

Rocket Fuel Inc.
Form 10-K
March 14, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36071

ROCKET FUEL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

30-0472319

(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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.001 par value (Title of each class)

The NASDAQ Stock Market LLC (Name of each exchange in which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$190,023,061 based upon the closing price reported for such date on the NASDAQ Global Select Market. Shares of common stock held by each executive officer, director and by each person who owns 5% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 29, 2016, there were 43,627,818 shares of the registrant's common stock, par value \$0.001, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of December 31, 2015, the last day of the fiscal year covered by this Annual Report on Form 10-K.

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.
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TRADEMARKS

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- expectations for financial performance in 2016, including revenue and the levels of operating expenses in the areas of research and development, sales and marketing and general and administrative;
- our goal of reducing the cost of customer service, operations, account management, IT, and general and administrative functions as a percentage of revenue in future periods;
- the impact that our sales strategies and our product mix, including our managed service and self-service platform offerings, will have on our non-GAAP net revenue, media and other costs of revenue and gross margins (non-GAAP net revenue is a non-GAAP measure; please see Part II, Item 7 of this Annual Report on Form 10-K, "Non-GAAP Measures," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);
- the expected impact of seasonality on our operating results;
- our expectations regarding our headcount levels in 2016;
- our ability to improve the productivity and efficiency of our resources and infrastructure;
- the expected impact of our expense reduction and operating efficiency initiatives
- our expectation regarding capital expenditures in 2016;
- the usefulness of non-GAAP financial measures for understanding and evaluating our operating results;
- our plans to finance data center hardware requirements through capital leasing facilities;
- the adequacy of our office facilities to meet or exceed our needs for the immediate future and our ability to sublease unused facilities;
- our expectation that, subject to achieving our operating plan for 2016, existing cash and cash equivalents will be sufficient to meet our business requirements for at least the next 12 months;
- anticipated growth of the digital advertising market and of brand advertising as part of that market;
- the ability of our solutions to deliver intended results to customers, including but not limited to the ability of our Programmatic Marketing Platform to successfully combine the functionality of our DSP with features of our DMP in a manner that is attractive to customers and prospects;
- the ability to effectively market our Programmatic Marketing Platform, through the integration of technologies and capabilities arising from our acquisition of [x+1];
- our ability to adapt our relationships with agencies and agency holding companies in light of the evolving competitive environment, and the anticipated success of our sales strategy;
- our expectation that we will improve our abilities to attract new customers, and to retain and gain a larger amount of our current customers' advertising budgets;
- our ability to achieve revenue growth by better tailoring our sales model to differing sizes of customers and prospects, and by improving the focus of our sales representatives on our core offerings;
- our expectations regarding an increase in the number of active customers;

- our ability to avoid serving ads on unsafe or inappropriate websites or to non-human targets;
- our ability to continue to expand internationally;
- our expectation that, 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; and
- our intention to vigorously defend against pending securities lawsuits.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report on Form 10-K to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed as exhibits thereto with the Securities and Exchange Commission, or "SEC," with the understanding that our actual future results and circumstances may be materially different from what we expect.

PART I

ITEM 1. BUSINESS

Overview

Rocket Fuel is a technology company that brings the power of machine learning to the world of digital marketing, offering a Programmatic Marketing Platform designed to help marketers and their agencies 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.

We are focused on the large and growing digital advertising market, where marketers are confronting an age-old challenge: how to deliver better return on investment, or "ROI," which encompasses both the measurement of that effective return, and a comparison with other approaches to delivering advertising assets. Doing such measurement involves difficulties in terms of speed and scale, in that there are tens of billions of daily ad purchases across all digital advertising exchanges and other sources of digital advertising inventory. Our platform autonomously purchases these 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 platforms - a Data Management Platform, or "DMP," and a Demand Side Platform, or "DSP" - which can be used by themselves, or can be integrated with a customer's other customer relationship management or marketing platforms, or can be used together in different permutations as our Programmatic Marketing Platform. That integrated platform is designed to deliver and optimize media spend to engage, upsell, and retarget consumers across addressable channels-including display, mobile, video, social, and television, and across addressable devices, including tablets, personal computers, set top boxes, television, and mobile phones. We offer our Programmatic Marketing Platform as a managed service, which we operate on behalf of our customers, and as a self-service platform operated by our customers or their agencies directly.

