Rocket Fuel Inc.
Form 10-Q
August 14, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. On July 31, 2014, 35,854,036 shares of the registrant's common stock, par value $0.001, were outstanding.

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

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TRADEMARKS

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

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Rocket Fuel Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$203,540	$113,873
Accounts receivable, net	93,941	90,502
Deferred tax assets	207	207
Prepaid expenses	2,526	2,164
Other current assets	17,797	3,962
Total current assets	318,011	210,708
Property, equipment and software, net	56,234	25,794
Restricted cash	2,227	—
Other assets	1,315	1,006
Total assets	$377,787	$237,508
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$42,976	$39,910
Accrued and other current liabilities	22,891	21,584
Deferred revenue	1,375	918
Current portion of capital leases	2,566	203
Current portion of debt	9,743	7,243
Total current liabilities	79,551	69,858
Long-term debt—Less current portion	17,168	19,568
Capital leases—Less current portion	4,744	412
Deferred rent—Less current portion	19,629	3,909
Deferred tax liabilities	207	207
Other liabilities	499	387
Total liabilities	121,798	94,341
Commitments and contingencies (Note 12)		
Stockholders' Equity		
Common stock, $0.001 par value— 1,000,000,000 authorized as of June 30, 2014 and December 31, 2013, respectively; 35,825,272 and 32,825,992 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	36	33
Additional paid-in capital	321,403	187,624
Accumulated other comprehensive loss	10	(15)
Accumulated deficit	(65,460)	(44,475)
Total stockholders' equity	255,989	143,167
Total liabilities and stockholders' equity	$377,787	$237,508

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	$92,642	$54,369	$167,039	$92,581
Cost of revenue	46,923	28,981	84,458	49,652
Gross profit	45,719	25,388	82,581	42,929
Operating expenses:				
Research and development	8,434	3,711	15,675	6,123
Sales and marketing	33,789	18,419	63,548	34,649
General and administrative	12,135	5,775	22,475	10,952
Total operating expenses	54,358	27,905	101,698	51,724
Loss from operations	(8,639)	(2,517)	(19,117)	(8,795)
Other expense, net:				
Interest expense	(514)	(229)	(928)	(353)
Other income (expense)—net	(425)	151	(444)	(368)
Change in fair value of convertible preferred stock warrant liability	—	(1,258)	—	(2,355)
Other expense, net	(939)	(1,336)	(1,372)	(3,076)
Loss before income taxes	(9,578)	(3,853)	(20,489)	(11,871)
Provision for income taxes	(181)	14	(496)	(40)
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Basic and diluted net loss per share attributable to common stockholders	$(0.28)	$(0.46)	$(0.61)	$(1.43)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	35,172	8,396	34,606	8,347

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Other comprehensive income (loss): (1)				
Foreign currency translation adjustments	(7)	(10)	25	(41)
Comprehensive loss	$(9,766)	$(3,849)	$(20,960)	$(11,952)

(1) Reclassifications out of Other comprehensive income (loss) into Net loss were not significant.

See Accompanying Notes to Condensed Consolidated Financial Statements.

Rocket Fuel Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Income (Loss)	Deficit	Equity
Balance—December 31, 2013	32,825,992	$33	$187,624	$ (15)	$ (44,475)	$ 143,167
Issuance of common stock upon exercises of employee stock options, net of repurchases	797,822	1	2,473	—	—	2,474
Issuance of common stock upon vesting of restricted stock units	26,606	—	—	—	—	—
Shares withheld related to net share settlement of restricted stock units	(3,598)	—	(53)	—	—	(53)
Issuance of common stock from follow-on offering, net of issuance costs	2,000,000	2	115,401	—	—	115,403
Issuance of common stock in connection with employee stock purchase plan	178,450	—	3,792	—	—	3,792
Stock-based compensation	—	—	12,003	—	—	12,003
Foreign currency translation adjustment	—	—	—	25	—	25
Tax benefit from stock-based award activity	—	—	163	—	—	163
Net loss	—	—	—	—	(20,985)	(20,985)
Balance—June 30, 2014	35,825,272	$36	$321,403	$ 10	$ (65,460)	$ 255,989

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2014	2013
OPERATING ACTIVITIES:		
Net loss	$(20,985)	$(11,911)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,940	2,882
Provision for doubtful accounts	(260)	16
Stock-based compensation	11,241	3,600
Amortization of debt discount	101	1
Excess tax benefit from stock-based activity	(163)	—
Loss (gain) on disposal of property, equipment and software	228	(5)
Change in fair value of preferred stock warrant liability	—	2,355
Changes in operating assets and liabilities:		
Accounts receivable	(3,179)	(12,464)
Prepaid expenses	(362)	123
Other current assets	(13,835)	30
Other assets	(417)	(137)
Accounts payable	(248)	8,181
Accrued and other liabilities	(1,301)	4,094
Deferred rent	15,749	10
Deferred revenue	457	603
Other liabilities	112	—
Net cash used in operating activities	(5,922)	(2,622)
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(19,141)	(2,603)
Capitalized internal-use software development costs	(3,555)	(3,020)
Restricted cash	(2,203)	—
Net cash used in investing activities	(24,899)	(5,623)
FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock in follow-on public offering, net of underwriting discounts and commission	116,510	—
Issuance costs related to initial and follow-on public offering	(1,380)	(298)
Proceeds from exercise of vested common stock options	1,875	51
Proceeds from early exercise of unvested common stock options	17	770
Repurchases of common stock options early exercised	(13)	(1)
Excess tax benefit from stock-based activity	163	—
Proceeds from issuance of common stock from employee stock purchase plan	3,792	—
Tax withholdings related to net share settlements of restricted stock units	(53)	—
Repayment of capital lease obligations	(430)	—
Borrowings from line of credit	—	5,000
Proceeds from issuance of long-term debt	—	10,000
Repayment of long-term debt	—	(113)

Net cash provided by financing activities	120,481	15,409

	Six Months Ended June 30, 2014	2013
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	7	(75)
CHANGE IN CASH AND CASH EQUIVALENTS	89,667	7,089
CASH AND CASH EQUIVALENTS—Beginning of period	113,873	14,896
CASH AND CASH EQUIVALENTS—End of period	$203,540	$21,985
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes	$205	$123
Cash paid for interest	791	302
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment recorded in accounts payable and accruals	$9,079	$828
Offering costs recorded in accrued liabilities	32	1,933
Property, plant and equipment acquired under capital lease obligations	7,350	—
Vesting of early exercised options	576	140
Stock-based compensation capitalized in internal-use software costs	762	—

See Accompanying Notes to Condensed Consolidated Financial Statements.

ROCKET FUEL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Rocket Fuel Inc. (the "Company") was incorporated as a Delaware corporation on March 25, 2008. The Company is a provider of an artificial-intelligence digital advertising solution. The Company is headquartered in Redwood City, California, and has offices in various cities across the United States. The Company established a wholly-owned subsidiary in the United Kingdom in 2011 and in Canada in 2013. The United Kingdom subsidiary has offices throughout Europe and in Australia and established a wholly-owned subsidiary in Germany in 2013.

In September 2013, the Company completed the initial public offering of its common stock (the "IPO") whereby 4,000,000 shares of common stock were sold by the Company and 600,000 shares of common stock were sold by selling stockholders. The public offering price of the shares sold in the offering was $29.00 per share. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The total gross proceeds from the offering to the Company were $116.0 million. After deducting underwriters' discounts and commissions and offering expenses, the aggregate net proceeds received by the Company totaled approximately $103.3 million.

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

Basis of Presentation—The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2013, included in its Annual Report on Form 10-K.

The condensed consolidated balance sheet as of December 31, 2013 included herein was derived from the audited financial statements as of that date, but does not include all notes and other disclosures required by GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year 2014 or any future period.

Principles of Consolidation—The consolidated financial statements include the Company and its wholly-owned subsidiaries in the United Kingdom and Canada, which are currently engaged in marketing and selling advertising campaigns. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates—The preparation of unaudited condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, provisions for doubtful accounts, the amount of software development costs which should be capitalized, future taxable income, the useful lives of long-lived assets and the assumptions used for purposes of determining stock-based compensation. Actual results could differ from those estimates.

Foreign Currency Translation—The Company’s foreign subsidiaries record their assets, liabilities and results of operations in their local currencies, which are their functional currencies. The Company translates its subsidiaries' consolidated financial statements into U.S. dollars each reporting period for purposes of consolidation.
Assets and liabilities of the Company’s foreign subsidiaries are translated at the period-end currency exchange rates, certain equity accounts are translated at historical exchange rates and revenue, expenses, gains and losses are translated at the

average currency exchange rates in effect for the period. The effects of these translation adjustments are reported in a separate component of stockholders’ equity titled accumulated other comprehensive income (loss).
Fair Value of Financial Instruments—The Company’s financial instruments consist principally of cash equivalents, accounts receivable, accounts payable, accrued liabilities, capital leases, term debt and revolving credit facilities. The fair value of the Company’s cash equivalents is determined based on quoted prices in active markets for identical assets for its money market funds. The recorded values of the Company’s accounts receivable, accounts payable and accrued liabilities approximate their current fair values due to the relatively short-term nature of these accounts. The Company believes that the fair value of the capital leases, term debt and revolving credit facilities approximates its recorded amount as of June 30, 2014 as the interest rates on the term debt and revolving credit facilities are variable and the rates for each are based on market interest rates after consideration of default and credit risk.
Cash and Cash Equivalents—Cash consists of cash maintained in checking and savings accounts. All highly liquid investments purchased with an original maturity date of 90 days or less at the date of purchase are considered to be cash equivalents. Cash equivalents consist of money market funds.
Restricted Cash—Restricted cash as of June 30, 2014 consists of cash required to be deposited with financial institutions for security deposits for the Company's London, United Kingdom and Paris, France office lease agreements.
Concentration of Credit Risk—Financial instruments, that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. A significant portion of the Company’s cash is held at four major financial institutions, which management assesses to be of high credit quality. The Company has not experienced any losses in such accounts.
The Company mitigates its credit risk with respect to accounts receivable by performing credit evaluations and monitoring agencies' and advertisers' accounts receivable balances. As of June 30, 2014, two agencies and no single advertiser accounted for 10% of more of accounts receivable. As of December 31, 2013, no single agency or advertiser accounted for 10% or more of accounts receivable.
With respect to revenue concentration, the Company define a customer as an advertiser that is a distinct source of revenue and is legally bound to pay for the advertising services that the Company delivers on the advertiser’s behalf. The Company counts all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with the Company. During the three and six months ended June 30, 2014 and 2013, no single customer represented 10% or more of revenue.

The Company also monitors the percentage of revenue that flows through advertising agencies, even though advertising agencies that act on behalf of the Company’s advertisers are not considered customers based on the definition above. If all branches and divisions within each global advertising agency were considered to be a single agency for this purpose, two and three agencies would have been associated with 10% or more of revenue during the three and six months ended June 30, 2014, respectively, and two agencies would have been associated with 10% or more of revenue during the three and six months ended June 30, 2013.

Provision for Doubtful Accounts—The Company records a provision for doubtful accounts based on historical experience and a detailed assessment of the collectability of its accounts receivable. In estimating the allowance for doubtful accounts, management considers, among other factors, the aging of the accounts receivable, historical write-offs and the credit-worthiness of each customer. If circumstances change, such as higher-than-expected defaults or an unexpected material adverse change in a major customer’s ability to meet its financial obligations, the Company’s estimate of the recoverability of the amounts due could be reduced by a material amount.
The following table presents the changes in the allowance for doubtful accounts (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Allowance for doubtful accounts:				
Balance, beginning of period	$1,090	$468	$1,057	$468
Add: bad debt expense	167	16	201	16
Less: write-offs, net of recoveries	(460)	1	(461)	1
Balance, end of period	$797	$485	$797	$485

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization, as applicable, are removed from the balance sheet and any resulting gain or loss is reflected in operations in the period realized. Construction in progress primarily includes costs related to the leasehold improvements and also includes network equipment infrastructure to support the Company's data centers around the world. Interest capitalized during the periods presented was not material.

Leasehold improvements are amortized on a straight-line basis over the term of the lease, or the useful life of the assets, whichever is shorter. Depreciation and amortization periods for the Company’s property and equipment are as follows:

Asset Classification	Estimated Useful Life
Computer hardware and purchased software	2–3 years
Capitalized internal-use software costs	2–3 years
Office equipment, furniture and fixtures	5 years

Internal-Use Software Development Costs—The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post implementation phases of development as research and development expense. The Company capitalizes costs when preliminary efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and will be used as intended. Costs incurred for enhancements that are expected to result in additional material functionality are capitalized. The Company capitalized $2.2 million and $1.5 million in internal-use software costs during the three months ended June 30, 2014 and 2013, respectively, and $4.3 million and $3.2 million for the six months ended June 30, 2014 and 2013, respectively. These capitalized amounts are included in property, equipment and software—net on the condensed consolidated balance sheets.

Amortization commences when the website or software for internal use is ready for its intended use and the amortization period is the estimated useful life of the related asset, which is generally three years. Amortization expense totaled $1.2 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively, and $2.3 million and $1.6 million for the six months ended June 30, 2014 and 2013, respectively.

Impairment of Long-lived Assets—The Company periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful life is no longer appropriate. If indicators of impairment exist and the undiscounted projected cash flows associated with an asset are less than the carrying amount of the asset, an impairment loss is recorded to write the asset down to its estimated fair value. Fair value is estimated based on discounted future cash flows. No impairment charges were recorded during the three and six months ended June 30, 2014 and 2013.

Revenue Recognition—The Company generates revenue by delivering digital advertisements to Internet users through various channels, including display, mobile, social and video.

The Company recognizes revenue when all four of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or a service has been provided
- Customer fees are fixed or determinable
- Collection is reasonably assured

Revenue arrangements are evidenced by a fully-executed insertion order (“IO”). Generally, IOs state the number and type of advertising impressions (cost-per-thousand) to be delivered, the agreed upon rate for each delivered impression, and a fixed period of time for delivery.

