Rocket Fuel Inc.
Form 10-Q
August 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 June 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 July 31, 2016, there were 44,452,886 shares of the registrant's common stock, par value $0.001, outstanding.

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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.

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TRADEMARKS

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

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

	June 30, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$66,664	$ 78,560
Accounts receivable, net	114,038	124,998
Prepaid expenses	3,071	3,803
Other current assets	3,895	2,081
Total current assets	187,668	209,442
Property, equipment and software, net	68,524	82,781
Restricted cash	1,876	2,141
Intangible assets, net	42,665	50,919
Deferred tax assets, net	525	718
Other assets	1,243	1,053
Total assets	$302,501	$ 347,054
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$64,059	$ 71,292
Accrued and other current liabilities	33,745	40,734
Deferred revenue	1,988	2,116
Current portion of capital leases	8,737	8,602
Current portion of debt	62,035	45,720
Total current liabilities	170,564	168,464
Debt —Less current portion	—	17,617
Capital leases—Less current portion	8,148	11,855
Deferred rent—Less current portion	15,897	14,042
Other liabilities	1,311	1,176
Total liabilities	195,920	213,154
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock, $0.001 par value— 1,000,000,000 authorized as of June 30, 2016 and December 31, 2015; 44,438,214 and 43,567,016 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	44	44
Additional paid-in capital	463,959	453,338
Accumulated other comprehensive loss	(625)	(151)
Accumulated deficit	(356,797)	(319,331)
Total stockholders' equity	106,581	133,900
Total liabilities and stockholders' equity	$302,501	$ 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$116,968	$120,065	$221,713	$224,399
Costs and expenses:				
Media costs	50,922	49,155	93,481	94,716
Other cost of revenue	20,397	19,826	40,482	39,782
Research and development	9,438	11,791	20,077	23,114
Sales and marketing	36,190	41,750	73,030	84,628
General and administrative	12,765	14,761	27,086	32,335
Restructuring	1,766	6,471	1,567	6,471
Total costs and expenses	131,478	143,754	255,723	281,046
Operating loss	(14,510)	(23,689)	(34,010)	(56,647)
Interest expense	1,032	1,045	2,269	2,385
Other (income) expense, net	866	(696)	672	1,512
Loss before income taxes	(16,408)	(24,038)	(36,951)	(60,544)
Income tax provision	285	372	515	729
Net loss	$(16,693)	$(24,410)	$(37,466)	$(61,273)
Basic and diluted net loss per share attributable to common stockholders	$(0.38)	$(0.58)	$(0.85)	$(1.45)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	44,056	42,296	43,828	42,140

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(16,693)	$(24,410)	$(37,466)	$(61,273)
Other comprehensive income (loss): (1)				
Foreign currency translation adjustments	(301)	116	(474)	7
Comprehensive loss	$(16,994)	$(24,294)	$(37,940)	$(61,266)

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

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities:		
Net loss	$(37,466)	$(61,273)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,145	24,023
Impairment of long-lived assets	1,225	2,704
Accelerated amortization of leasehold improvements	7,059	—
Stock-based compensation expense	8,892	13,881
Deferred taxes	193	(20)
Other non-cash adjustments, net	1,607	1,044
Changes in operating assets and liabilities:		
Accounts receivable	10,102	15,362
Prepaid expenses and other assets	(2,209)	6,318
Accounts payable	(7,792)	(11,538)
Accrued and other liabilities	1,876	182
Deferred rent	(6,103)	890
Deferred revenue	(128)	1,338
Net cash provided by (used in) operating activities	2,401	(7,089)
Investing Activities:		
Purchases of property, equipment and software	(3,055)	(10,085)
Capitalized internal-use software development costs	(5,924)	(6,048)
Proceeds from sale of property	293	—
Changes in restricted cash	39	636
Net cash used in investing activities	(8,647)	(15,497)
Financing Activities:		
Proceeds from employee stock plans, net	1,080	3,139
Tax withholdings related to net share settlements of restricted stock units	(609)	(533)
Repayment of capital lease obligations	(4,218)	(2,755)
Proceeds from debt facilities, net of issuance costs	22,350	(242)
Repayment of debt	(24,000)	(3,000)
Net cash used in financing activities	(5,397)	(3,391)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(253)	(14)
Change in Cash and Cash Equivalents	(11,896)	(25,991)
Cash and Cash Equivalents—Beginning of period	78,560	107,056
Cash and Cash Equivalents—End of period	$66,664	$81,065

	Six Months Ended June 30,	
	2016	2015
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$384	$454
Cash paid for interest	1,937	1,921
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property, equipment and software recorded in accounts payable and accruals	$2,371	$428
Property, equipment and software acquired under capital lease obligations	646	1,786
Vesting of early exercised options	25	97
Stock-based compensation capitalized in internal-use software costs	1,308	1,286

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"), 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 and expects no material modifications to its consolidated financial statements and related disclosures.