Core to our ability to connect advertisers and consumers is our artificial intelligence engine, which consists of big data-driven predictive modeling and automated decision-making components. Our Programmatic Marketing Platform is designed to address the needs of marketers in a time when the amount of demographic, psychographic, and most fundamentally, behavioral data, has reached a mass that defies human intuition or comprehension, and requires the use of machine learning to offer real time analysis of the moments of influence, and make the decision to act upon the moments most likely to be influential.

Each ad purchasing decision on real time advertising exchanges must be made in milliseconds, which means any analysis and decision-making must happen in an even shorter period of time. Our Programmatic Marketing Platform uses a technology 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 advertisement based on relevant attributes. If the score is positive, we determine the value of that impression to the particular advertising campaign and how much we are willing to bid for that opportunity. If we win the bid, then the ad is served. This entire process takes place in approximately 100 milliseconds and over 100 billion times daily for a thousand or more advertising campaigns.

In addition to paid media options, a company may have tens of millions of interactions daily with its customers and prospects through its "owned media" or customer relationship management channels, such as its website, mobile applications, call centers, email, point of sale terminals, loyalty cards, and retail stores. Every company needs to make decisions about what to do with its data, and a smart company can optimize its customers' experiences and its own marketing by making the best use of the opportunities it has to interact with its customers.

In both cases of paid and owned media, our Programmatic Marketing Platform is designed to learn from each message it delivers and apply that learning to future decisions as an advertising campaign is being delivered - a feature we call Marketing that Learns™. This enables us to deliver solutions designed to optimize over time for both direct-response and brand campaigns focused on generating specific consumer actions or engagements, and other marketing programs designed to help marketers acquire, retain, and grow their customer base. The benefit of a platform that is designed to autonomously adapt and learn while solving multiple problems simultaneously instead of solving one specific

problem at a time, is that our platform is capable of simultaneously running thousands of marketing programs with highly diverse goals across multiple channels.

We were incorporated in Delaware in 2008. In July 2014, we announced the general availability of our self-service DSP, in North America and Europe. Prior to that time, we had provided a self-service DSP offering to a single advertising agency in Japan. In September 2014, we acquired X Plus Two Solutions, Inc., the parent company of [x+1], a privately held programmatic marketing technology company. Our acquisition of [x+1] allowed us to add important assets to our technology solutions, including

our DMP. Since September 2014, we have worked to join our DSP and DMP platforms into a combined platform, and this has allowed us to introduce our Programmatic Marketing Platform.

We have successfully run advertising campaigns for products and brands in industries ranging from luxury automobiles to financial services to retail, for a diversified customer base that, during 2015, included 91 of the Advertising Age 100 Leading National Advertisers and 65 of the Fortune 100 companies, and powered personalized marketing on owned media for 7 companies in the US.

For the years ended December 31, 2015, 2014, and 2013, our revenue was \$461.6 million, \$408.6 million, and \$240.6 million, respectively, representing a compound annual growth rate, or CAGR, of 118% since 2012. The early growth in sales through 2013 and 2014 led us to make significant investments in our business, in operations, sales, marketing, research and development, customer service and general and administrative functions. Partially as a result of these investments, for the years ended December 31, 2014 and 2013, our net losses were \$64.3 million and \$20.9 million, respectively. In response to slowing revenue growth in 2014 and early 2015, we engaged in a variety of cost-cutting and efficiency initiatives; however, those reductions in operating expenses were more than offset by 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. Thus, we incurred a net loss of \$210.5 million for the year ended December 31, 2015.

Our Offerings

Our Programmatic Marketing Platform is comprised of the following technologies.

Demand Side Platform (DSP)

Our proprietary artificial intelligence, or "AI" -driven DSP is built on our real-time optimization engine, which leverages big data and our vast computational infrastructure to purchase and deliver highly-automated digital advertising campaigns that are measurable against direct response and brand objectives. We make our DSP available to advertisers or their agencies as a fully managed service, through a self-service interface, or a combination of managed and self-service options.

Our DSP offerings are designed to enable direct-response and brand advertisers to optimize toward virtually any measurable advertising goal. Given the extensibility and flexibility of our DSP, our offerings are able to address the needs of advertisers across geographies, industry verticals, advertiser goals, and through addressable channels including display, mobile, social, video and programmatic TV.