The Company determines collectability by performing ongoing credit evaluations and monitoring its customers’ accounts receivable balances. For new customers and their agents, which may be advertising agencies or other third parties, the Company performs a credit check with an independent credit agency and may check credit references to determine creditworthiness. The Company only recognizes revenue when collection is reasonably assured.

In the normal course of business, the Company frequently contracts with advertising agencies on behalf of their advertiser clients. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, because (a) the Company is the primary obligor and is responsible for (i) fulfilling the advertisement delivery, (ii) establishing the selling prices for delivery of the advertisements, (iii) selecting the media to fulfill the insertion order, and (iv) performing all billing and collection activities including retaining credit risk, and (b) the Company has the risk of fluctuating costs from its media vendors relative to fixed pricing negotiated with its customers and has discretion in selecting media vendors when fulfilling a customer’s campaign, the Company has concluded that it acts as the principal in the majority of these arrangements and therefore reports revenue earned and costs incurred on a gross basis.

On occasion, the Company has offered customer incentive programs that provide rebates after achieving a specified level of advertising spending. The Company records reductions to revenue for estimated commitments related to these customer incentive programs. For transactions involving incentives, the Company recognizes revenue net of the estimated amount to be paid by rebate, provided that the rebate amount can be reasonably and reliably estimated and the other conditions for revenue recognition have been met. The Company’s policy requires that, if rebates cannot be reliably estimated, revenue is not recognized until reliable estimates can be made or the rebate program lapses.

In addition, the Company has licensed a self-service version of its technology platform to a Japanese advertising agency, for use by the agency's customers. Under this licensing agreement, the agency is responsible for the media costs. In this type of arrangement, the Company recognizes its licensing fee revenue on a net basis.

Multiple-Element Arrangements—The Company enters into arrangements to sell advertising that includes different media placements or ad services that are delivered at the same time, or within close proximity of one another.

Beginning on January 1, 2011, the Company adopted new authoritative guidance on multiple element arrangements, using the prospective method for all arrangements entered into or materially modified from the date of adoption.

Under this new guidance, the Company allocates arrangement consideration in multiple-deliverable revenue arrangements at the inception of an arrangement to all deliverables or those packages in which all components of the package are delivered at the same time, based on the relative selling price method in accordance with the selling price hierarchy, which includes: (1) vendor-specific objective evidence (“VSOE”), if available; (2) third-party evidence (“TPE”), if VSOE is not available; and (3) best estimate of selling price (“BESP”), if neither VSOE nor TPE is available.

VSOE—The Company determines VSOE based on its historical pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the stand-alone selling prices for these services fall within a reasonably narrow pricing range. The Company has not been able to establish VSOE for any of its advertising offerings.

TPE—When VSOE cannot be established for deliverables in multiple element arrangements, the Company applies judgment with respect to whether it can establish a selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company’s go-to-market strategy differs from that of its peers and its offerings contain a significant level of differentiation such that the comparable pricing of services cannot be obtained. Furthermore, the Company is unable to reliably determine the selling prices of similar competitor services on a stand-alone basis. As a result, the Company has not been able to establish selling price based on TPE.

BESP—When it is unable to establish selling price using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the service were sold on a stand-alone basis. BESP is generally used to allocate the selling price to deliverables in the Company's multiple element arrangements. The Company determines BESP for deliverables by considering multiple factors, including, but not limited to, prices it charges for similar offerings, market conditions, competitive landscape and pricing practices. In particular, the Company reviews multiple data points to determine BESP, including price lists used by the Company's sales team in pricing negotiations, historical average and median pricing achieved in prior contractual customer arrangements and input from the Company's sales operation department regarding what it believes the deliverables could be sold for on a stand-alone basis. BESP is determined at an advertising unit level that is consistent with the Company's underlying market strategy and stratified based on specific consideration of channel, geography, industry and size, as deemed necessary.

The Company limits the amount of allocable arrangement consideration to amounts that are fixed or determinable and that are not contingent on future performance or future deliverables. The Company regularly reviews BESP. Changes in assumptions or judgments or changes to the elements in the arrangement could cause a material increase or decrease in the amount of revenue that the Company reports in a particular period.

The Company recognizes the relative fair value of advertising services as they are delivered, assuming all other revenue recognition criteria are met. Deferred revenue is comprised of contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Cost of Revenue—Cost of revenue consists primarily of media cost for advertising impressions purchased from real-time advertising exchanges and other third parties. Cost of revenue also includes third-party data center costs and the salaries and related costs of the Company's operations group. This group sets up, initiates and monitors the Company's advertising campaigns. In addition, depreciation of the data center equipment, rental payments to third-party vendors for data centers and amortization of capitalized internal-use software are included in cost of revenue.

Research and Development—Research and development expenses include costs associated with the maintenance and ongoing development of the Company's technology, including compensation and employee benefits and allocated costs associated with the Company's engineering and research and development departments, as well as costs for contracted services and supplies. Allocated costs include charges for facilities, office expenses, telephones, and other miscellaneous expenses. The Company reviews costs incurred in the application development stage and assesses such costs for potential capitalization.

Sales and Marketing—Sales and marketing expenses consist primarily of compensation (including commissions) and employee benefits of sales and marketing personnel and related support teams, allocated costs, certain advertising costs, travel, trade shows and marketing materials. Allocated costs include charges for facilities, office expenses, telephones, and other miscellaneous expenses. The Company incurred advertising costs of $1.8 million and less than $0.1 million for the three months ended June 30, 2014 and 2013, respectively, and $3.0 million and $0.1 million for the six months ended June 30, 2014 and 2013, respectively.

General and Administrative—General and administrative expenses include facilities costs, executive and administrative compensation and employee benefits, depreciation, professional services fees, insurance costs, bad debt and other allocated costs, such as facility-related expenses, supplies and other fixed costs. Allocated costs include charges for facilities, office expenses, telephones, and other miscellaneous expenses.

Stock-based Compensation—The Company measures compensation expense for all stock-based payment awards, including stock options granted to employees, based on the estimated fair value of the awards on the date of the grant. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. Stock-based compensation is recognized on a straight-line basis over the requisite vesting period, net of estimated forfeitures. The forfeiture rate is based on an analysis of the Company's actual historical forfeitures.

The Company accounts for stock options issued to non-employees based on the fair value of the awards determined using the Black-Scholes option pricing model. The fair value of stock options granted to non-employees is re-measured as the stock options vest, and the resulting change in fair value, if any, is recognized in the Company's condensed consolidated statement of operations during the period the related services are rendered, generally between one and four years.

Preferred Stock Warrant Liability—Freestanding warrants related to shares that are redeemable or contingently redeemable were classified as a liability on the Company’s condensed consolidated balance sheet. The fully-vested convertible preferred stock warrants were subject to re-measurement at each balance sheet date, and any change in fair value is recognized as a component of other expense, net. As completion of the Company’s initial public offering constituted a liquidation event, the convertible preferred stock warrants were converted into common stock or warrants to purchase common stock, and the liability was reclassified to additional paid-in capital in the third quarter of 2013.

Income Taxes—The Company accounts for income taxes using an asset and liability approach. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Operating loss and tax credit carry-forwards are measured by applying currently enacted tax laws. Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized. Due to uncertainty as to the realization of benefits from deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, the Company has provided a full valuation allowance reserved against such assets as of June 30, 2014 and December 31, 2013.

The Company recognizes the tax effects of an uncertain tax position only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date, and then, only in an amount more likely than not to be sustained upon review by the tax authorities. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Deferred Offering Costs—Deferred offering costs consisted primarily of direct incremental costs related to the Company’s public offerings of its common stock. Approximately $0.1 million of deferred offering costs were included in other assets on the Company’s condensed consolidated balance sheet as of December 31, 2013. No deferred offering costs are included as of June 30, 2014. Upon completion of the offerings, these amounts were offset against the proceeds of the offerings.

Recently Issued and Adopted Accounting Pronouncements—Under the Jumpstart Our Business Startups Act (the "JOBS Act"), we qualify as an “emerging growth company.” We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act, and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

In July 2013, the FASB issued new guidance related to income tax presentation. The guidance requires an entity to present its unrecognized tax benefits net of its deferred tax assets when settlement in this manner is available under the tax law, which would be based on facts and circumstances as of the balance sheet reporting date and would not consider future events. Gross presentation of unrecognized tax benefit will still be required in the notes to the financial statements. ASU 2013-11 will apply on a prospective basis to all unrecognized tax benefits that exist at the effective date. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We have not yet determined if we will apply this new accounting standard retrospectively or as a cumulative-effect adjustment and are in the process of evaluating the impact of adopting this standard on our financial statements.

NOTE 2. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The FASB has established a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active

markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).
The three levels of the fair value hierarchy under the guidance for fair value measurement are described below:

Level 1	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Pricing inputs are based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. For securities, the valuations are based on quoted prices of the security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required. As of June 30, 2014 and December 31, 2013, the Company used Level 1 assumptions for its money market funds.
Level 2	Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. As of June 30, 2014 and December 31, 2013, the Company did not have any Level 2 financial assets or liabilities.
Level 3	Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. As of June 30, 2014 and December 31, 2013, the Company did not have any Level 3 financial assets or liabilities.

The carrying amounts of cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these items. Based on the borrowing rates currently available to the Company for debt with similar terms, the carrying value of the capital lease, term debt and line of credit approximate fair value (using Level 2 inputs).

The following tables set forth the Company's financial instruments that were measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, by level within the fair value hierarchy. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. The Company's fair value hierarchy for its financial assets and financial liabilities that are carried at fair value are as follows (in thousands):

June 30, 2014	Fair Value	Level 1	Level 2	Level 3
Money market funds (included in cash and cash equivalents)	$127,902	$127,902	$—	$—

December 31, 2013	Fair Value	Level 1	Level 2	Level 3
Money market funds (included in cash and cash equivalents)	$2,900	$2,900	$—	$—

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Cash and cash equivalents:		
Cash	$75,638	$110,973
Money market funds	127,902	2,900
Total cash and cash equivalents	$203,540	$113,873

NOTE 4. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Capitalized internal-use software costs	$18,347	$14,030
Computer hardware and software	26,799	17,077
Furniture and fixtures	5,627	1,735
Leasehold improvements	23,352	815
Construction in progress	—	3,622
Total	74,125	37,279
Accumulated depreciation and amortization	(17,891)	(11,485)
Total property, equipment and software, net	$56,234	$25,794

Total depreciation and amortization expense, excluding amortization of internal-use software costs, was $2.7 million and $0.7 million for the three months ended June 30, 2014 and 2013, respectively, and $4.5 million and $1.3 million for the six months ended June 30, 2014 and 2013, respectively. Amortization expense of internal-use software costs was $1.2 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively, and $2.3 million and $1.6 million for the six months ended June 30, 2014 and 2013, respectively. Refer to Note 6 for details of the Company's capital leases as of June 30, 2014 and December 31, 2013.

NOTE 5. ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities as of June 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Payroll and related expenses	$8,075	$10,722
Accrued vacation	455	2,220
Professional services	492	650
Accrued credit cards	261	774
Early exercise of unvested stock options	513	1,107
Employee stock purchase plan	864	1,427
Other accrued expenses	12,231	4,684
Total accrued and other current liabilities	$22,891	$21,584

NOTE 6. CAPITAL LEASES

Property and equipment at June 30, 2014 and December 31, 2013 included $8.0 million and $0.6 million, respectively, acquired under capital lease agreements of which the majority consists of computer hardware and software. There was $0.4 million and $0 of accumulated depreciation of property and equipment acquired under these capital leases at June 30, 2014 and December 31, 2013, respectively. The related depreciation is included in depreciation expense.

Approximate remaining future minimum lease payments under these non-cancelable capital leases as of June 30, 2014 were as follows (in thousands):

Year ending December 31,	Future Payments
2014 (remaining 6 months)	$1,451
2015	2,902
2016	2,892
2017	648
Thereafter	—
Total minimum lease payments	$7,893
Less: amount representing interest and taxes	(583)
Less: current portion of minimum lease payments	(2,566)
Capital lease obligations, net of current portion	$4,744

NOTE 7. OTHER INCOME (EXPENSE)—NET

Other income (expense)—net for the three and six months ended June 30, 2014 and 2013, consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gain (loss) on foreign translation	$(432)	$97	$(461)	$(459)
Other non-operating income (loss), net	7	54	17	91
Total other income (expense)—net	$(425)	$151	$(444)	$(368)

NOTE 8. DEBT

Loan Facility—On December 20, 2013, the Company entered into an Amended and Restated Revolving Credit and Term Loan Agreement (the "Loan Facility") with certain lenders, including Comerica Bank, as administrative agent for the lenders. The Company then entered into a First Amendment of the Loan Facility on June 30, 2014. The Loan Facility provides for an $80.0 million revolving credit facility, with a $12.0 million letter of credit subfacility, as amended from $5.0 million, and a $1.5 million swingline subfacility, and a $20.0 million secured term loan facility. The Loan Facility permits the Company, subject to certain requirements, to request an increase in the maximum revolving commitments under the Loan Facility by up to $25.0 million in additional revolving commitments. Revolving loans may be advanced under the Loan Facility in amounts up to the lesser of the $80.0 million maximum and a borrowing base equal to 85% of the value of eligible accounts receivable. The borrowing base is subject to certain reserves and eligibility criteria. Comerica may also issue letters of credit under the subfacility, as amended, up to $12.0 million, provided that the aggregate amount of advances outstanding under the revolving facility, the subfacility and the swingline facility do not exceed the lesser of the $80.0 million maximum and the borrowing base amount. If at any time the aggregate amounts outstanding under the revolving facility, the letter of credit subfacility and the swingline facility exceed the lesser of the $80.0 million maximum and the borrowing base then in effect, then the Company must make a prepayment in an amount sufficient to eliminate the excess. Term loans equal to $20.0 million were advanced to the Company under the term loan facility during December 2013. Loan proceeds may be used for general corporate purposes. The Company may prepay revolving loans and term loans under the Loan Facility in whole or in part at any time without premium or penalty, subject to certain conditions.

