acquisitions may adversely affect our results of operations. Under business combination accounting standards, we recognize the identifiable assets acquired and the liabilities assumed, generally at their acquisition date fair values and separately from goodwill. Our estimates of fair value are based upon assumptions we believe to be reasonable but which are inherently uncertain. After we complete an acquisition, a number of factors could result in material charges, which could adversely affect our financial condition, results of operations and cash flows, including but not limited to costs incurred to integrate employees such as employee retention, redeployment or relocation expenses; amortization, impairment or reduction in the useful lives

of intangible assets; amortization or impairment of goodwill; costs to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated; and charges to our operating results due to the expensing of certain stock awards assumed in an acquisition. In third quarter of 2015, for example, we recognized an impairment of goodwill, as described in Note 12 to our Condensed Consolidated Financial Statements. Substantially all of these costs will be accounted for as expenses that will decrease our net income and earnings per share for the periods in which those costs are incurred.

Additional risks related to investments and acquisitions include but are not limited to the following:

- The need to integrate the technology underlying an acquired company's products and services with our technology;
- The need to integrate an acquired company's sales organization with ours in a manner that will optimize sales of the combined company's offerings;
- The need to integrate an acquired company’s accounting, management information, human resources and other administrative systems to permit effective management and timely reporting and to reduce administrative costs;
- The possibility that the combined company will not achieve the expected benefits of the acquisition, including any anticipated operating and product synergies, as quickly as anticipated, if at all;
- The need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies;
- The need to address unfavorable revenue recognition or other accounting or tax treatment as a result of an acquired company’s practices;
- The possibility of higher than anticipated costs in continuing support and development of acquired products; in general and administrative functions that support new or multiple business models; or in compliance with associated regulations that are more complicated than we had anticipated;
- Cultural challenges associated with integrating employees from an acquired company or business into our organization, and the risk of attrition if integration is not successful;
- The possibility that we will be unable to retain key employees and maintain the key business and customer relationships of any business we acquire;
- The possibility that we will not discover important facts during due diligence for an acquisition that could have a material adverse impact on the value of any business we acquire and subject us to unexpected claims and liabilities, regulatory exposure and/or other expenses;
- Litigation or other claims in connection with, or inheritance of claims or litigation risks as a result of, an acquisition, including claims from terminated employees, customers or other third parties;
- Significant accounting charges resulting from the completion and integration of a sizable acquisition and related capital expenditures;
- Significant acquisition-related accounting adjustments that may cause reported revenue and profits of the combined company to be lower than the sum of their stand-alone revenue and profits;
- The possibility that the costs of, or operational difficulties arising from, an acquisition would be greater than anticipated;
- Additional country-specific risks, to the extent that we engage in strategic transactions outside of the United States, including risks related to integration of operations across different cultures and languages; currency risks; the particular economic, political and regulatory risks associated with specific countries; and the possibility that data privacy regulations in new markets may be applied differently to an acquired company's technology and practices than they are to our technology and practices; and
- The possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business.

Any of the foregoing factors, among others, could harm our financial condition or prevent us from achieving improvements in our financial condition and operating performance that could have otherwise been achieved by us on a stand-alone basis. Our stockholders may not have the opportunity to review, vote on or evaluate future acquisitions or investments.

Our business is subject to the risk of earthquakes, fire, power outages, floods and other catastrophic events, and to other interruptions due to natural or human causes.

We maintain servers at co-location facilities in California, Illinois, New Jersey, Nevada, Virginia, Germany, the Netherlands and Hong Kong that we use to deliver advertising campaigns for our advertisers, and expect to add other data centers at co-location facilities in the future. Any of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, fires, floods, nuclear disasters, war, acts of terrorism, vandalism or other criminal activities, infectious disease outbreaks and power outages, any of which could render it difficult or impossible for us to operate our business for some period of time. For example, in October 2012, Hurricane Sandy caused our former data center in New York to cease operations because of storm damage, which caused us to divert online traffic to other facilities. Our corporate headquarters and the co-location facility where we maintain data used in our business operations are both located in the San Francisco Bay Area, a region known for seismic activity. If we were to lose the data stored in our California co-location facility, it could take at least a full day to recreate this data in our Nevada co-location facility, which could result in a material negative impact on our business operations, and potential damage to our advertiser and advertising agency relationships. If one of our facilities were to suffer damage, it would likely be costly to repair or replace, and any such efforts would likely require substantial time. Any disruptions in our operations could negatively impact our business and results of operations, and harm our reputation. In addition, we may not carry sufficient business interruption insurance to compensate for the losses that may occur. Any of these losses or damages could have a material adverse effect on our business, financial condition and results of operations.