Direct Response Objectives

Our direct response solution is focused on the following direct-response objectives:

Prospecting. Advertisers have various prospecting objectives, such as number of leads, sign-ups, registrations or sales. Our Programmatic Marketing Platform is designed to track every impression delivered and continuously learn from campaign results to refine our delivery of impressions to the appropriate consumers and achieve each advertiser's direct-response objectives. As our DSP optimizes over the course of campaigns, we believe that advertisers experience steady improvement against the prospecting goals they have defined.

Retargeting. As advertisers succeed in bringing consumers to their websites, our retargeting offering uses our Moment Scoring Technology to help return those same or similar consumers to the advertisers' websites, focusing specifically on the consumers most likely to perform a desired action. Unlike other retargeting solutions that merely display advertisements to every consumer that has visited an advertiser's website regardless of the value of such placements, our offering focuses on consumers who represent high-value opportunities for re-engagement, aiming to reach them at the best time and in the best context to achieve the advertiser's goals.

Sales Uplift. We find that some sophisticated direct response advertisers and their agencies want to optimize not only for a specified digital outcome (such as completion of a form, or establishment of a digital shopping cart) but also to maximize truly incremental sales. This is measured as the increase in revenue compared to a control group of customers who were not exposed to similar advertising. Through the same kinds of techniques used for offline sales or brand equity lift, we can develop digital maps that can be calibrated against sales uplift.

Brand Objectives

Brand objectives are commonly measured as an increase in a specified metric related to a target audience. Digital brand campaigns most commonly focus on any of the following, often with a specific, third party validated audience as the target being measured against:

- Reach, frequency and engagement. Traditionally, brand advertisers have focused on reach, frequency and engagement goals to assess the effectiveness of their advertising campaigns. Our DSP is designed to track, measure and optimize these goals through specific consumer actions, such as clicks, advertisement interactions and video completions. Our platform values and bids on billions of individual advertising impressions per day to maximize campaign performance measured against the goals defined by the advertiser.

Audience Accuracy. Brand advertising is audience specific, and our DSP is designed to optimize towards a defined audience, most commonly a particular age and gender range as measured by third parties such as Nielsen, Comscore and others.

Brand equity lift. Our DSP is designed to track, measure and optimize brand equity lift objectives. We use online surveys to measure these objectives, such as consumer awareness, recall, message association, purchase consideration, favorability and recommendation intent. Our technology is designed to automatically incorporate survey responses to enable optimization and calibration against online and offline brand equity lift as measured by third parties such as Nielsen, Comscore and others.

Offline sales. Many interactions that consumers have with a brand occur offline. We are able to connect online activity to offline sales or responses by integrating a variety of industry-specific offline data sources, such as retail purchase activity, coupon usage and grocery store purchase activity. Our technology is designed to measure and optimize campaigns, while they run, to maximize offline impact as measured by third parties such as IRI, NCS and others.

Data Management Platform (DMP)

Our DMP augments the capabilities of our DSP for media purchases. By using our Programmatic Marketing Platform, our advertisers can run analytics on data derived from their paid and owned media channels and develop a better understanding of their consumers. Our DMP enables:

Data Management: Our DMP is designed to allow marketers to ingest, analyze, segment, and export their own and third-party audience data for advertising, customer relationship management, or "CRM," email marketing, call-center routing, or other opportunities to touch consumers with a message or call-to-action. Our Programmatic Marketing Platform allows marketers to leverage their own data within our DSP or other media buying platforms of their choice.

Multi-modal Advertising Optimization: Our Programmatic Marketing Platform is designed to allow marketers to seamlessly execute programmatic advertising campaigns globally through our platform, and apply learning and insights from the DMP to augment campaign performance. Moreover, our Programmatic Marketing Platform is designed to enable cross-channel (e.g. display, video, mobile, and social) and cross-device (e.g. smartphone and desktop) campaigns, thereby reducing friction and eliminating the need to work with multiple companies that offer point solutions.

Other Features

Brand Assurance. Advertiser brand protection is a high priority for us. We have adopted a proactive approach designed to prevent us from serving advertisements on unsafe or inappropriate websites, and designed to protect advertisers from forms of fraud in the modern digital ecosystem. We have a brand-assurance team that monitors our brand safety efforts, makes policy decisions, offers guidance to advertisers and continuously analyzes and improves our Brand Assurance offering. We have proprietary technology designed to identify and block fraudulent activity, and we work with independent third parties to validate our approach and further our efforts against fraud.