Revolving loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the Loan Facility, plus a spread of 1.75% to 2.50%, or (ii) a LIBOR rate determined pursuant to the terms of the Loan Facility, plus a spread of 2.75% to 3.50%. Term loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the Loan Facility, plus a spread of 2.75% to 3.50%, or (ii) a LIBOR rate determined pursuant to the terms of the Loan Facility, plus a spread of 3.75% to 4.50%. In each case, the spread is based on the cash reflected on the Company's balance sheet for the preceding fiscal quarter. The base rate is determined by taking the greatest of (i) the prime rate announced by Comerica, (ii) the federal funds rate plus 1.0% and (iii) the daily adjusting LIBOR rate plus 1.0%. Interest is due and payable quarterly in arrears for base rate loans. Interest is due and payable at the end of an interest period (or at each three months interval in the case of loans with interest

periods greater than three months) for LIBOR rate loans. Term loans will be repaid in quarterly principal installments of approximately $1.3 million commencing in January 2015, with any remaining principal, together with all accrued and unpaid interest, due and payable on December 20, 2018. Principal, together with all accrued and unpaid interest, on the revolving loans are due and payable on December 20, 2016.
The Company is required to maintain certain financial covenants under the Loan Facility, including the following:
EBITDA. The Company is required to maintain specified quarterly EBITDA, which is defined for this purpose, with respect to any fiscal period as an amount equal to the sum of (i) consolidated net income (loss) in accordance with GAAP, after eliminating all extraordinary nonrecurring items of income, plus (ii) depreciation and amortization, income tax expense, total interest expense paid or accrued, non-cash stock-based compensation expense, costs and expenses from permitted acquisitions up to certain limits, costs and expenses in connection with the Loan Facility and any other expenses agreed with Comerica and the lenders, payroll-related expenses incurred in connection with the exercise of employee stock options up to certain limits, less (iii) all extraordinary and non-recurring revenues and gains (including income tax benefits).
Liquidity ratio. Under the Loan Facility, the ratio of (i) the sum of all cash on deposit with Comerica and certain other domestic financial institutions and the aggregate amount of all eligible accounts receivable to (ii) all indebtedness owing to the lender of the Loan Facility must be at least 1.10 to 1.00.
The terms of the Loan Facility also require the Company to comply with certain non-financial covenants. As of June 30, 2014, the Company was in compliance with each of the financial and non-financial covenants.
Future Payments
Future principal payments of long-term debt as of June 30, 2014 were as follows (in thousands):

Year ending December 31,	Future Payments	
2014 (remaining 6 months)	$—	
2015	5,000	
2016	5,000	
2017	5,000	
2018	5,000	
Total	20,000	
Less: current portion of long-term debt	(2,500	)
Long-term debt, net of current portion	$17,500	

As of June 30, 2014, the $7.4 million balance outstanding under the revolving credit facility had a maturity date of December 20, 2016, and because the Company has the option to draw upon the facility or repay borrowed funds at any time, the balance is shown as a current liability in the accompanying consolidated balance sheet. Additionally, the debt liabilities on the condensed consolidated balance sheet are net of $0.5 million in debt discounts.
NOTE 9. STOCKHOLDERS' EQUITY
Follow-on Offering

In February 2014, the Company completed an underwritten follow-on public offering of its common stock in which 2,000,000 shares of common stock were sold by the Company and 3,000,000 shares of common stock were sold by selling stockholders. The public offering price of the shares sold in the offering was $61.00 per share. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The total gross proceeds from the offering to the Company were $122.0 million. After deducting underwriters' discounts and commissions and offering expenses, the aggregate net proceeds received by the Company totaled approximately $115.4 million.
Reserved Shares of Common Stock—The Company's shares of capital stock reserved for issuance as of June 30, 2014 were as follows:

	June 30, 2014
Options outstanding	6,926,466
Restricted stock units outstanding	845,009
Available for future stock option and restricted stock unit grants	5,450,545
Available for future employee stock purchase plan purchases	1,478,069
Total shares reserved	14,700,089

2008 Equity Incentive Plan—The 2008 Equity Incentive Plan (the “2008 Plan”) provides for the grant of incentive stock options and nonqualified stock options. The compensation committee of the Company's board of directors has the authority to approve the employees and non-employees to whom options are granted and determine the terms of each option, including (i) the number of shares of common stock subject to the option; (ii) when the option becomes exercisable; (iii) the option exercise price, which, in the case of incentive stock options, must be at least 100% of the fair market value of the common stock as of the date of grant; and (iv) the duration of the option (which, in the case of incentive stock options, may not exceed 10 years). Options granted under the 2008 Plan generally vest over four years and expire no later than 10 years from the date of grant. The Company has terminated the 2008 Plan for future use, and no further equity awards are to be granted under the 2008 Plan. All outstanding awards under the 2008 Plan will continue to be governed by their existing terms.

Under the terms of the 2008 Plan, certain employees received the right to exercise unvested options. Upon termination of service, an employee’s unvested shares may be repurchased by the Company at the original purchase price. As of June 30, 2014 and December 31, 2013, 180,142 and 315,579 unvested shares, respectively, were subject to repurchase. During the six months ended June 30, 2014 and year ended December 31, 2013, the Company repurchased 19,876 and 5,834 shares of unvested stock, respectively.

2013 Equity Incentive Plan—The Company’s board of directors adopted and the Company’s stockholders approved a 2013 Equity Incentive Plan (the “2013 Plan”), which became effective September 18, 2013. The 2013 Plan permits the grant of incentive stock options, within the meaning of Section 422 of the Code, to the Company’s employees and any parent and subsidiary corporations’ employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to the Company’s employees, directors and consultants and the Company’s parent and subsidiary corporations’ employees and consultants.

A total of 5,000,000 shares of common stock were reserved for issuance upon initial adoption of the 2013 Plan. In addition, the shares to be reserved for issuance under the 2013 Plan will also include shares subject to stock options or similar awards granted under the 2008 Plan that expire or terminate without having been exercised in full and shares issued pursuant to awards granted under the 2008 Plan that are forfeited to or repurchased by the Company (provided that the maximum number of shares that may be added to the 2013 Plan pursuant to this provision is 7,900,000 shares).

The number of shares available for issuance under the 2013 Plan also includes an annual increase on the first day of each fiscal year beginning in 2014, equal to the least of (i) 4,000,000 shares; (ii) 5% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year; or (iii) such other amount as the Company’s board of directors may determine. Effective January 1, 2014, 1,641,299 shares were added to the shares reserved for issuance under the 2013 Plan according to the terms described above.

The compensation committee of the board of directors has the authority to approve the employees and other service providers to whom equity awards are granted and to determine the terms of each award, subject to the terms of the 2013 Plan. The compensation committee may determine the number of shares subject to an award, except that awards to non-employee members of the board of directors are determined under the Company's Outside Director Compensation Policy. Options and stock appreciation rights granted under the 2013 Plan must have a per share exercise price equal to at least 100% of the fair market value of a shares of the Company's common stock as of the date of grant and may not expire later than 10 years from the date of grant.

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The following tables summarize option award activity:

	Number of Shares Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2013	7,410,588	$6.97	8.5	$404,106
Options granted (weighted average fair value of $24.89 per share)	487,408	45.90		
Options exercised	(817,698)	2.31		
Options forfeited	(153,832)	14.58		
Balance at June 30, 2014	6,926,466	$10.09	8.2	$153,917
Options vested and expected to vest—June 30, 2014	6,534,456	$9.68	8.2	$147,117
Options vested and exercisable—June 30, 2014	3,127,695	$5.32	7.7	$80,606

Aggregate intrinsic value represents the difference between the Company’s estimated fair value of its common stock and the exercise price of outstanding in-the-money options. The total intrinsic value of options exercised was approximately $12.7 million and $0.2 million for the three months ended June 30, 2014 and 2013, respectively, and $28.0 million and $1.4 million for the six months ended June 30, 2014 and 2013, respectively.

Employee Stock-based Compensation—The fair value of options on the date of grant is estimated based on the Black-Scholes option-pricing model using the single-option award approach with the weighted-average assumptions set forth below. Expected term represents the period that the Company’s stock-based awards are expected to be outstanding and is determined based on the simplified method. Due to the lack of historical exercise activity for the Company, the simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award. Volatility is estimated using comparable public company volatility for similar option terms until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term.

As the Company has never paid cash dividends, and at present, has no intention to pay cash dividends in the future, expected dividends are zero. Expected forfeitures are based on the Company’s historical experience. The Company uses the straight-line method for expense recognition.

The assumptions used to value stock-based awards granted to employees were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term (years)	5.5–6.3	5.9–6.1	5.5–6.3	5.9–6.6
Volatility	57.8%–58.0%	61.7%	55.6%–58.0%	61.7%–64.9%
Risk-free interest rate	1.96%–1.97%	1.04%–1.08%	1.85%–1.97%	1.04%–1.26%
Dividend yield	—	—	—	—

As of June 30, 2014 and December 31, 2013, unamortized stock-based compensation expense related to unvested common stock options was $30.4 million and $21.7 million, respectively. The weighted-average period over which such stock-based compensation expense will be recognized is approximately 2.4 years.

Options to Non-employees—The Company granted 2,000 and 2,000 stock options to non-employees (other than non-employee directors, who are considered "employees" for purposes of the 2013 Plan) for the three months ended June 30, 2014 and 2013, respectively, and 2,000 and 7,000 stock options to non-employees for the six months ended June 30, 2014 and 2013, respectively. Stock options granted to non-employees are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. The fair value of options granted to non-employees is expensed when vested.
The Company recorded stock-based compensation expense for options issued to non-employees of less than $0.1 million and $0.1 million of for three months ended June 30, 2014 and 2013, respectively, and $0.1 million and $0.1 million for the six months ended June 30, 2014 and 2013, respectively. Options to non-employees of 5,900 and 8,900 were outstanding as of June 30, 2014 and December 31, 2013, respectively.
Restricted Stock—The Company issued no shares pursuant to restricted stock purchase agreements during the three and six months ended June 30, 2014 and 2013.
Restricted Stock Units (RSUs)—A summary of RSU activity for the six months ended June 30, 2014 is as follows:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	382,402		55.86
Granted	520,358		35.34
Vested and issued	(26,606	)	32.07
Canceled	(31,145	)	51.15
Unvested at June 30, 2014	845,009		44.15

The Company recognized stock-based compensation expense associated with the RSUs of $2.5 million and $0 for the three months ended June 30, 2014 and 2013, respectively, and $4.3 million and $0 for the six months ended June 30, 2014 and 2013, respectively. At June 30, 2014, unrecognized compensation expense related to the RSUs was $27.2 million. The unrecognized compensation expense will be amortized on a straight-line basis through 2018. The total fair value of RSUs vested and issued during the three and six months ended June 30, 2014 was $0.6 million and $0.8 million, respectively.
Employee Stock Purchase Plan

In August 2013, the Company’s board of directors adopted and the stockholders approved the Company’s 2013 Employee Stock Purchase Plan (the “ESPP”), which became effective upon adoption by the Company’s board of directors. The ESPP allows eligible employees to purchase shares of the Company’s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The offering periods generally start on the first trading day on or after June 1 and December 1 of each year and end on the first trading day on or before November 30 and May 31 approximately six months later. The administrator may, in its discretion, modify the terms of future offering periods. Due to the timing of the Company's initial public offering, the first offering period started on October 1, 2013 and ended on May 31, 2014. At the end of each offering period, employees are able to purchase shares at 85% of the lower of the fair market value of the Company’s common stock on the first trading day of the offering period or on the last trading day of the offering period. As of June 30, 2014, total compensation costs related to rights to purchase shares of common stock under the ESPP offering period ending November 30, 2014, but not yet vested were approximately $1.7 million, which will be recognized over the offering period.

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

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

Equity compensation allocation

The following table summarizes the allocation of stock-based compensation and restricted stock expense for employees and non-employees in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	$276	$91	$528	$118
Research and development	1,311	368	2,298	759
Sales and marketing	2,748	808	4,915	1,320
General and administrative	1,664	768	3,215	1,403
Total *	$5,999	$2,035	$10,956	$3,600

* The table above includes the impact of the issuance of restricted stock at fair value

NOTE 10. NET INCOME (LOSS) PER SHARE

The Company calculates its basic and diluted net income (loss) per share attributable to common stockholders in conformity with the two-class method required for companies with participating securities. Under the two-class method, in periods when the Company has net income, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period convertible preferred stock non-cumulative dividends, between common stock and convertible preferred stock. In computing diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. The Company’s basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, convertible preferred stock, options to purchase common stock and preferred stock warrants are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

Basic loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee stock-based awards and warrants. Because the Company had net losses for the three and six months ended June 30, 2014 and 2013, all potential shares of common stock were determined to be anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Weighted-average shares used to compute basic and diluted net loss per share	35,172	8,396	34,606	8,347
Basic and diluted net loss per share	$(0.28)	$(0.46)	$(0.61)	$(1.43)

The following securities were excluded from the calculation of diluted net loss per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Convertible preferred stock	—	19,479	—	19,479
Employee stock options	6,926	7,607	6,926	7,607
Shares subject to repurchase	180	—	180	—
Restricted stock units (RSUs)	845	—	845	—
Employee stock purchase plan	42	—	42	—
Convertible preferred stock warrants	—	267	—	267
	7,993	27,353	7,993	27,353

NOTE 11. INCOME TAXES

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

The Company recorded an income tax provision of $0.2 million and $0.0 million for the three months ended June 30, 2014 and 2013, respectively, related to foreign income taxes and state minimum taxes and $0.5 million and $0.0 million for the six months ended June 30, 2014 and 2013, respectively. The primary difference between the effective tax rate and the federal statutory tax rate in the United States relates to the valuation allowances on the Company’s net operating losses, foreign tax rate differences, and non-deductible stock-based compensation expense.

Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized. Due to uncertainty as to the realization of benefits from deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, the Company has provided a full valuation allowance reserved against such assets as of June 30, 2014 and December 31, 2013.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company has operating lease agreements for office space for administration, research and development and sales and marketing activities in the United States that expire at various dates, with the latest expiration date in 2024.

The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. Rent expense was $3.6 million and $0.7 million for the three months ended June 30, 2014 and 2013, respectively, and $6.8 million and $1.4 million for the six months ended June 30, 2014 and 2013, respectively.

Approximate remaining future minimum lease payments under these non-cancelable operating leases as of June 30, 2014 were as follows (in thousands):

Year ending December 31,	Future Payments
2014 (remaining 6 months)	$4,085
2015	15,765
2016	19,363
2017	19,495
2018	18,270
Thereafter	65,417
	$142,395

Please refer to Note 6 for details of the Company's capital lease commitments as of June 30, 2014 and December 31, 2013.

Letters of Credit and Bank Guarantees—As of June 30, 2014 and December 31, 2013, the Company had irrevocable letters of credit outstanding in the amount of $5.4 million and $3.4 million, respectively, for the benefit of a landlord related to non-cancelable facilities leases. The letters of credit have various expiration dates, with the latest being June 2025.

As of June 30, 2014, the Company had $2.2 million in bank guarantees for security deposits for the Company's London, United Kingdom and Paris, France office lease agreements. These amounts are classified as restricted cash on the Company's condensed consolidated balance sheets.

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

Legal Proceedings—The Company is not currently a party to any legal proceedings, litigation, or claims that could materially affect its business, results of operations, cash flows, or financial position. The Company may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As its growth continues, the Company may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's future financial position, results of operations or cash flows.

NOTE 13. RETIREMENT PLANS

The Company has established a 401(k) plan to provide tax deferred salary deductions for all eligible employees. Participants may make voluntary contributions to the 401(k) plan, limited by certain Internal Revenue Service restrictions. The Company is responsible for the administrative costs of the 401(k) plan. The Company does not match employee contributions.

NOTE 14. SEGMENTS

The Company considers operating segments to be components of the Company's business for which separate financial information is available that is evaluated regularly by the Company’s chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held

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accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reportable segment.
The following table summarizes total revenue generated through sales personnel located in the respective locations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
North America	$77,924	$48,397	$140,571	$81,246
All Other Countries	14,718	5,972	26,468	11,335
Total revenue	$92,642	$54,369	$167,039	$92,581

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

	June 30, 2014	December 31, 2013
North America	$52,695	$23,956
All Other Countries	3,539	1,838
Total long-lived assets	$56,234	$25,794

As of June 30, 2014, two agencies and no single advertiser accounted for 10% of more of accounts receivable. As of December 31, 2013, no single agency or advertiser accounted for 10% or more of accounts receivable.

With respect to revenue concentration, the Company define a customer as an advertiser that is a distinct source of revenue and is legally bound to pay for the advertising services that the Company delivers on the advertiser's behalf. The Company counts all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with the Company. During the three and six months ended June 30, 2014 and 2013, no single customer represented 10% or more of revenue.

The Company also monitors the percentage of revenue that flows through advertising agencies, even though advertising agencies that act on behalf of the Company's advertisers are not considered customers based on the definition above. If all branches and divisions within each global advertising agency were considered to be a single agency for this purpose, two and three agencies would have been associated with 10% or more of revenue during the three and six months ended June 30, 2014, respectively, and two agencies would have been associated with 10% or more of revenue during the three and six months ended June 30, 2013.

NOTE 15. SUBSEQUENT EVENTS

On August 4, 2014, the Company and [x+1], Inc., a Delaware corporation ("[x+1]") entered into a definitive agreement under which the Company will acquire [x+1] in a cash and stock transaction, with an enterprise value of approximately $230 million. The transaction will be accomplished through the Company's acquisition of X Plus Two Solutions, Inc., a Delaware corporation of which [x+1] is the sole asset (the "Parent") pursuant to an Agreement and Plan of Merger, dated as of August 4, 2014 (the "Merger Agreement"). Under the terms of the agreement, if the transaction closes, all outstanding shares of the Parent's capital stock and options to purchase the Parent's capital stock will be cancelled in exchange for an aggregate of 5,367,797 shares of the Company's common stock valued at $130.0 million (based on the average closing price of the twenty trading days preceding August 4, 2014, of $24.22 per share) and $100.0 million in cash, subject to certain adjustments as set forth in the Merger Agreement. The Closing of the Merger is subject to customary closing conditions, including regulatory approvals. The Merger is anticipated to close by early in the fourth quarter of 2014.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, (the "Exchange Act"). The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "v "project," "plan," "expect" and similar expressions that convey uncertain expectations 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:

- our future financial and operating results;
- the anticipated closing of the acquisition of [x+1] (including the expectation that the acquisition will close by early in the fourth quarter of 2014) and the expected impact of the acquisition on our financial condition and results of operations;
- our ability to maintain an adequate rate of revenue growth;
- our capital investment plans and our ability to effectively manage those investments;
- our growth strategy;
- our future operating expenses, including changes in research and development, sales and marketing and general and administrative expenses;
- our ability to timely and effectively adapt our existing technology;
- our ability to introduce new offerings that gain market acceptance, including the recently announced expansion of our self-service platform;
- our ability to continue to expand internationally;
- our ability to fulfill covenants and obligations under our existing business agreements;
- our ability to manage our cash to meet our liquidity needs;
- the effects of increased competition in our market and our ability to compete effectively;
- our plans to use the proceeds from our initial and follow-on public offerings;
- future acquisitions of or investments in complementary companies or technologies;
- our expectations concerning relationships with third parties; and
- the effects of seasonal trends on our results of operations.

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

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results and circumstances described in the forward-looking statements will be achieved or occur. Moreover, 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 Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Overview

Rocket Fuel is a technology company that has developed an Artificial Intelligence and Big Data-driven predictive modeling and automated decision-making platform. Our Artificial Intelligence, or AI, system autonomously purchases ad spots, or impressions, one at a time, on 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. As our revenue retention rate was 149% and 168% for the twelve months ended June 30, 2014 and December 31, 2013, respectively. We define our "revenue retention rate" with respect to a given twelve-month period as (i) revenue recognized during such period from customers that contributed to revenue recognized in the prior twelve-month period divided by (ii) total revenue recognized in the prior twelve-month period. For the past twelve trailing months, as of June 30, 2014, our active customer base included 84 of the Advertising Age 100 Leading National Advertisers and 60 of the Fortune 100 companies. Additionally, as of June 30, 2014, we had 100 customers with more than $1 million in lifetime spend with us, with 51 of these 100 trusting us with over $2 million in lifetime spend and 14 of these 100 trusting us with over $5 million in lifetime spend.

Our solution is designed to optimize both direct-response campaigns focused on generating specific consumer purchases or responses, generally defined as cost per action goals, as well as brand campaigns geared towards lifting brand metrics, generally defined as cost-per-click and brand survey goals. For the three and six months ended June 30, 2014 and 2013, direct response campaigns contributed approximately two-thirds of our revenue, with the remaining one-third of our revenue generated through brand campaigns. We have successfully run advertising campaigns for products and brands ranging from consumer products to luxury automobiles to travel and had served well over 280 billion impressions as of June 30, 2014. As of June 30, 2014, our computational infrastructure supported over 34,000 CPU cores in eight data centers and housed 17 petabytes of compressed data.

We generate revenue by delivering digital advertisements to consumers through our platform across display, mobile, social and video channels. Historically, our revenue has predominantly come from display advertising because display advertising inventory was the first to be made available for programmatic buying through real-time advertising exchanges. The digital advertising industry is rapidly adopting programmatic buying for mobile, social and video advertising, accelerating the amount of digital advertising inventory available through real-time advertising exchanges. We offer a single solution for advertisers across all of these channels to compete for a larger share of advertisers' budgets. While a majority of our revenue currently comes from display advertising, we are focused on offering advertisers a comprehensive solution that addresses the display, mobile, social and video channels.

Our contracts typically have a term of less than one year, and we recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. Our revenue recognition policies are discussed in more detail under "Note 1—Nature of Business and Summary of Significant Accounting Policies" in the notes to our condensed consolidated financial statements included in Part I, Item 1.

In August 2014, we signed a definitive agreement to acquire [x+1], Inc., a provider of programmatic marketing and data management solutions. Under the terms of the agreement, we expect to pay $100 million in cash and approximately 5.4 million shares of our common stock as consideration, which, based on the average of the observed closing prices of our common stock for the 20 trading days prior to the signing of the definitive agreement, represents an enterprise value of $230 million. The transaction is subject to regulatory approvals and satisfaction of customary closing conditions, including Hart-Scott-Rodino clearance in the U.S., and is expected to close by early in the fourth quarter of 2014. See "Note 15 - Subsequent Events" in the notes to our condensed consolidated financial statements included in Part I, Item 1 for additional information regarding our proposed acquisition of [x+1].

We plan to invest for long-term growth. We anticipate that our operating expenses will increase significantly in the foreseeable future as we invest in research and development to enhance our solution, in sales and marketing to acquire new customers and reinforce our relationships with existing customers and in our infrastructure, including our IT, financial and administrative systems and controls. On August 5, 2014, we entered into an agreement to acquire [x+1]. See “Note 15 - Subsequent Events” in the notes to our condensed consolidated financial statements included in Part I, Item 1. If the transaction closes as anticipated by early in the fourth quarter of 2014, it will result in an increase in our operating expenses on the date we close the transaction. We believe that these investments will contribute to our long-term growth, although they will reduce our profitability in the near term.

Key Metrics

We monitor the key metrics set forth below to help us evaluate growth, establish budgets, measure the effectiveness of our research and development and sales and marketing and other investments, and assess our operational efficiencies. Revenue is discussed under the headings "—Components of Our Results of Operations" and "—Results of Operations." Revenue less media costs (to be renamed revenue ex-TAC beginning in the third quarter of 2014) and adjusted EBITDA are discussed under the heading "—Non-GAAP Financial Performance Metrics." Number of active customers is discussed below (in thousands, except number of active customers):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	$92,642	$54,369	$167,039	$92,581
Revenue less media costs (non-GAAP)	54,712	29,726	99,402	51,292
Adjusted EBITDA (non-GAAP)	(398)	343	(4,134)	(4,284)
Number of active customers	1,444	784	1,444	784

Number of Active Customers

We define an active customer as a customer from whom we recognized revenue in the last three months. A customer can be either an advertiser who purchases our solution from us directly or an advertiser who purchases our solution through an advertising agency or other third party. We count all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with us. We believe that our ability to increase the number of active customers using our solution is an important indicator of our ability to grow our business, although we expect this number to fluctuate based on the seasonality in our business. For example, the number of active customers, excluding active customers originating through our licensing agreement with a Japanese advertising agency, was flat from December 31, 2013, to March 31, 2014, but increased by 18% from March 31, 2014 to June 30, 2014.

Non-GAAP Financial Performance Metrics

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles, or GAAP, we provide investors with the following financial measures that are not prepared in accordance with GAAP.

Revenue Less Media Costs (to be renamed Revenue ex-TAC)

Revenue less media costs (to be renamed revenue ex-TAC, but with no changes to the definition, beginning in the third quarter of 2014) is a non-GAAP financial measure defined by us as GAAP revenue less media costs. Media costs consist of costs for advertising impressions we purchase from real-time advertising exchanges or through other third parties. We believe that revenue less media costs is a meaningful measure of operating performance because it is frequently used for internal management purposes, indicates the performance of our solution in balancing the goals of delivering exceptional results to advertisers while meeting our margin objectives and facilitates a more complete period-to-period understanding of factors and trends affecting our underlying revenue performance.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	$92,642	$54,369	$167,039	$92,581
Less: Media costs	37,930	24,643	67,637	41,289
Revenue less media costs	$54,712	$29,726	$99,402	$51,292

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure defined by us as net loss before income tax (expense) benefit, interest expense, net, depreciation and amortization (excluding amortization of internal-use software), stock-based compensation expense and change in fair value of convertible preferred stock warrant liability. We have presented adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, to develop short and long-term operating plans and to determine bonus payouts. In particular, we believe that the exclusion of the expenses eliminated in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the determination of compensation for our executive officers. Accordingly, we believe that adjusted EBITDA provides useful information in understanding and evaluating our operating results.

Our use of adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are as follows:

- although depreciation and amortization of property and equipment (excluding amortization of internal use software) are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect: (1) changes in, or cash requirements for, our working capital needs; (2) the potentially dilutive impact of equity-based compensation; or (3) tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, adjusted EBITDA should be considered along with other GAAP-based financial performance measures, including various cash flow metrics, net income or loss, and our other GAAP financial results.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Adjustments:				
Interest expense, net	514	229	928	353
Income tax expense	181	(14)	496	40
Depreciation and amortization expense (excluding amortization of internal-use software)	2,667	673	4,471	1,279
Stock-based compensation expense	5,999	2,035	10,956	3,600
Change in fair value of convertible preferred stock warrant liability	—	1,258	—	2,355
Total adjustments	9,361	4,181	16,851	7,627
Adjusted EBITDA	$(398)	$343	$(4,134)	$(4,284)

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Beginning in the third quarter of 2014, we will be define its Adjusted EBITDA as net loss before income tax (expense) benefit, interest and other expenses, depreciation and amortization expense (excluding amortization of internal use software), stock-based compensation expense, acquisition related and other expenses; payroll tax expense related to stock-based compensation expense and changes in the fair value of convertible preferred stock warrant liability.