In April 2016, the FASB issued ASU 2016-10 ("ASU 2016-10"), which provides more detailed guidance on identifying performance obligations and licenses of intellectual property. 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"), 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.

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

NOTE 2. PROPERTY, EQUIPMENT AND SOFTWARE, NET

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

	June 30, 2016	December 31, 2015
Capitalized internal-use software costs	$45,875	$ 38,879
Computer hardware and software	58,821	57,827
Furniture and fixtures	12,570	13,619
Leasehold improvements	30,012	39,956
Total	147,278	150,281
Accumulated depreciation and amortization	(78,754)	(67,500)
Total property, equipment and software, net	$68,524	$ 82,781

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

The Company capitalized internal-use software development costs of $3.4 million and $3.9 million for the three months ended June 30, 2016 and 2015, respectively, and $7.0 million and $7.6 million for the six months ended June 30, 2016 and 2015, respectively. Amortization expense of internal-use software costs was $2.7 million and $1.8 million for the three months ended June 30, 2016 and 2015, respectively, and $5.0 million and $3.4 million for the six months ended June 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 $6.0 million and $6.1 million for the three months ended June 30, 2016 and 2015, respectively, and $11.9 million and $12.1 million for the six months ended June 30, 2016 and 2015, respectively.

In addition, in the three and six months ended June 30, 2016, the Company recorded impairment and accelerated amortization of leasehold improvements and furniture and fixtures of $4.8 million and $8.3 million, respectively, 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 owns 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:

		June 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	$(21,091)	$21,009	$42,100	$(15,295)	$26,805
Customer relationships	7-8	27,700	(6,306)	21,394	27,700	(4,573)	23,127
Trademarks	5	2,000	(2,000)	—	2,000	(2,000)	—
Non-compete agreements	2	2,900	(2,638)	262	2,900	(1,913)	987
Total		$74,700	(32,035)	42,665	$74,700	$(23,781)	$50,919

Total amortization expense related to intangible assets acquired in the business combination with [x+1] was $4.1 million and $4.2 million for the three months ended June 30, 2016 and 2015, respectively, and $8.3 million and $8.4 million for the six months ended June 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 additional 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 June 30, 2016 were as follows (in thousands):

Year ending December 31,	Future Payments
2016 (remaining 6 months)	$ 4,902
2017	8,006
2018	4,510
2019	558
2020	84
Total minimum lease payments	$ 18,060
Less: amount representing interest and taxes	(1,175)
Less: current portion of minimum lease payments	(8,737)
Capital lease obligations, net of current portion	$ 8,148

NOTE 5. RESTRUCTURING COSTS

During the three months ended June 30, 2016, the Company recorded$1.8 million in restructuring expenses, net of credits, consisting of accelerated amortization and impairment of leasehold and other assets of $4.8 million, $0.4 million of moving costs, primarily related to the termination and sublease of certain office spaces, and severance costs of $0.8 million. These expenses were partially offset by the release of deferred rent liabilities of $4.2 million related to the aforementioned office spaces. As of June 30, 2016, $0.4 million of severance costs remained unpaid.

During the six months ended June 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.

During the three months ended June 30, 2015, the Company incurred approximately $3.4 million in employee severance costs and $0.3 million in broker costs associated with subleasing excess office space. The Company also incurred a $2.7 million impairment of leasehold and other assets related to the subleased facility.

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.

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. The Company may repay revolving loans and term loans under the 2016 Loan Facility in whole or in part at any time without premium or penalty, subject to certain conditions.

As of June 30, 2016, $62.5 million under the revolving credit facility and letters of credit in the amount of $7.5 million were outstanding. In July and August 2016, the Company drew additional funds which increased its borrowing to $71.5 million fully utilizing the available borrowing capacity under the 2016 Loan Facility.

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 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 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 June 30, 2016, the Company was in compliance with all financial and non-financial covenants.

As of June 30, 2016, the $62.5 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. The debt on the condensed consolidated balance sheets is shown net of $0.5 million in 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) a sales agreement prospectus supplement along with an accompanying base prospectus 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 a sales agreement with Cantor Fitzgerald & Co. The up to $30.0 million of common stock that may be issued and sold under the sales agreement prospectus supplement is included in the $50.0 million of securities that may be offered and sold under the base prospectus. As disclosed in a press release issued August 2, 2016, the Company does not expect to issue shares under the sales agreement in an amount greater than $5.0 million, if any, during the quarter ending September 30, 2016.

The Registration Statement had not yet been declared effective by the SEC as of the date of this report.