Insights. We identify the key drivers of an advertising campaign's success and help marketers improve and optimize future marketing strategies and creative development. Our Insights feature is designed to help advertisers understand what strategies are effective and why, and allows them to better understand the quality, composition and characteristics of the consumers their campaigns reach, including which consumers are most responsive to their messages.

Our Technology

We believe our technology is disrupting traditional approaches to digital advertising. The digital advertising campaigns we run are designed to be effective, as well as efficient and easy for us to set up and manage, and do not require advertisers to know or guess who their target audiences are, nor the best digital channels through which to reach them. Instead, our AI-driven technology reaches desired consumers globally by programmatically buying advertising inventory. We primarily access inventory through real-time bidding, or RTB, which is the real-time purchase and sale of advertising inventory on an impression-by-impression basis on real-time advertising exchanges. For each impression that we purchase on behalf of an advertiser, our technology determines precisely the amount that we will bid for each single opportunity based on our technology's valuation of that opportunity in real time.

We bid on billions of these impressions per day in approximately 100 milliseconds per bid request. As our engine learns which attributes best contribute to meeting an advertiser's campaign goals, it adapts as the campaign runs to improve performance measured against these goals. We believe this enables us to deliver more rapid optimization and better campaign results than the periodic manual adjustments of traditional solutions. Leveraging the massive amounts of inventory available through real-time advertising exchanges, our solution enables advertisers to efficiently connect with large audiences while it maintains a focus on results-driven optimization.

We have invested in and will continue to invest in developing our differentiated and proprietary technology, aimed at solving the problems of marketers in ways that traditional, and point solutions, cannot. We have assembled a team of highly skilled engineers and computer scientists with deep expertise across a broad range of relevant disciplines. Key focus areas of our engineering team include:

Artificial Intelligence. We employ AI technology, including predictive modeling and automated decision-making. Our platform has analyzed millions of attributes from our data warehouse, as evidenced by the billions of impressions and bid requests processed daily, to determine the most effective attributes, monitored in real time, to predict expected consumer response and precise impression value.

Computational infrastructure. We use a combination of proprietary and open source software to achieve a horizontally scalable, global, distributed and fault-tolerant architecture, with the goal of enabling us to ensure the continuity of our business, regardless of local disruptions. Our computational infrastructure currently processes tens of billions of events per day and is designed in a way that enables us to add significant capacity to our platform as we scale our business without requiring any material design or architecture modifications. Our technology infrastructure is hosted across 12 data centers in co-location facilities in California, Germany, New Jersey, Nevada, Virginia, Hong Kong and the Netherlands. Our servers are custom designed by our engineering team.

Big Data. We have built a multi-tier big data management system based on proprietary and open source software to help us maintain a variety of data in many different formats. Our data includes anonymized user profile data that is accessible at very low latencies and used to execute our campaigns. In addition, we maintain a large data warehouse with multi-petabytes of data that we use for algorithm training and reporting.

Bidding adapters. Bidding adapters enable us to receive bid requests from real-time advertising exchanges, evaluate each request and either reject the request or respond with a bid. The adapters then present our proposed bid and advertisement to the advertising exchange in the format required by the exchange. Bidding adapters allow us to easily expand and adapt our platform across multiple inventory sources, including across different channels, such as display, mobile, video, and programmatic TV.

User Interface and Reporting Tools. Based on the latest HTML5 technologies, our user interface provides flexible reporting and interactive visualization of the key drivers of success for each advertising campaign. We use these reporting and visualization products internally to manage campaigns, and provide advertisers with the ability to manage their own campaigns, form custom audiences and to gain campaign insights.

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Platform Convergence. To enhance our Programmatic Marketing Platform, we continue to converge the best attributes from our DSP and our DMP for a unified user experience across our DSP, DMP and web site optimization interfaces.

Our research and development expenses were \$44.9 million, \$39.8 million and \$17.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. Our capitalized internal-use software development costs were \$15.5 million, \$9.4 million and \$6.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Our Customers

As of December 31, 2015, we had 1,666 active customers, including many of the world's leading advertisers. We interact with customers primarily through advertising agencies acting on their behalf. We also work with some customers directly.

We define an active customer as a customer from whom we recognized revenue in the last three months. An active customer can be either an advertiser who purchases our solution from us directly or an advertiser who purchases our solution through an advertising agency or other third party. We count all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with us. We believe that our ability to increase the number of active customers using our solution is one important indicator of our ability to grow our business, although we expect this number to fluctuate based on the seasonality in our business.