Acquisition related and other expenses: We will be excluding the effect of acquisition related and other expenses and the effect of restructuring expenses from our non-GAAP operating expenses and net income/ (loss) measures. We will incur significant expenses in connection with our pending acquisition and also incurred certain other operating expenses or income, which we generally would not have otherwise incurred as a part of our continuing operations. Acquisition related and other expenses consist of personnel related costs for transitional employees, other acquired employee related costs, stock-based compensation expenses (in addition to the stock-based compensation expenses described above), integration related professional services, certain business combination adjustments including adjustments after the measurement period has ended and certain other operating items, net. Substantially all of the stock-based compensation expenses included in acquisition related and other expenses resulted from unvested options assumed in acquisitions whose vesting was fully accelerated upon termination of the employees pursuant to the original terms of those options. We believe it is useful for investors to understand the effects of these items on our total operating expenses. Acquisition related expenses generally diminish over time with respect to acquisitions, we generally will incur these expenses in connection with any future acquisitions.

Payroll tax expense related to stock-based compensation. We will exclude payroll tax expense related to stock-based compensation expense because, without excluding these tax expenses, investors would not see the full effect that excluding share-based compensation expense had on our operating results. These expenses are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise, which factors may vary from period to period independent of the operating performance of our business. Similar to share-based compensation expense, we believe that excluding this payroll tax expense provides investors and management with greater visibility to the underlying performance of our business operations and facilitates comparison with other periods as well as the results of other companies.

The following tables present a reconciliation of adjusted EBITDA to net loss for each of the periods indicated (in thousands) using the current definition and the definition which will be used beginning in the third quarter of 2014:

Adjusted EBITDA as previously disclosed

	Three Months Ended					
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014
Net income (loss)	$(8,072)	$(3,839)	$(6,860)	$(2,161)	$(11,225)	$(9,759)
Adjustments:						
Interest expense	124	229	251	313	414	514
Income tax expense	54	(14)	133	112	314	181
Depreciation and amortization (excluding amortization of internal use software)	607	673	781	2,407	1,804	2,667
Stock-based compensation	1,565	2,035	2,653	4,589	4,957	5,999
Change in fair value of preferred stock warrants	1,097	1,258	2,385	—	—	—
Total adjustments	3,447	4,181	6,203	7,421	7,489	9,361
Adjusted EBITDA	$(4,625)	$343	$(657)	$5,260	$(3,736)	$(398)

Adjusted EBITDA with revised definition

	Three Months Ended					
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014
Net income (loss)	$(8,072)	$(3,839)	$(6,860)	$(2,161)	$(11,225)	$(9,759)
Adjustments:						
Interest expense	124	229	251	313	414	514
Income tax expense	54	(14)	133	112	314	181
Depreciation and amortization (excluding amortization of internal use software)	607	673	781	2,407	1,804	2,667
Stock-based compensation	1,565	2,035	2,653	4,589	4,957	5,999
Change in fair value of preferred stock warrants	1,097	1,258	2,385	—	—	—
Other income (expense) - net	519	(151)	(155)	95	19	425
Acquisition related and other expenses	—	—	—	—	—	100
Payroll tax expense related to stock-based compensation	10	3	136	14	210	185
Total adjustments	3,976	4,033	6,184	7,530	7,718	10,071
Adjusted EBITDA	$(4,096)	$194	$(676)	$5,369	$(3,507)	$312

Adjusted Net Loss

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

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Adjustments:				
Stock-based compensation expense	5,999	2,035	10,956	3,600
Change in fair value of convertible preferred stock warrant liability	—	1,258	—	2,355
Tax impact of the above items	—	—	—	—
Adjusted net loss	$(3,760)	$(546)	$(10,029)	$(5,956)
Adjusted diluted net loss per share	$(0.11)	$(0.07)	$(0.29)	$(0.71)
Weighted average shares used in computing adjusted diluted net loss per share	35,172	8,396	34,606	8,347

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Factors Affecting Our Performance

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

Investment in Growth

We plan to invest for long-term growth. We have invested and will continue to invest in research and development to enhance our solution and create additional offerings, in sales and marketing to acquire new customers and reinforce our relationships with existing customers and in our infrastructure, including our IT, financial and administrative systems and controls, data centers and leasehold improvements. We expect our capital expenditures to increase significantly in 2014 compared to 2013. We are also investing to further automate our business processes with the goals of scaling our business while maintaining customer satisfaction and enhancing our profitability. We believe that these investments will contribute to our long-term growth, although they will reduce our profitability in the near term. In the second quarter of 2014, we saw operating expenses increase as a percent of revenue, and we anticipate this trend to continue at least through the second half of 2014.

If we complete our proposed acquisition of [x+1], it will represent a significant investment in long-term growth. However, there are a number of risks associated with the proposed acquisition as well. See "Risk Factors - We may invest in or acquire other businesses, such as our proposed acquisition of [x+1]. These activities require significant management attention and could disrupt our business, dilute stockholder value and adversely affect our financial condition and results of operations."

Technology Enhancements and Customer Satisfaction

We will continue to make improvements to our technology platform that may have an impact on both our gross profit margin and our performance against advertiser objectives. While our technology improvements have enabled strong margins, we do not currently expect the margins achieved in recent quarters to improve. We expect that our margin may be impacted not only by technology improvements, but also by competitive pressures, our commitment to satisfying advertiser objectives, the impact of seasonality in the advertising business, the supply and demand dynamics of real-time advertising exchange-traded media, our product mix, and the number and types of campaigns that we run and customers that we serve as we scale our business.

Ability to Increase Penetration in All Channels

Historically, our revenue has predominantly come from display advertising, which has constituted the majority of online advertising. Our future performance is dependent on our continued ability to penetrate and grow our revenue in display, as well as mobile, social and video channels. These latter channels are now growing faster than display. Our technology platform is scalable and extensible across all channels, so technology will not be a barrier to penetration of mobile, social and video channels; however, we have experienced and may continue to experience sales and marketing challenges as we expand into these channels and increase our offerings. We believe that our future success depends in part on the successful introduction of new offerings that expand our capabilities in video, mobile and brand advertising, and our ability to market and cross-sell the full suite of Rocket Fuel offerings to our customers.

Customer Growth and Retention; Competition

We must continue to attract new customers, and gain a larger amount of our current customers' advertising budgets, to continue our growth. Our number of active customers increased from 784 as of June 30, 2013 to 1,444 as of June 30, 2014, contributing to revenue growth from $54.4 million for three months ended June 30, 2013, to $92.6 million for the three months ended June 30, 2014. New customers generally spend less than customers that have used our solution for longer periods of time. We also experienced decreased spending in the first half of 2014 by larger customers (measured by the amount of spend) who also spent with us in the same period ended June 30, 2013. Adding new customers that tend to spend less and declining spend from larger and longer tenured customers contributed to the slowing rate of year-over-year revenue growth on a percentage basis since the third quarter of 2013, which we expect will continue for the remainder of 2014.

Our revenue retention rate was 149% for the twelve months ended June 30, 2014, 168% for the twelve months ended December 31, 2013, and 175% for the twelve months ended December 2012.

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

Our ability to continue growing revenue will also depend in part upon the successful introduction of new offerings for mobile, video and brand advertising campaigns that continue to differentiate us from our competitors; our ability to improve our relationships with and identify opportunities to work collaboratively with agencies and agency trading desks; our ability to market and cross-sell our full suite of offerings and increase our larger customers' spend with us; and the rate at which new sales personnel become productive and we add new customers. While we experienced a decline in sales productivity in the second quarter of 2014 in North America, we continue to believe that as our sales team becomes more seasoned, we will experience an increase in sales productivity over the long term.

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

Our performance is significantly affected by growth rates in both real-time advertising exchanges and the digital advertising channels that we address. Over the last quarter we have noted an expanding trend of customer concerns about inventory quality on real-time advertising exchanges that impacts the entire industry. These markets have grown rapidly in the past several years, and any acceleration, or slowing, of this growth would affect our overall performance.

Seasonality

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Historically, the fourth quarter of the year reflects our highest level of advertising activity, and the first quarter reflects the lowest level of such activity. We expect our revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole.

Components of Our Results of Operations

Revenue

We generate revenue by delivering digital advertisements to consumers through the display channel and other channels such as mobile devices and through social and video channels. For the three and six months ended June 30, 2014 and 2013, direct-response campaigns, which are focused on generating specific consumer purchases or responses, contributed approximately two-thirds of our revenue, while brand campaigns, which are focused on lifting brand metrics, contributed the remaining one-third of our revenue. We predominantly contract with advertising agencies who purchase our solution on behalf of advertisers. When we contract with an agency, it acts as an agent for a disclosed principal, which is the advertiser. Our contracts typically provide that if the advertiser does not pay the agency, the agency is not liable to us, and we must seek payment solely from the advertiser. Our contracts with advertisers, including advertising agencies representing advertisers, are generally in the form of an insertion order. An insertion order is a contract that outlines the terms and conditions of an advertising campaign and its objectives. Our contracts typically have a term of less than a year, and we recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. Our revenue recognition policies are discussed in more detail under "—Nature of Business and Summary of Significant Accounting Policies" in the notes to our condensed consolidated financial statements included in Part I, Item 1.

Cost of Revenue

Cost of revenue consists primarily of media costs, and to a lesser extent, personnel costs, depreciation expense, amortization of internal-use software development costs on revenue-producing technologies, third-party inventory validation and data vendor costs, hosting costs and allocated costs. Media costs consist primarily of costs for advertising impressions we purchase from real-time advertising exchanges and other third parties, which are expensed when incurred. We typically pay these advertising exchanges on a per impression basis. Personnel costs include salaries, bonuses, stock-based compensation expense and employee benefit costs. These personnel costs are primarily attributable to individuals maintaining our servers and members of our network operations group, which initiates, sets up and launches advertising campaigns. We capitalize costs associated with software that is developed or obtained for internal-use and amortize these costs in cost of revenue over the internal-use software's useful life. Third-party inventory validation and data vendor costs consist primarily of costs to augment campaign performance and monitor our brand safety efforts. Cost of revenue also includes third-party data center costs and depreciation of data center equipment. Allocated costs include charges for facilities, office expenses, telephones, and other miscellaneous expenses. We anticipate that our cost of revenue will increase in absolute dollars as our revenue increases.

Operating Expenses

We classify our operating expenses into three categories: research and development, sales and marketing and general and administrative. Our operating expenses consist primarily of personnel costs, and, to a lesser extent, professional fees and allocated costs. Personnel costs for each category of operating expense generally include salaries, bonuses and commissions for sales personnel, stock-based compensation expense and employee benefit costs. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses.

- Research and development. Our research and development expenses consist primarily of personnel costs and professional services associated with the ongoing development and maintenance of our technology. We believe that continued investment in technology is critical to pursuing our strategic objectives, and as a result, we expect research and development expenses to increase in absolute dollars in future periods.
- Sales and marketing. Our sales and marketing expenses consist primarily of personnel costs (including commissions) and to a lesser extent, allocated costs, professional services, brand marketing, travel, trade shows and marketing materials. Our sales organization focuses on (i) marketing our solution to generate awareness; (ii) increasing the adoption of our solution by existing and new advertisers; and (iii) expanding our international business, primarily by growing our sales team in certain countries in which we currently operate and establishing a presence in additional countries. We expect sales and marketing expenses to increase in absolute dollars in future periods. In particular, we expect to incur additional marketing costs to support the launch of new offerings.
- General and administrative. Our general and administrative expenses consist primarily of personnel costs associated with our executive, finance, legal, human resources, compliance and other administrative functions, as well as accounting and legal professional services fees, allocated costs and other corporate expenses. We expect to continue to invest in corporate infrastructure and incur additional expenses associated with being a public company, including increased legal and accounting costs, investor relations costs, higher insurance premiums and compliance costs associated with Section 404 of the Sarbanes-Oxley Act of 2002. As a result, we expect general and administrative expenses to increase in absolute dollars in future periods.

Other Expense, Net

Interest expense. Interest expense is related to our credit facilities and our previous term debt.

Other income (expense)—net. Other income (expense)—net consists primarily of interest income, gains and losses on the sale and disposal of property, equipment and software, as well as gains and losses on foreign currency translation. We have foreign currency exposure related to our accounts receivable that are denominated in currencies other than the U.S. dollar, principally the British pound sterling and the euro.

Change in fair value of convertible preferred stock warrant liability. During 2013, 2012 and 2011, we had two outstanding warrants to purchase shares of our capital stock. The convertible preferred stock warrants were subject to re-measurement at each balance sheet date, and any change in fair value was recognized as a component of other expense, net. In connection with the closing of our initial public offering, or IPO, in September 2013, one of the warrants was automatically converted into shares of common stock and the other warrant was converted into a warrant to purchase shares of common stock, which was exercised by the holder following the completion of the IPO. As such, beginning with the fourth quarter of 2013, we were no longer required to remeasure the value of the converted common stock warrant, and therefore, no further charges or credits related to such warrant will be made to other income and expense.

Provision for Income Taxes

Provision for income taxes consists primarily of federal and state income taxes in the United States and income taxes in foreign jurisdictions in which we conduct business. Due to uncertainty as to the realization of benefits from our deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, we have a full valuation allowance reserved against such assets. We expect to maintain this full valuation allowance at least in the near term.

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Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Consolidated Statements of Operations Data:				
Revenue	$92,642	$54,369	$167,039	$92,581
Cost of revenue (1)	46,923	28,981	84,458	49,652
Gross profit	45,719	25,388	82,581	42,929
Operating expenses:				
Research and development (1)	8,434	3,711	15,675	6,123
Sales and marketing (1)	33,789	18,419	63,548	34,649
General and administrative (1)	12,135	5,775	22,475	10,952
Total operating expenses	54,358	27,905	101,698	51,724
Loss from operations	(8,639)	(2,517)	(19,117)	(8,795)
Other expense, net:				
Interest expense	(514)	(229)	(928)	(353)
Other income (expense)—net	(425)	151	(444)	(368)
Change in fair value of convertible preferred stock warrant liability	—	(1,258)	—	(2,355)
Other expense, net	(939)	(1,336)	(1,372)	(3,076)
Loss before income taxes	(9,578)	(3,853)	(20,489)	(11,871)
Provision for income taxes	(181)	14	(496)	(40)
Net loss	$(9,759)	$(3,839)	$(20,985)	$(11,911)
Loss per share:				
Net loss per share, basic and diluted	$(0.28)	$(0.46)	$(0.61)	$(1.43)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	$276	$91	$528	$118
Research and development	1,311	368	2,298	759
Sales and marketing	2,748	808	4,915	1,320
General and administrative	1,664	768	3,215	1,403
Total *	$5,999	$2,035	$10,956	$3,600

* The table above includes the impact of the issuance of restricted stock at fair value.