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):

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Stock options:		
Outstanding at the beginning of the period	5,387	6,291
Options granted (1)	5,817	375
Options exercised	(112)	(217)
Options canceled and forfeited (1)	(3,514)	(364)
Outstanding at the end of the period	7,578	6,085
Total intrinsic value of options exercised	$267	$1,426
Total unrecognized compensation expense at period-end	$9,958	$18,569
Weighted-average remaining recognition period at period-end (in years)	2.4	2.0
Stock awards:		
Outstanding at the beginning of the period	3,612	2,515
Stock awards granted	517	1,628
Stock awards vested	(485)	(172)
Stock awards canceled	(610)	(561)
Outstanding at the end of the period	3,034	3,410
Weighted-average grant-date fair value	$9.77	$12.76
Total unrecognized compensation expense at period-end	$20,133	$39,102
Weighted-average remaining recognition period at period-end (in years)	2.4	3.2

(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

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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 shares 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 June 30, 2016, 1.4 million shares have been granted under the 2016 Plan.

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 June 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 $0.7 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (years)	5.5 - 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	1.29% - 1.55%	1.57% - 1.85%	1.29% - 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (years)	0.5	0.5	0.5	0.5
Volatility	63.0%	73.3% - 77.2%	63.0% - 65.0%	73.3% - 77.2%
Risk-free interest rate	0.49%	0.07% - 0.08%	0.42% - 0.49%	0.07% - 0.08%
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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Other cost of revenue	$493	$477	$1,023	$1,102
Research and development	981	1,834	2,346	4,081
Sales and marketing	1,357	2,325	2,846	5,156
General and administrative	1,251	1,798	2,677	3,542
Total	$4,082	$6,434	$8,892	$13,881

NOTE 8. NET LOSS PER SHARE

Basic net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee stock-based awards. Because the Company had net losses for the three and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(16,693)	$(24,410)	$(37,466)	$(61,273)
Weighted-average shares used to compute basic and diluted net loss per share	44,056	42,296	43,828	42,140
Basic and diluted net loss per share	$(0.38)	$(0.58)	$(0.85)	$(1.45)
Common stock equivalents excluded from net loss per diluted share because their effect would have been anti-dilutive	10,833	9,606	10,833	9,606

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 $0.3 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and $0.5 million and $0.7 million for the six months ended June 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 June 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 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 $4.3 million and $4.0 million for the three months ended June 30, 2016 and 2015, respectively, and $8.6 million and $8.0 million for the six months ended June 30, 2016 and 2015, respectively.

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

Year ending December 31,	Future Payments
2016 (remaining 6 months)	$ 7,978
2017	16,846
2018	15,427
2019	16,363
2020	7,137
Thereafter	20,971
	$ 84,722

Please refer to Note 4 for details of the Company's capital lease commitments as of June 30, 2016.

Letters of Credit Bank Guarantees and Restricted Cash—As of June 30, 2016 and December 31, 2015, the Company had irrevocable letters of credit for facilities leases of $7.7 million and $6.3 million, respectively. The letters of credit have various expiration dates, with the latest being June 2025.

As of June 30, 2016 and December 31, 2015, the Company had $1.9 million and $2.1 million, respectively, in cash reserved to support bank guarantees for certain office lease agreements. These amounts are classified as restricted cash on the Company's condensed consolidated balance sheets.

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

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

On September 3, 2014 and September 10, 2014, respectively, two purported class actions were filed in the Northern District of California against the Company and certain of its officers and directors 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.

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. This state court action has been stayed pending the resolution of the In re Rocket Fuel, Inc. Derivative Litigation action described below.

On January 27, 2016, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery. The action was Gee v. Wootton et al., Case No. 11940-VCL. The plaintiff voluntarily dismissed this action on February 9, 2016.

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 are 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 Veloso action has been related to the In re Rocket Fuel Securities Litigation and motions

to relate the other actions are pending. 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. The complaint seeks monetary damages in an unspecified amount and reform of internal controls. All defendants moved to dismiss the consolidated complaint on May 19, 2016.
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. This state court action has been stayed pending the resolution of the In re Rocket Fuel, Inc. Derivative Litigation action described above.

The Company intends to vigorously defend itself against these actions. 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
United States	$89,973	$99,013	$171,370	$185,164
All Other Countries (1)	26,995	21,052	50,343	39,235
Total revenue	$116,968	$120,065	$221,713	$224,399

(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):

	June 30, 2016	December 31, 2015
North America	$64,133	$ 77,038
All Other Countries	4,391	5,743
Total property, equipment and software	$68,524	$ 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 six months ended June 30, 2016 was $0.5 million. Total accounts payable as of June 30, 2016 were $0.6 million.