During 2015, we served a diverse advertiser base across industry verticals, such as automotive, cable, computer manufacturing, education, finance and insurance, health care, hospitality and food services, retail and telecommunications.

For the year ended December 31, 2015, no single customer represented 10% or more of our revenue.

Sales and Marketing

In North America, Europe, and Australia we sell our solutions through direct sales teams, which focus on advertising agencies and advertisers, as well as on other third parties. Our direct sales team is organized by geography, with regional offices in the United States and offices in Canada, the United Kingdom, Australia, France, Germany, Italy, Spain, and Sweden. We also sell our solutions through resellers. We recently announced the closure of our office in Brazil and we intend to service customers in that market through our other offices and a reseller relationship.

We are focused on managing our brand, increasing market awareness and generating new advertiser leads. To do so, we often present at industry conferences, create customer events and invest in public relations. In addition, our marketing team advertises online, in print and in other forms of media, creates case studies, sponsors research, composes whitepapers, publishes marketing collateral, generates online content and undertakes customer research studies and surveys.

Employees and Culture

We are proud of our company culture, and believe it is one of our fundamental strengths as well as a strategic priority. Our employees are focused on technological innovation to improve our solution for advertisers and marketers. We encourage creativity and open dialogue to improve on ideas through iteration.

As of December 31, 2015, we had 954 full-time employees, consisting of 755 employees in the United States and 199 employees internationally. This represents a 15% decrease from December 31, 2014. We currently expect only modest changes in headcount in 2016.

Our Competition

Our industry is highly competitive and fragmented. We compete with large, well-established companies such as Google, Facebook, Yahoo! and digital advertising networks. In addition, we compete against other companies that offer robust digital marketing solutions and demand side and data management technology platforms that allow advertisers to purchase inventory directly and manage and analyze their own customer data. We also compete with divisions of certain advertising agencies, including agency trading desks, that place digital advertising on behalf of the agencies' clients, and other companies, many of which claim to use advanced technologies to optimize advertising campaigns. As we introduce new offerings, as our existing offerings evolve, or as other companies introduce new products and services, we may become subject to additional competition.

We compete for advertising revenue based on our ability to meet advertiser goals, the effectiveness and relevance of our offerings, pricing structure, ease-of-use, scalability, cross-channel and cross-device capabilities, customer service, breadth and depth of customer relationships and awareness of our brand. In addition, as we move forward with our Programmatic Marketing Platform, we will also compete based on (i) our ability to offer a comprehensive technology solution that meets the needs of our customers and (ii) the ease of integration with customers' other systems and databases.

Intellectual Property

The protection of our technology and intellectual property is an important component of our success. We rely on intellectual property laws, including trade secret, copyright, trademark and patent laws in the United States and abroad, and use contracts, confidentiality procedures, non-disclosure agreements, employee disclosure and invention assignment agreements and other contractual rights to protect our intellectual property.

In September 2014, we acquired two issued patents and one pending non-provisional patent application in the United States as a result of our acquisition of [x+1]. As of December 31, 2015, we had two issued patents in the United States. Our issued patents are expected to expire between May and September 2022. As of December 31, 2015, we had pending 11 non-provisional patent applications in the United States and one application in Great Britain. In addition, we maintain a trademark portfolio in the United States and abroad, including trademarks or trademark applications in Australia, Brazil, China, European Union, Hong Kong, India, Japan, Singapore and Russia.

Circumstances outside of our control could pose a threat to our intellectual property rights. Effective intellectual property protection may not be available in the United States or other countries in which we provide our solution. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business, our ability to compete and our results of operations.

Privacy and Interest-based Advertising

Much of the acceptance and widespread use of digital media across the globe is attributable to the ability of consumers to access valuable content quickly, without friction, and free of charge. The digital media content providers, or publishers, who support the creation and distribution of this content do so largely by selling advertisements on their properties, similar to the business model of television and radio broadcasters. Online it is possible to serve advertisements to potential consumers based upon interests that are inferred in part from a consumer's online actions and web-browsing history, although some companies have distributed programs call "ad blockers" that online consumers could use to prevent the display of all or some advertising. The use of web browsing history to inform advertising purchase decisions is commonly referred to as "interest-based" or "online behavioral" advertising. Advertisers are willing to make a greater investment in, and pay a higher rate for, digital advertising when this interest-based data can be used to inform decisions about purchasing advertising impressions to reach desired consumers.