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Consolidated Statements of Operations Data: *				
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	51	53	51	54
Gross profit	49	47	49	46
Operating expenses:				
Research and development	9	7	9	7
Sales and marketing	36	34	38	37
General and administrative	13	11	13	12
Total operating expenses	59	51	61	56
Loss from operations	(9)	(5)	(11)	(9)
Other expense, net:				
Interest expense	(1)	—	(1)	—
Other expense—net	—	—	—	—
Change in fair value of convertible preferred stock warrant liability	—	(2)	—	(3)
Other expense, net	(1)	(2)	(1)	(3)
Loss before income taxes	(10)	(7)	(12)	(13)
Provision for income taxes	—	—	—	—
Net loss	(11)%	(7)%	(13)%	(13)%

*Certain figures may not sum due to rounding.

Comparison of the Three and Six Months Ended June 30, 2014 and 2013

Revenue

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	% Change	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	% Change
	(in thousands, except percentages)					
Revenue	$92,642	$54,369	70 %	$167,039	$92,581	80 %

Revenue increased $38.3 million, or 70%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Revenue from the display channel was $51.9 million, or 56%, of revenue and $44.6 million, or 82%, of revenue for the three months ended June 30, 2014 and 2013, respectively. Revenue growth was attributable in part to growth in revenue from channels other than display. Revenue from other channels was $40.8 million, or 44%, of revenue and $9.8 million, or 18%, of revenue for the three months ended June 30, 2014 and 2013, respectively. Revenue from the display channel increased by $7.3 million, or 16%, and revenue from other channels increased by $31.0 million, or 317%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The $31.0 million increase in other channel revenue was primarily from the mobile channel, which was 31% of revenue for the three months ended June 30, 2014, followed by the social channel and then the video channel.

The increase in revenue was attributable to both increased spending by certain existing customers and an increase in the number of active customers adopting our solution. The number of active customers increased from 784 as of June 30, 2013 to 1,444 as of June 30, 2014. Within the 1,444 active customers, 140 active customers originated through our licensing agreement with a Japanese advertising agency. Growth in our number of active customers was driven primarily by growth in new customers, which generally spend less than customers that have used our solution for longer periods of time. This growth in active customers and new customers also resulted in a 118% increase in the number of campaigns during the three months ended June 30, 2014 compared to the three months ended June 30,

2013. Due to the higher number of campaigns, the volume of impressions delivered increased by 72% during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The average cost per mille (or cost per thousand impressions), or CPM, decreased by 1%, and revenue less media costs as a percentage of revenue increased to 59% from 55% during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Revenue from outside of North America increased by 146% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Revenue from outside of North America, as a percentage of revenue, increased to 16% from 11% during the three months ended June 30, 2014 and 2013, respectively.

Revenue increased $74.5 million, or 80%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Revenue from the display channel was $96.9 million, or 58%, of revenue and $77.8 million, or 84%, of revenue for the six months ended June 30, 2014 and 2013, respectively. Revenue growth was attributable in part to growth in revenue from channels other than display. Revenue from other channels was $70.2 million, or 42%, of revenue and $14.8 million, or 16%, of revenue for the six months ended June 30, 2014 and 2013, respectively. Revenue from the display channel increased by $19.1 million, or 25%, and revenue from other channels increased by $55.3 million, or 374%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The $55.3 million increase in other channel revenue was primarily from the mobile channel, which was 29% of revenue for the six months ended June 30, 2014, followed by the social channel and then the video channel.

The increase in revenue was attributable to both increased spending by certain existing customers and an increase in the number of active customers adopting our solution. This increase was partially offset by a decline in revenue from some customers when they adopted third-party self-service platforms. Growth in our number of active customers was driven primarily by growth in new customers, which generally spend less than customers that have used our solution for longer periods of time. This growth in active customers and new customers also resulted in a 120% increase in the number of campaigns during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Due to the higher number of campaigns, the volume of impressions delivered increased by 79% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The average cost per mille (or cost per thousand impressions), or CPM, increased by 1%, and revenue less media costs as a percentage of revenue increased to 60% from 55% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Revenue from outside of North America increased by 134% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Revenue from outside of North America, as a percentage of revenue, increased to 16% from 12% during the six months ended June 30, 2014 and 2013, respectively.

Cost of Revenue, Gross Profit and Gross Margin

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands, except percentages)					
Cost of revenue	$46,923	$28,981	62 %	$84,458	$49,652	70 %
Gross profit	$45,719	$25,388	80 %	$82,581	$42,929	92 %
Gross margin	49 %	47 %		49 %	46 %	
Headcount (at period end)	58	43	35 %			

Cost of revenue increased by $17.9 million, or 62%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase was primarily due to an increase in media costs from $24.6 million to $37.9 million and, to a lesser extent, an increase in data and inventory validation costs of $1.5 million, an increase in depreciation and amortization of capitalized internal-use software and other fixed assets of $1.0 million, an increase in personnel costs of $0.7 million and an increase in hosting costs of $0.5 million. The $13.3 million increase in media costs was due to our increased sales volume. Media costs represented approximately 41% and 45% of revenue in the three months ended June 30, 2014 and 2013, respectively. The decrease in media costs as a percentage of revenue was due to improvements in our AI-driven platform, which allowed us to more efficiently deliver our solution. The increase in personnel costs was primarily driven by increased headcount. The increase in data and hosting costs represents increases in costs to support our rapid growth. The amortization of capitalized internal-use software was

$1.2 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively. Gross profit increased by 80% primarily due to the increase in revenue less media costs from $29.7 million to $54.7 million for the three months ended June 30, 2013 compared to the three months ended June 30, 2014. This increase was due to technology and scale-driven efficiencies. Gross margin increased from 47% for the three months ended June 30, 2013 to 49% for the three months ended June 30, 2014. Our gross profit margins are driven by continued advancements in our artificial intelligence and Big Data technologies. The increase in gross margin was primarily due to decreases in media costs by 4%, partially offset by increases in other fixed costs by 2%, in each case as a percentage of revenue for the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Cost of revenue increased by $34.8 million, or 70%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase was primarily due to an increase in media costs from $41.3 million to $67.6 million and, to a lesser extent, an increase in depreciation and amortization of capitalized internal-use software and other fixed assets of $2.2 million, an increase in personnel costs of $2.1 million, an increase in data and inventory validation costs of $2.1 million, and an increase in hosting costs of $0.9 million. The $26.3 million increase in media costs was due to our increased sales volume. Media costs represented approximately 40% and 45% of revenue in the six months ended June 30, 2014 and 2013, respectively. The decrease in media costs as a percentage of revenue was due to improvements in our AI-driven platform, which allowed us to more efficiently deliver our solution. The increase in personnel costs was primarily driven by increased headcount. The increase in data and hosting costs represents increases in costs to support our rapid growth. The amortization of capitalized internal-use software was $2.3 million and $1.6 million for the six months ended June 30, 2014 and 2013, respectively. Gross profit increased by 92% primarily due to the increase in revenue less media costs from $51.3 million to $99.4 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2014. This increase was due to technology and scale-driven efficiencies. Gross margin increased from 46% for the six months ended June 30, 2013 to 49% for the six months ended June 30, 2014. Our gross profit margins are driven by continued advancements in our artificial intelligence and Big Data technologies. The increase in gross margin was primarily due to decreases in media costs by 5%, partially offset by increases in other fixed costs by 2%, in each case as a percentage of revenue for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Research and Development

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands, except percentages)					
Research and development	$8,434	$3,711	127 %	$15,675	$6,123	156 %
Percent of revenue	9 %	7 %		9 %	7 %	
Headcount (at period end)	154	84	83 %			

Research and development expense increased by $4.7 million, or 127%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $2.7 million and, to a lesser extent, to an increase in allocated costs of $0.9 million, an increase in depreciation and amortization expense of $0.6 million and an increase in professional services costs of $0.4 million. The increase in personnel expense and allocated costs was primarily due to an increase in headcount, which reflects our continued hiring of engineers to maintain our technologies and support our research and development efforts. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses. The increase in depreciation expense was primarily due to purchasing of data center equipment to support development as well as disaster recovery infrastructure.

Research and development expense increased by $9.6 million, or 156%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $6.1 million and, to a lesser extent, to an increase in allocated costs of $1.8 million and an increase in professional services costs of $0.7 million. The increase in personnel expense and allocated costs was primarily due to an increase in headcount, which reflects our continued hiring of engineers to maintain our technologies and support our research and development efforts. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses.

We capitalized internal-use software development costs of $2.2 million and $1.5 million for the three months ended June 30, 2014 and 2013, respectively, and $4.3 million and $3.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase was due to additional headcount devoted to internal-use software development.

Sales and Marketing

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands, except percentages)					
Sales and marketing	$33,789	$18,419	83 %	$63,548	$34,649	83 %
Percent of revenue	36 %	34 %		38 %	37 %	
Headcount (at period end)	491	269	83 %			

Sales and marketing expense increased by $15.4 million, or 83%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $10.1 million and, to a lesser extent, an increase in allocated costs of $3.1 million and an increase in travel and related expenses of $1.8 million. The increase in personnel expense was primarily due to significant expansion of our sales force and, to a lesser extent, to an increase in commission expense related to the increase in revenue. Our sales and marketing headcount increased by 83% and our commission expense increased by 10% during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to our focus on (i) marketing our solution to generate awareness, (ii) increasing the adoption of our solution by existing and new advertisers and (iii) establishing a presence in international markets. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses.

Sales and marketing expense increased by $28.9 million, or 83%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $19.7 million and, to a lesser extent, an increase in allocated costs of $5.7 million, an increase in travel and related expenses of $2.6 million, and an increase in marketing expenses of $0.9 million. The increase in personnel expense was primarily due to significant expansion of our sales force and, to a lesser extent, to an increase in commission expense related to the increase in revenue. Our sales and marketing headcount increased by 83% and our commission expense increased by 16% during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to our focus on (i) marketing our solution to generate awareness, (ii) increasing the adoption of our solution by existing and new advertisers and (iii) establishing a presence in international markets. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses.

General and Administrative

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands, except percentages)					
General and administrative	$12,135	$5,775	110 %	$22,475	$10,952	105 %
Percent of revenue	13 %	11 %		13 %	12 %	
Headcount (at period end)	123	70	76 %			

General and administrative expense increased by $6.4 million, or 110%, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $2.9 million and, to a lesser extent, to an increase in allocated costs of $1.1 million, an increase in professional services of $0.8 million, an increase in other miscellaneous expenses of $0.7 million, and an increase in depreciation expense of $0.3 million. The increase in personnel costs was driven primarily by increased stock-based compensation expense and increased headcount. The increase in third-party professional services was primarily due to increased accounting and legal services necessary to support a public company. We also continued to invest in our infrastructure and in recruiting services to grow our general and administrative headcount. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses. Other miscellaneous expenses primarily includes local taxes, fees and charitable contributions.

General and administrative expense increased by $11.5 million, or 105%, during the six months ended June 30, 2014 compared to the six months ended June 30, 2013. This increase was primarily due to an increase in personnel expense of $6.4 million and, to a lesser extent, to an increase in allocated costs of $1.8 million, an increase in professional services of $1.1 million, an increase in other miscellaneous expenses of $0.9 million, and an increase in depreciation expense of $0.4 million. The increase in personnel costs was driven primarily by increased stock-based compensation expense and increased headcount. The increase in third-party professional services was primarily due to increased accounting and legal services necessary to support a public company. We also continued to invest in our infrastructure and in recruiting services to grow our general and administrative headcount. Allocated costs include charges for facilities, office expenses, telephones and other miscellaneous expenses. Other miscellaneous expenses primarily includes local taxes, fees and charitable contributions.

Other Expense, Net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in thousands)					
Interest expense	$(514)	$(229)	124%	$(928)	$(353)	163%
Gain (loss) on foreign currency translation	(432)	97	(545)%	(461)	(459)	—%
Other income (expense)—net	7	54	(87)%	17	91	(81)%
Change in fair value of convertible preferred stock warrant liability	—	(1,258)	(100)%	—	(2,355)	(100)%
Total other expense, net	$(939)	$(1,336)	(30)%	$(1,372)	$(3,076)	(55)%

The decrease in other expense, net, during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as well as the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily relates to revaluations of convertible preferred stock warrants during 2013, which were converted to equity in September 2013, and, to a lesser extent, to movements within foreign currency translations, partially offset by interest related to our additional borrowings under our revolving credit facility and term debt.

Provision for Income Taxes

Our provision for income taxes of $0.2 million and $0.0 million for the three months ended June 30, 2014 and 2013, respectively, and $0.5 million and $0.0 million for the six months ended June 30, 2014 and 2013, respectively, primarily relates to taxes due in foreign jurisdictions.

Liquidity and Capital Resources

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

On December 20, 2013, we entered into an Amended and Restated Revolving Credit and Term Loan Agreement, or the Loan Facility, with certain lenders, including Comerica Bank, or Comerica, as administrative agent for the lenders. The Loan Facility amended and restated our then-existing Loan and Security Agreement, dated as of April 7, 2010, or the Existing Loan Facility, by and between us and Comerica.

On June 30, 2014, we entered into a First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement (the "Amendment"). The Amendment amends the terms of the Loan Facility and includes, among other things, an increase in the letter of credit subfacility under the revolving credit facility to $12.0 million from $5.0 million, an amendment to the definition of "EBITDA" and amendments to the minimum EBITDA financial covenant under the Loan Facility.