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 has declined substantially since our IPO.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has, and is likely going to continue to fluctuate substantially. Since our initial public offering in September 2013 through September 30, 2016, our common stock has ranged in price from a low of $2.09 to a high of $71.89. These fluctuations have caused many stockholders to suffer declines in the value of their investment in our common stock. Factors that could cause further fluctuations in the trading price of our common stock include the following:

- announcements of financial results, new offerings, products, services or technologies, initiatives, commercial relationships, acquisitions or other events by us, our competitors or others in our industry sector;
- price and volume fluctuations in the overall U.S. and foreign stock markets from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in the digital advertising industry in particular;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations meet the expectations of investors or securities analysts;
- actual or anticipated changes in the expectations of investors or securities analysts, whether due to our issuance of new guidance or otherwise;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries, or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our common stock;

- departures of key employees; or
- an adverse impact on us from any of the other risks cited in this Risk Factors section.

In addition, if the market for technology stocks or the stock market, in general, experience a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry whether or not these events directly affect us.

Our stock price has been volatile and has declined since our initial public offering in September 2013. On September 3, 2014, a stockholder class action lawsuit was filed against us, certain of our officers and certain underwriters of our initial public offering in September 2013 and our follow-on offering in January 2014. On September 10, 2014, a substantively similar lawsuit was filed, adding our board of directors and additional underwriters as defendants. The complaints allege violations of the federal securities laws on behalf of a purported class consisting of purchasers of our common stock pursuant or traceable to the registration statements and prospectuses for our initial and follow-on public offerings, and seek unspecified compensatory damages and other relief. A consolidated complaint was filed on February 27, 2015. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the Court granted in part and denied in part the defendants’ motions to dismiss. For more information, see Part II, Item 1, "Legal Proceedings." Securities litigation, regardless of the outcome, can ultimately result in substantial costs and divert our management’s attention and resources from our business. This could have a material adverse effect on our business, financial condition and results of operations.

We have failed in the past, and may fail in the future, to meet our publicly announced guidance or other expectations about our business and future operating results. Such past failures have caused, and future failures would likely cause, our stock price to decline.

We have provided and may continue to provide guidance about our business and future operating results. In developing this guidance, our management must make certain assumptions and judgments about our future performance. We use a variety of models to forecast revenue in our business, including but not limited to models based on our bookings, estimates from our sales personnel, and projected productivity of our sales representatives. Each of our models has limitations. For example, revenue anticipated by a sales representative for a particular quarter might be delayed, reduced in amount or not materialize at all for a variety of reasons, including many that are out of our control. As another example, sales personnel productivity may change significantly from historical patterns when we hire new, less experienced sales personnel, when we introduce new products and services and if we are required to integrate sales personnel and new products as part of an acquired business. In addition, expanding competitive alternatives available to our customers in the market, an unexpected slowdown in general economic conditions, unexpected customer turnover and a variety of other factors could lead to unanticipated reductions in spending by our customers. Our industry is rapidly changing, and as we adopt new business models to address customer requirements, our historical methods of forecasting may prove inadequate. Our increasing focus on enterprise solutions, which have long sales cycles, exacerbates our difficulty in developing accurate forecasts. It may take a number of quarters selling enterprise solutions for us to understand enough about the dynamics impacting our revenue mix to be able to accurately forecast revenue for our business.

Our business results may vary significantly from our guidance due to a number of factors, many of which could adversely affect our operations and operating results. Furthermore, if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would likely decline, as it did following our announcement of guidance for the second quarter of fiscal 2014 on May 8, 2014, and our announcement of third quarter and full year guidance on August 5, 2014.