The use of interest-based advertising has come under scrutiny by consumer advocacy organizations and regulatory agencies in the U.S. and abroad that focus on online privacy. Because we rely upon access to large volumes of data, including web browsing history, primarily through cookies, it is essential that we monitor developments in this area in the U.S. and globally, and that we engage in responsible privacy practices. The collection of specific geo-location data, including latitude and longitude and IP address, and the collection of mobile device identifiers, are also important signals that assist our technology when optimizing our clients' marketing campaigns. If regulatory agencies and legislative bodies in different regions and markets enact rules or enforce guidance that limits how geo-location and device identification data may be collected and used, it could limit our ability to run successful advertising campaigns for our clients. Our privacy practices are described in our privacy policy, which explains the type of data we collect and use to provide services to advertisers. Our privacy policy can be found on our website at <http://rocketfuel.com/privacy-policy>. The information contained on, or that can be accessed through, our website is not a part of this Annual Report on Form 10-K.

We are also active members of industry self-regulatory organizations, including the Network Advertising Initiative, or "NAI," and the Digital Advertising Alliance, or "DAA," and participate in the Self-Regulatory Program for Online Behavioral Advertising coordinated by the DAA and enforced by both the Direct Marketing Association and the Council of Better Business Bureaus. Similarly, in Europe we are signatories to the IAB Europe EU Framework for Online Behavioural Advertising and are members of the European Digital Advertising Alliance, or EDAA. For further information, please see our Risk Factors in Item 1A "Risk Factors" of this Annual Report on Form 10-K.

Seasonality

In the advertising industry, companies commonly experience significant seasonal fluctuations in revenue. 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 our fiscal year reflects our highest level of advertising

activity and associated revenue, and the first quarter reflects the lowest level of such activity. For more information regarding the impact of seasonality on our business, please refer to Part II, Item 7 of this Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Our Performance."

Financial Information about Segments and Geographic Areas

We manage our operations as a single reportable segment. For information regarding our reporting segment, and revenue and long-lived assets by geographic location please refer to Note 13 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K. For information regarding risks associated with our international operations, please refer to “Risk Factors” in Part I, Item 1A in this Annual Report on Form 10-K.

Available Information

You can obtain copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, free of charge from our website at www.rocketfuel.com as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. The contents of our website are not incorporated into this Annual Report on 10-K or in any report or document we file with the SEC. Further, any references to the URL for our website are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K 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 page 4 of this Annual Report on Form 10-K 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. 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; and
- expand our business internationally

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

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

Our quarterly and annual operating results have fluctuated in the past. Similarly, we expect our future operating results to fluctuate for the foreseeable future due to a variety of factors, many of which are beyond our control. 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;
- 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;
- fluctuations in our non-GAAP net revenue, which varies based on our pricing and on our costs for the purchase of advertising (non-GAAP net revenue is a non-GAAP measure; please see Item 7 of this Annual Report on Form 10-K, "Non-GAAP Measures," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);
- the rate of our investment in people and related infrastructure;
- 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.

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 and for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, we had an accumulated deficit of \$319.3 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 recently commenced the sale of subscription services for our Data Management Platform. 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 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 8 of our Consolidated Financial Statements in Part II, Section 8 of this Annual Report on Form 10-K) results materially over the course of fiscal year 2016. If we fail to achieve such improvements, the banks could revoke our loans. Furthermore, any future losses will continue to impair our liquidity, which could ultimately cause us to become insolvent. 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, and during the fourth quarter of 2015, revenue declined compared to the fourth quarter of 2014. Our revenue growth will continue to suffer if we do not improve our capabilities to attract and retain new customers and sell more solutions to existing 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. 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 DSP managed service solution 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 a point of saturation at which it is challenging to continue to grow our revenue from those advertisers because of

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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 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. During 2014 and 2015, we experienced declines in revenue from some customers that directed more spend through agency trading desks that did not use our DSP or managed 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.

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. On April 22, 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 in 2015, 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 our talent, restructure our organizations, and train new employees.

Expense reduction and greater operational efficiency will 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.

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Our entry into the enterprise self-service market is relatively new, and if we are not recognized as a technology company that can deliver effective, reliable and secure self-service 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 self-service 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 self-service business 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 software. In addition, we must have skilled sales and customer service employees that are capable of working with clients to assess their use of our software. We must be able to develop and execute product roadmaps for clients to facilitate ongoing software feature development and ensure continued client use of our self-service 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 self-service 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 self-service 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 these solutions, and our results of operations will be harmed.