The Loan Facility provides for an $80.0 million secured accounts receivable formula-based revolving credit facility, with a $12.0 million letter of credit subfacility, as amended, a $1.5 million swingline subfacility and a $20.0 million secured term loan facility. The Loan Facility permits us, subject to certain requirements, to request an increase in the maximum revolving commitments under the Loan Facility by up to $25.0 million. We used proceeds of the initial extension of credit under the Loan Facility to refinance $26.9 million of revolving loans and term loans under the Existing Loan Facility.

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

As of June 30, 2014, we had cash and cash equivalents of $203.5 million and $26.9 million in debt obligations relating to the Existing Loan Facility from Comerica. As of June 30, 2014, we had the ability to borrow up to an additional $57.8 million under the Existing Loan Facility based on our accounts receivable balance. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of June 30, 2014.

We believe that our existing cash and cash equivalents balance, together with the undrawn balance under the Loan Facility, will be sufficient to meet our business requirements for at least the next twelve months. During 2014 we plan to continue to significantly increase our capital expenditures to support our growth, including expenditures on additional hardware, such as data centers and related equipment, and leasehold improvements. Also, we expect to close the acquisition of [x+1] in 2014, which would result in future cash payments of $100.0 million of purchase price consideration, a net working capital adjustment payment, other contractual cash commitments per the terms of the agreement and one-time acquisition related costs. See "Note 15 - Subsequent Events" in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this report. However, our liquidity assumptions may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect, particularly if the acquisition and integration of [x+1] proves more costly than we currently anticipate.

If we require additional cash, we may attempt to raise additional capital through private equity, equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to obtain additional funds, we may also take measures to reduce expenses to offset any shortfall.

Our current debt obligations under the Loan Facility require us to maintain compliance with certain financial covenants, with the most significant covenant being a requirement to maintain a specified minimum quarterly adjusted EBITDA (defined for this purpose as earnings before interest expense, income tax expense, depreciation, amortization and other specified cash and noncash charges). Based on our projections, we believe we will maintain compliance with the debt covenants through 2014. However, if future operating results are less favorable than currently anticipated, we may need to seek waivers or amendments to modify our debt covenants.

There can be no assurances that we will be able to raise additional capital or obtain such waivers or amendments of the Loan Facility on acceptable terms or at all, which would adversely affect our ability to achieve our business objectives. In addition, if our operating performance during the next twelve months is below our expectations, our liquidity and ability to operate our business could be adversely affected.

Cash Flows

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

	Six Months Ended June 30, 2014	2013
Consolidated Statements of Cash Flows Data:		
Cash flows used in operating activities	$(5,922)	$(2,622)
Cash flows used in investing activities	(24,899)	(5,623)
Cash flows provided by financing activities	120,481	15,409
Effects of exchange rates on cash	7	(75)
Increase (decrease) in cash and cash equivalents	$89,667	$7,089

Operating Activities

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

Our collection cycles can vary from period to period based on common payment practices employed by advertising agencies. Our days sales outstanding were 91 and 99 days as of June 30, 2014 and June 30, 2013, respectively. Our contracts with advertising exchanges typically are based on the standard payment terms of the advertising exchanges. During the fourth quarter of each year, our working capital needs may increase due to the seasonality of our business. This increase is driven by the fact that we have to make timely payments to publishers and exchanges, but customer payments may be delayed beyond the contractual terms of the customers' invoices. As a result, the timing of cash receipts and vendor payments can significantly impact our cash provided by (used in) operations for any period presented.

Six months ended June 30, 2014 and 2013. For the six months ended June 30, 2014, cash used in operating activities was $5.9 million, resulting from a net loss of $21.0 million, offset by non-cash expenses of $18.1 million, which included depreciation, amortization, stock-based compensation expense, excess tax benefit from stock-based activity, losses on disposition of property, plant and equipment and the provision for doubtful accounts. These non-cash expenses increased due to capital expenditures and headcount growth, primarily related to continued investment in our business. The remaining use of funds of $3.0 million was from the net change in working capital items, most notably an increase in prepaid and other assets of $14.6 million due to the timing of payments for software licenses and maintenance, deposits, and other operating costs, and growth of the company and a decrease in accounts payable and accrued and other liabilities of $1.5 million, related to the timing of payments, compensation and other general expenses. These amounts were partially offset by (i) an increase in deferred rent of $15.7 million due to the expansion of new office locations and (ii) a decrease in accounts receivable of $3.2 million due to the seasonality of advertising campaigns as well as the timing of payments from customers and agencies.

For the six months ended June 30, 2013, cash used in operating activities was $2.6 million, resulting from a net loss of $11.9 million, offset by non-cash expenses of $8.8 million, which included depreciation, amortization, stock-based compensation expense and the change in fair value of preferred stock warrant liability. These non-cash expenses increased due to our increase in depreciable fixed assets and headcount growth, primarily related to continued investment in our business. The remaining increase in cash of $0.5 million was from the net change in working capital items, most notably an increase in accounts payable and accrued and other liabilities of $8.2 million and $4.1 million, respectively, related to the timing of payments, compensation and other general expenses, as well as an increase in deferred revenue of $0.6 million. These amounts were partially offset by an increase in accounts receivable of $12.5 million due to an increase in billings for advertising campaigns as well as the timing of payments from domestic and international customers and agencies.

Investing Activities

During the six months ended June 30, 2014 and 2013, investing activities consisted of purchases of property and equipment, including hardware and software to support our growth as well as capitalized internal-use software development costs. During the six months ended June 30, 2014, such activities also consisted of $2.2 million in restricted cash required to be deposited with financial institutions for security deposits for our London, United Kingdom and Paris, France office lease agreements. Purchases of property and equipment may vary from period-to-period due to the timing of the expansion of our operations, the addition of headcount and the development cycles of our internal-use hosted software platform. We expect to continue to invest in property and equipment and in the further development and enhancement of our software platform for the foreseeable future.

Financing Activities

Six months ended June 30, 2014 and 2013. During the six months ended June 30, 2014, cash provided by financing activities was $120.5 million, consisting primarily of $116.5 million in proceeds from our follow-on public offering completed on February 5, 2014, partially offset by $1.4 million in cash used to pay costs related to our follow-on public offering. Cash was also provided by $3.8 million in proceeds from the issuance of common stock under the employee stock purchase plan and $1.9 million in proceeds from the exercise of stock options.

During the six months ended June 30, 2013, cash provided by financing activities amounted to $15.4 million, consisting of $10.0 million in borrowings under our term debt, $5.0 million in borrowings under our revolving line of credit, and $0.8 million in proceeds from the exercise of stock options, partially offset by $0.3 million in deferred offering costs and $0.1 million in cash used to repay debt.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of June 30, 2014 or December 31, 2013 other than the operating leases and indemnification agreements described below.

Indemnification Agreements

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

Operating Leases

We lease various office facilities, including our corporate headquarters in Redwood City, California and various sales offices, under operating lease agreements that expire through March 2025. Included within these operating lease agreements are our new headquarters facility, which expires in December 2019 and a new sales office in New York, NY, which expires in March 2025.

Contractual Obligations and Known Future Cash Requirements

As of June 30, 2014, there had been no material changes in our commitments under contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. However, subsequent to June 30, 2014, we entered into an agreement to acquire [x+1], which, if the transaction closes, will result in future cash payments of $100.0 million of purchase price consideration, a net working capital adjustment payment, other contractual cash commitments per the terms of the agreement and one-time acquisition related costs. See “Note 15 - Subsequent Events” in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this report.

Commitments

As of June 30, 2014, our principal commitments consisted of obligations under the Loan Facility that were scheduled to mature at various dates through December 2018 and operating leases for our offices, as well as capital lease agreements on computer hardware and software.

The following table summarizes our future minimum payments under these arrangements as of June 30, 2014 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Operating lease obligations	$142,395	$10,992	$38,296	$38,021	$55,086
Capital lease obligations	7,893	2,902	4,991	—	—
Term debt (1)	20,000	2,500	15,000	2,500	—
Revolving credit facility (2)	7,444	—	7,444	—	—
Total minimum payments	$177,732	$16,394	$65,731	$40,521	$55,086

(1) Accrues interest, at our option, at (i) a base rate determined in accordance with the Loan Facility, plus a spread of 2.75% to 3.50%, or (ii) a LIBOR rate determined in accordance with the credit agreement, plus a spread of 3.75% to 4.50%, which was equal to 3.90%, as of June 30, 2014, and is scheduled to mature in December 2018.

(2) Accrues interest, at our option, at (i) a base rate determined in accordance with the Loan Facility, plus a spread of 1.75% to 2.50%, or (ii) a LIBOR rate determined in accordance with the credit agreement, plus a spread of 2.75% to 3.50%, which was equal to 2.90%, as of June 30, 2014, and has a final maturity date in December 2016.

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

Critical Accounting Policies and Estimates

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

We believe that the assumptions and estimates associated with revenue recognition, internal-use software development costs, income taxes and stock-based compensation expense have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see the notes to our condensed consolidated financial statements.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Fluctuation Risk

Our cash and cash equivalents consist of cash and money market funds. Our borrowings under our credit facility are at variable interest rates, and our long-term credit facility exposes us to interest rate fluctuations over the next four years. If our variable interest rates materially increase during that time, our results of operations could be adversely affected. Our borrowings under capital lease obligations are at fixed interest rates, and therefore do not expose us to additional interest rate fluctuation risk.

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash and cash equivalents have a relatively short maturity, our portfolio’s fair value is relatively insensitive to interest rate changes. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our financial condition or results of operations. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally British pounds sterling and the euro. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we have experienced and will continue to experience fluctuations in our net income (loss) as a result of transaction gains (losses) related to translating certain cash balances, trade accounts receivable balances and intercompany balances that are denominated in currencies other than the U.S. dollar, we believe such fluctuations will not have a material impact on our results of operations. As our foreign sales and expenses increase, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act), as of June 30, 2014, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of June 30, 2014, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any legal proceedings, litigation, or claims that could materially affect our business, results of operations, cash flows, or financial position. We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect our future financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see page [25] of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Our Business and Our Industry

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

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

Our current operational infrastructure may require changes for us to scale our business efficiently and effectively to keep pace with demand for our solution, and achieve long-term profitability. If we fail to implement these changes on a timely basis, or if we are unable to implement them effectively or at all due to factors beyond our control or other reasons, our business may suffer. We cannot provide assurance that we will be successful in addressing these and other challenges we may face in the future. As a growing company in a rapidly evolving industry, our business prospects depend in large part on our ability to:

- develop and offer a competitive technology platform and offerings that meet our advertising customers’ needs as they change;
- build a reputation for a superior solution and create trust and long-term relationships with advertisers and advertising agencies;
- distinguish ourselves from competitors in our industry;
- maintain and expand our relationships with the sources of quality inventory through which we execute our customers’ advertising campaigns;
- respond to evolving industry standards and government regulations that impact our business, particularly in the areas of data collection and consumer privacy;
- prevent or otherwise mitigate failures or breaches of security or privacy;
- expand our business internationally; and
- attract, hire, integrate and retain qualified and motivated employees.

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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 profitability.

If we do not manage our growth effectively, the quality of our solution or our relationships with our customers may suffer, and our operating results may be negatively affected.

Our business has grown rapidly. We rely heavily on information technology, or IT, systems to manage critical functions such as advertising campaign management and operations, data storage and retrieval, revenue recognition, budgeting, forecasting, financial reporting and other administrative functions. To manage our growth effectively, we must continue to improve and expand our infrastructure, including our IT, financial and administrative systems and controls, data centers and leasehold improvements. We must also continue to manage our employees, operations, finances, research and development and capital investments efficiently. Our productivity and the quality of our solution may be adversely affected if we do not quickly and effectively integrate and train our new employees, particularly our sales and account management personnel and employees we may acquire as part of our proposed acquisition of [x+1], Inc., ("[x+1]"), a provider of programmatic marketing and data management solutions, and if we fail to appropriately coordinate across our executive, engineering, finance, human resources, legal, marketing, sales, operations and customer support teams. If we continue our rapid growth, we will incur additional expenses, and our growth may continue to place a strain on our resources, infrastructure and ability to maintain the quality of our solution. Our rapid growth has resulted in challenges and if we do not adapt to meet these evolving challenges, and if the current and future members of our management team do not effectively scale with our growth, the quality of our solution may suffer, our relationships with our customers may be harmed and our corporate culture may be adversely impacted. Failure to manage our future growth effectively could cause our business to suffer, which, in turn, could have an adverse impact on our financial condition and results of operations.

If we fail to make the right investment decisions in our offerings and technology platform, 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. 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 decisions regarding these investments. If new or existing competitors offer more attractive offerings, we may lose advertisers or advertisers may decrease their spending on our solution. New advertiser demands, superior competitive offerings or new industry standards could render our existing solution unattractive, unmarketable or obsolete and require us to make substantial unanticipated changes to our technology platform or business model. Our failure to adapt to a rapidly changing market or to anticipate advertiser demand could harm our business and our financial performance.

We may invest in or acquire other businesses, such as our proposed acquisition of [x+1]. These activities require significant management attention and could disrupt our business, dilute stockholder value and adversely affect our financial condition and results of operations.

As part of our business strategy, we may make investments in or acquisitions of complementary companies, products or technologies, including, for example, our proposed acquisition of [x+1]. These activities involve significant risks to our business. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, they may not ultimately strengthen our competitive position. Any acquisitions we complete could be viewed negatively by our advertisers, advertising agencies and investors, which could have an adverse impact on our business and the value of our common stock. In addition, if we are unsuccessful at integrating employees or technologies acquired, our financial condition and results of operations, including revenue growth, could be adversely affected. Any acquisition and subsequent integration will require significant time and resources. We have not completed any acquisitions to date, and as a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to successfully evaluate and use the acquired technology or employees, or otherwise manage the acquisition and integration processes successfully. We will be required to pay cash, incur debt and/or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition and the value of our common stock. For example, we have agreed to acquire [x+1] for approximately $100 million in cash and 5.4 million shares of our common stock. The use of cash to pay for acquisitions, including our proposed acquisition of [x+1], will limit other potential uses of our cash, including investments in our sales and marketing and product development organizations, and in infrastructure to support scalability. The issuance or sale of equity or convertible debt securities to finance any such acquisitions, including our proposed acquisition of [x+1], will result in dilution to our stockholders and could negatively impact earnings per share. If we incur debt in connection with any future acquisition, it would result in increased fixed obligations and could also impose covenants or other restrictions that could impede our ability to manage our operations.