The concentration of our capital stock ownership could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and all of our stockholders who own greater than 5% of our outstanding common stock, in the aggregate, owned approximately 35.6% of the outstanding shares of our common stock based on the number of shares outstanding as of September 30, 2016. As a result, these stockholders will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a manner that is adverse to your interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

The requirements of being a public company may strain our resources, and divert our management’s attention.
As a public company, we are subject to the reporting requirements of the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NASDAQ Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.
We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.
For so long as we remain an emerging growth company as defined in the JOBS Act, we expect to take advantage of certain exemptions from various requirements that are applicable to public companies that are not emerging growth companies, including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions for so long as we are an emerging growth company, which could be as long as five years following the completion of our IPO in September 2013. Investors may find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.
If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.
The trading market for our common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our business prospects, our share price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.
We do not intend to pay dividends for the foreseeable future and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.
We have never declared or paid any dividends on our common stock. We have an accumulated deficit in our stockholders’ equity and have not generated net income through September 30, 2016. In addition, our credit facility contains restrictions on our ability to pay dividends. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.
Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.
Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- 

the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors, by majority vote, to amend our amended and restated bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend our amended and restated bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Recent Sale of Unregistered Securities

Not applicable.

(b) Use of Proceeds

Not applicable.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchaser

The table below provides information with respect to repurchases of unvested shares of our common stock made pursuant to our 2008 Equity Incentive Plan, or 2008 Plan.

| Period | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 - July 31, 2016 | — | $ — | — | — |
| August 1 - August 31, 2016 | 375 | 20.05 | — | — |
| September 1 - September 30, 2016 | — | — | — | — |
| Total | 375 | $ 20.05 | — | |

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(1) Under the 2008 Plan, participants may exercise options prior to vesting, subject to a right of repurchase by the Company if the participant leaves the Company prior to the date on which all shares issued upon exercise of the options have vested. All shares in the above table were shares repurchased as a result of the Company exercising this right and not pursuant to a publicly announced plan or program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

SIGNATURE

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

Dated: November 8, 2016

ROCKET FUEL INC.

By: /s/ Henrik Gerdes

Henrik Gerdes

Interim Chief Financial Officer (Duly Authorized Officer and Principal Accounting and Financial Officer)

EXHIBIT INDEX

| Exhibit No. | Exhibit Description | Incorporated by Reference Herein | | | | Filed or Furnished Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date | |
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant | 10-Q | 001-36071 | 3.1 | 11/13/2013 | |
| 3.2 | Second Amended and Restated Bylaws of the Registrant | 10-Q | 001-36071 | 3.2 | 8/08/2016 | |
| 10.1 | Fourth Amendment, dated September 15, 2016, to Second Amended and Restated Revolving Credit and Term Loan Agreement dated December 31, 2014, as amended from time to time, by and among the Registrant, the lenders that are party thereto and Comerica Bank, as administrative agent for the lenders | 8-K | 001-36071 | 10.1 | 9/21/2016 | |
| 10.2 | Lease Termination and Release Agreement, dated October 21, 2016, by and between Google Inc. and Rocket Fuel Inc. | 8-K | 001-36071 | 10.1 | 10/25/2016 | |
| 10.3* | Offer Letter between the Registrant and Stephen Snyder dated October 23, 2016 | | | | | X |
| 10.4* | Management Retention Agreement between the Registrant and Stephen Snyder dated October 23, 2016 | | | | | X |
| 31.1 | Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 31.2 | Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | X |
| 32.1(1) | Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |

| | | |
|---|---|---|
| 32.2(1) | Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 101.INS | XBRL Instance Document | X |
| 101.SCH | XBRL Taxonomy Schema Linkbase Document | X |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | X |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | X |

* Indicates a management contract or compensatory plan or arrangement.

(1) The information in this exhibit is furnished and deemed not filed with the Securities and Exchange Commission for purposes of section 18 of the Exchange Act of 1934, as amended (the “Exchange Act”), and is not to be incorporated by reference into any filing of Rocket Fuel Inc. under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.