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

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

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 8 of the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K 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;

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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 8 of our Consolidated Financial Statements in Part II, Section 8 of this Annual Report on Form 10-K) 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 that we or our stockholders may consider beneficial. We have failed to comply with similar covenants in the past. For example, as of December 31, 2012, September 30, 2013, and September 30, 2014, we were not in compliance with certain financial and non-financial covenants in applicable secured loan and security agreements, including covenants related to permitted indebtedness for a corporate credit card account balance and limitations on our capital expenditures. Although we have been able to obtain a waiver for each such covenant violation in the past, there is no guarantee that our lender will waive such violations in the future. Our ability to comply with these covenants may be affected by events beyond our control, and future breaches of any of these covenants could result in a default under the 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 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. Although we made progress on these strategies in 2015, 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," effective November 2, 2015. On February 24, 2016, we announced that Rex Jackson will be joining the Company as Chief Financial Officer, or "CFO," effective March 16, 2016. We also hired additional senior leaders in 2015 and early 2016 including a new Chief Marketing Officer and Chief Customer Officer and other sales and business development roles. Our future success depends upon us successfully integrating Mr. Wootton and Mr. Jackson and our other 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. Since November 2014, we have hired several senior executives as well as others in senior leadership roles. We have open positions on our executive and 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, LinkedIn, Twitter and Yahoo! These companies may provide more generous compensation and benefits, more diverse opportunities and better chances for career advancement than we do. Some of these advantages may be more appealing to high-quality candidates and employees than those we have to offer. In addition, the decline in our stock price has created additional challenges related to our ability to compete effectively with respect to equity compensation.

New employees often require significant training and, in many cases, take significant time before they achieve full productivity. As a result, we may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. In addition, as we move into new geographies, we will need to attract and recruit skilled employees in those areas. We have limited experience with recruiting in geographies outside of the United States, and may face additional challenges in attracting, integrating and retaining international employees.

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

Our 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 December 31, 2015, we had \$78.6 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. If a "Do Not Track" web browser setting is adopted by many Internet users, and the standard either imposed by state or federal legislation, or agreed upon by standard setting groups, requires us to recognize a "Do Not Track" signal and prohibits us from using non-personal data as we currently do, then that could hinder growth of advertising and content production on the web generally, and limit the quality and amount of data we are able to store and use, which would cause us to change our business practices and adversely affect our business.

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, 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, or our inability to further penetrate display, mobile, social and video advertising channels 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. In addition, many of our customers may think of us as only providing display advertising solutions, and we must develop marketing strategies that help our sales representatives cross-sell non-display products to our existing customer base. Our failure to achieve market acceptance of our enterprise solutions, including our Programmatic Marketing Platform, would harm our growth prospects, financial condition and results of operations.

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

and related indemnity obligations and other liabilities; and negatively impact our revenue and results of operations. As we grow our business, we expect to continue to invest in technology services, hardware and software, including data centers, network services, storage, and database technologies. Creating the appropriate support for our technology platforms, including big data and computational infrastructure, is expensive and complex, and our execution could result in inefficiencies or operational failures and increased vulnerability to cyber-attacks. We make representations to our customers regarding our security policies and practices. If we do not adequately implement and enforce these security policies to the satisfaction of our customers,

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

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

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

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

The sales cycle for our enterprise business from initial contact with a sales prospect to contract execution and technology implementation, typically takes a significant amount of time and is difficult to predict. The sales cycle in some cases can take up to twelve months or more. Our sales efforts involve educating our customers about the use, technical capabilities and benefits of our platform. Some of our customers undertake a significant evaluation process that frequently involves not only our platform but also the offerings of our competitors. This process is costly and time-consuming. As a result, it is difficult to predict if and when we will obtain new customers and begin generating revenue from these new customers. Because of the long sales cycle, we may incur significant expenses before we have an opportunity to win the sale and execute a definitive agreement with a prospective customer and even more time

before we are able to generate any revenue from any agreement. We have no assurance that the substantial time and money spent on our sales efforts will generate significant revenue, or that the customer engagement will ultimately be profitable. If conditions in the marketplace generally or with a specific prospective customer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any of these expenses.

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

Our business depends in part on providing our advertisers with a service that they trust. We have contractual commitments to take 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 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. As a result, we cannot provide any assurance that we will have access to a consistent supply of quality inventory through real-time advertising exchanges. Moreover, the number of competing intermediaries that purchase advertising inventory from real-time advertising exchanges continues to increase, while the number of suppliers may decline due to consolidation trends in the industry; both of these factors could put upward pressure on inventory costs. If we are unable to compete favorably for advertising inventory available on real-time advertising exchanges, or if real-time advertising exchanges decide not to make their advertising inventory available to us, we may not be able to place advertisements at competitive rates or find alternative sources of inventory with comparable traffic patterns and consumer demographics in a timely manner. Furthermore, the inventory that we access through real-time advertising exchanges may be of low quality or misrepresented to us, despite attempts by us and our suppliers to prevent fraud and conduct quality assurance checks. We may also seek to acquire access to premium inventory directly from publishers for display, mobile and video impressions. Other companies, including large integrated companies that own or have exclusive relationships with publishers, ad exchanges and ad networks, may compete with us and restrict our access to media inventory from their wholly-owned properties or other publishers. Suppliers control the bidding process for the inventory they supply, and their processes may not always work in our favor. For example, suppliers may place restrictions on our use of their inventory, including restrictions that prohibit the placement of advertisements on behalf of certain advertisers. In 2015 Facebook eliminated our access to the Facebook exchange platform, or FBX, requiring us to adapt our offering in order to continue to access advertising inventory from Facebook and expand into mobile advertising with Facebook. Google has also announced changes to YouTube video inventory availability beginning in 2016 that could restrict or eliminate our access to video inventory on YouTube.

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, advertiser retention and loyalty, financial condition and results of operations would be harmed.

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

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

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

There is rapid growth in content consumption on mobile devices. Our success in the mobile channel depends on our ability to access mobile inventory from suppliers, which may also be competitors, on reasonable terms. These suppliers may decide to offer their own solutions and exclude us from reaching quality inventory that they control. Our success also depends upon the ability of our technology platform to integrate with mobile inventory suppliers and provide advertising for most mobile connected devices, as well as the major operating systems that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems is controlled by third parties with whom we do not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability to access specified content on mobile devices. If our solution was unable to work on these devices or operating systems, either because of technological constraints or because an operating system or application developer, device maker or carrier wished to impair, or inadvertently impaired, our ability to purchase inventory and provide advertisements, our ability to generate revenue could be significantly harmed. 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 over 2,500 campaigns at any given time; manage our inventory supply (including inventory quality controls); bid on inventory for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data to optimize campaign performance in real time; and provide billing information to our financial systems. If our technology 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. We may make errors in the measurement of our campaigns causing discrepancies with our advertisers' measurements leading to a lack of confidence in us or, on occasion, the need for advertiser "make-goods," the standard credits given to advertisers for campaigns that have not been delivered properly. Material defects or errors in our enterprise platform, including our DMP solution, could also result in unanticipated costs and harm to our reputation. The software systems underlying the enterprise solutions, including the DMP, are inherently complex and may contain errors that could cause disruption in availability and other performance issues. Such performance issues could result in customers making warranty or other claims against us. Alleviating problems resulting from errors in our software could require significant expenditures of capital and other resources and could cause interruptions, delays or the cessation of our business, any of which would adversely impact our reputation as well as our financial position, results of operations and growth prospects.

As customers increase usage of our enterprise solutions, 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. Our efforts to comply with these principles include offering Internet users notice and transparency when advertising is served to them based, in part, on web browsing data recorded by cookies. We also offer Internet users the ability to opt out of receiving interest-based advertisements based on a cookie we place. However, we have made mistakes in our implementation of these guidelines in the past, and if we make mistakes in the future, or our opt out mechanisms fail to work as designed, or if Internet users misunderstand our technology or our commitments with respect to these principles, we could be subject to negative publicity, government investigation, government or private litigation, or investigation by self-regulatory bodies or other accountability groups. Any such action against us could be costly and time consuming, require us to change our business practices, cause us to divert management's attention and our resources and be damaging to our reputation and our business.

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

Through the first 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 954 employees (755 in the United States and 199 employees overseas) as of December 31, 2015, compared with 1,123 employees (977 and 146 employees in the United States and overseas, respectively), as of December 31, 2014. Both rapid growth and layoffs can make it difficult to eff