Anticipated and unanticipated charges to earnings resulting from acquisitions may adversely affect our results of operations. Under business combination accounting standards, we recognize the identifiable assets acquired and the liabilities assumed, generally at their acquisition date fair values and separately from goodwill. Our estimates of fair value are based upon assumptions we believe to be reasonable but which are inherently uncertain. After we complete an acquisition, a number of factors could result in material charges, which could adversely affect our financial condition, results of operations and cash flows, including but not limited to costs incurred to integrate employees such as employee retention, redeployment or relocation expenses; amortization, impairment or reduction in the useful lives of intangible assets; amortization or impairment of goodwill; costs to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated; and charges to our operating results due to the expensing of certain stock awards assumed in an acquisition. Substantially all of these costs will be accounted for as expenses that will decrease our net income and earnings per share for the periods in which those costs are incurred.

Additional risks related to investments and acquisitions, including our proposed acquisition of [x+1], include but are not limited to the following:

- The need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies;
- Unfavorable revenue recognition or other accounting or tax treatment as a result of an acquired company's practices;
- The need to integrate an acquired company's accounting, management information, human resource and other administrative systems to permit effective management and timely reporting;
- The possibility of higher than anticipated costs in continuing support and development of acquired products; in general and administrative functions that support new business models; or in compliance with associated regulations that are more complicated than we had anticipated;
- Cultural challenges associated with integrating employees from an acquired company or business into our organization;
- The possibility that we will be unable to retain key employees and maintain the key business and customer relationships of the businesses we acquire;
- The possibility that the combined company will not achieve the expected benefits, including any anticipated operating and product synergies, of the acquisition as quickly as anticipated if at all;
- The possibility that we will not discover important facts during due diligence for an acquisition that could have a material adverse impact on the value of the businesses we acquire and subject us to unexpected claims and liabilities, regulatory exposure and/or other expenses;
- Litigation or other claims in connection with, or inheritance of claims or litigation risks as a result of, an acquisition, including claims from terminated employees, customers or other third parties;
- Significant accounting charges resulting from the completion and integration of a sizable acquisition and increased capital expenditures;
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Significant acquisition-related accounting adjustments that may cause reported revenue and profits of the combined company to be lower than the sum of their stand-alone revenue and profits;

- The possibility that the costs of, or operational difficulties arising from, an acquisition would be greater than anticipated;

- Additional country-specific risks, to the extent that we engage in strategic transactions outside of the United States, including risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries; and

- The possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business.

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

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

We incurred net losses of $21.0 million and $11.9 million, for six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, we had an accumulated deficit of $65.5 million. We may not achieve profitability in the foreseeable future, if at all. Although our revenue has increased significantly in recent periods, we may not be able to sustain this revenue growth. In addition, our operating expenses have increased with our revenue growth, primarily due to substantial investments in our business and increasing our headcount by approximately 77% from June 30, 2013 to June 30, 2014. We expect our cost of revenue and operating expenses to continue to increase substantially in the foreseeable future as we continue to expand our business, including by adding sales, marketing and related support employees in existing and new territories, adding engineering employees to support continued investments in our technology platform and offerings, and adding general and administrative employees to support our growth and expansion. In particular, our operating expenses increased as a percentage of revenue in the three months ended June 30, 2014 compared to the three months ended June 30, 2013, and we expect this trend to continue in the second half of 2014.

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

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

- the addition or loss of new advertisers and advertising agencies;
- changes in demand and pricing for our solution;
- the seasonal nature of our customers' spending on digital advertising campaigns;
- changes in our pricing policies or the pricing policies of our competitors;
- the pricing of advertising inventory or of other third-party services;
- the introduction of new technologies, product or service offerings by our competitors;
- changes in our customers' advertising budget allocations, agency affiliations, or marketing strategies;
- changes and uncertainty in the regulatory environment for us or our advertisers;
- changes in the economic prospects of our advertisers or the economy generally, which could alter current or prospective advertisers' spending priorities, or could increase the time or costs required to complete sales with advertisers;
- changes in the availability of advertising inventory through real-time advertising exchanges, or in the cost to reach end consumers through digital advertising;
- fluctuations in our revenue less media costs (revenue less media costs is a non-GAAP measure; please see Item 2 of this Quarterly Report on Form 10-Q, "Non-GAAP Financial Performance Metrics," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);
- changes in our capital expenditures as we acquire the hardware, equipment and other assets required to support our business; and
- costs related to acquisitions of people, businesses or technologies.

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. As a result, our operating results may from time to time fall below our estimates or the expectations of investors and analysts. Furthermore, our projected results may from to time fall below our initial estimates or the expectations of investors and analysts. This occurred with respect to the second quarter, the third quarter and full year in fiscal 2014 and resulted in substantial declines in our stock price. See “Risks Related to the Securities Markets and Ownership of our Common Stock - We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline,” below.

If we are unable to attract new advertising customers and sell additional and new offerings to our existing customers, our revenue growth will be adversely affected.

To sustain or increase our revenue, we must add new advertisers and encourage existing advertisers (both of which are often represented by advertising agencies) to purchase additional offerings from us. 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 solution to new and existing advertisers based on our offerings, pricing, technology platform and functionality could be impaired. Some advertisers that are repeat users of our solution tend to increase their spend over time. Conversely, some advertisers that are newer to our solution tend to spend less than, and may not return as frequently as, advertisers that have used our solution for longer periods of time. With long-time advertisers, we may reach a point of saturation at which it is challenging to continue to grow our revenue from those advertisers because of their unfamiliarity with the breadth of our product suite, as well as factors beyond our control such as internal limits that advertisers or their agencies may place on the allocation of their advertising budgets to digital media, to particular campaigns, to a particular provider, or for other reasons not known to us. In the six months ended June 30, 2014, we experienced a decline in average customer spend compared to the same period in 2013, as well as a decline in spend by some of our larger customers. If we are unable to continue to attract new advertisers or obtain new business from existing advertisers, our revenue growth and our business may be adversely affected. We have experienced a slowing rate of revenue growth since the third quarter of 2013, which we expect will continue in the second half of 2014. Our ability to slow or reverse this declining rate of growth will depend in part upon the successful introduction of new offerings and 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.

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 that may operate to limit our access to advertisers' budgets even if our solution is more effective. These factors could result in declining revenue, or inability to grow our business.

Competition for our advertisers’ advertising budgets is intense. We also expect competition to increase as the barriers to enter our market are low. Increased competition may force us to charge less for our solution, or offer pricing models that are less attractive to us and decrease our margins. Our principal competitors include traditional advertising networks; advertising agencies that operate, directly or through an affiliate, an agency trading desk, and companies that offer self-service demand side and data management platforms 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. In the first half of 2014, we experienced a decline in revenue from some customers that adopted demand side and data management platforms such as these, and from customers who directed more spend through agency trading desks.

We rely predominately on advertising agencies to purchase our solution on behalf of advertisers, and certain of those agencies or agency holding companies 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 agency trading desks or 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.

We also compete with services offered through large online portals that have significant brand recognition, such as Yahoo!, Google, AOL and MSN. These large portals have substantial proprietary digital advertising inventory that may provide them with competitive advantages, including far greater access to Internet user data, and the ability to significantly influence pricing for digital advertising inventory. We also compete for a share of advertisers' total advertising budgets with online search advertising, for which we do not offer a solution, and with traditional advertising media, such as direct mail, television, radio, cable and print. Some of our competitors have also established reputations for specific services, such as retargeting with dynamic creative, for which we do not have an established market presence. Many current and potential competitors have competitive advantages relative to us, such as longer operating histories, greater name recognition, larger client bases, greater access to advertising inventory on premium websites and significantly greater financial, technical, sales and marketing resources. Increased competition may result in reduced pricing for our solution, longer sales cycles or a decrease of our market share, any of which could negatively affect our revenue and future operating results and our ability to grow our business.

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

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

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

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

In addition, in the European Union, or EU, Directive 2009/136/EC, commonly referred to as the “Cookie Directive,” directs EU member states to ensure that accessing information on an Internet user’s computer, such as through a cookie, is allowed only if the Internet user has given his or her consent. We may not be able to develop or implement additional tools that compensate for the lack of data associated with cookies. Moreover, even if we are able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than our current use of cookies.

Potential “Do Not Track” standards or government regulation could negatively impact our business by limiting our access to the anonymous user data that informs the advertising campaigns we run, and as a result could degrade our performance for our customers.

As the use of cookies has received ongoing media attention over the past three years, some government regulators and privacy advocates have suggested creating a “Do Not Track” standard that would allow Internet users to express a preference, independent of cookie settings in their web browser, not to have their website browsing recorded. All the major Internet browsers have implemented some version of a “Do Not Track” setting. Microsoft’s Internet Explorer 10 includes a “Do Not Track” setting that is selected “on” by default. However, there is no definition of “tracking,” no consensus regarding what message is conveyed by a “Do Not Track” setting and no industry standards regarding how to respond to a “Do Not Track” preference. It is possible that we could face competing policy standards, or standards that put our business model at a competitive disadvantage to other companies that collect data from Internet users, standards that reduce the effectiveness of our solution, or standards that require us to make costly changes to our solution. The Federal Trade Commission, or FTC, has stated that it will pursue a legislative solution if the industry cannot agree upon a standard. The “Do-Not-Track Online Act of 2013” was introduced in the United States Senate in February 2013. If a “Do Not Track” web browser setting is adopted by many Internet users, and the standard either imposed by state or federal legislation, or agreed upon by standard setting groups, requires us to recognize a “Do Not Track” signal and prohibits us from using non-personal data as we currently do, then that could hinder growth of advertising and content production on the web generally, and limit the quality and amount of data we are able to store and use, which would cause us to change our business practices and adversely affect our business.

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

Our significant investment in international expansion subjects us to many challenges associated with supporting a rapidly growing business across a multitude of cultures, customs, monetary, legal and regulatory systems and commercial infrastructures. We have a limited operating history outside of the United States, and our ability to manage our business and conduct our operations internationally requires considerable attention and resources. We began operations in the United Kingdom in 2011. Our UK subsidiary has employees in the United Kingdom, the Netherlands, France, Italy, Spain, Sweden and Australia. We established subsidiaries in Germany and Canada in 2013. In addition, in 2012, we made arrangements with a software platform licensee 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 solution 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 successful. 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.

We have been dependent on display advertising. A decrease in the use of display advertising, or our inability to further penetrate display, mobile, social and video advertising channels would harm our business, growth prospects, operating results and financial condition.

Historically, our customers have predominantly used our solution for display advertising, and the substantial majority of our revenue is derived from advertisers, typically through their agencies, that use our solution for display advertising. We expect that display advertising will continue to be a significant channel used by our customers.

Recently, the market for display advertising, excluding mobile, social and video, has been declining as overall display advertising growth has been driven by mobile, social and video advertising. Should our customers lose confidence in the value or effectiveness of display advertising, the demand for our display solution could decline. In addition, many of our customers may think of us as only providing display advertising solutions, and we must develop marketing strategies that help our sales representatives cross-sell non-display products to our existing customer base. Our failure to achieve market acceptance of our solutions for mobile, social and video advertising would harm our growth prospects, financial condition and results of operations.

We 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 our advertisers 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 may be 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.

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

Our business depends in part on providing our advertisers with a service that they trust. We have contractual commitments to take reasonable measures to prevent advertisers' advertisements from appearing on undesirable websites or on certain websites that they identify, and we use third-party services to help us meet those commitments. We use proprietary technology to detect click fraud and bot traffic, which is an automated computer-generated click on an advertisement rather than a click by a human. There has recently been a significant amount of negative publicity about bot traffic within our industry, so our ability to combat bot traffic has become increasingly important. In addition, we use proprietary technology to block inventory that we know or suspect to be fraudulent, including "tool bar" inventory, which is inventory that appears within an application, often called a "tool bar," and that overlays a website and displaces any advertising that would otherwise be displayed on such 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.

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

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

We must maintain a consistent supply of attractive advertising inventory, meaning the digital space on which we place advertising impressions, including websites, proprietary social networks, such as Facebook, and mobile applications. Our success depends on our ability to secure quality inventory on reasonable terms across a broad range of advertising networks and exchanges, including real time advertising exchanges, such as Google's DoubleClick Ad Exchange or AppNexus; suppliers of video and mobile inventory; and social media platforms, such as the Facebook Exchange, known as FBX.

The amount, quality and cost of inventory available to us can change at any time. Our suppliers are generally 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. Moreover, the number of competing intermediaries that purchase advertising inventory from real-time advertising exchanges continues to increase, which 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.
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. Through the bidding process, we may not win the right to deliver advertising to the inventory that we select and may not be able to replace inventory that is no longer made available to us.

If we are unable to maintain a consistent supply of quality inventory for any reason, our business, advertiser retention and loyalty, financial condition and results of operations would be harmed.

Currently, our social media offering is almost entirely dependent on access to Facebook's inventory through FBX. If our access to quality inventory in social media 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 FBX platform, which was launched in the second half of 2012. Therefore, we currently define our social channel as advertising delivered through FBX. We have an agreement with Facebook allowing us to integrate directly with FBX to bid on advertising inventory on a real-time basis. We integrated with FBX in the fourth quarter of 2012. As a result, our ability to grow our revenue in the social channel is closely tied to the availability of inventory on FBX. If we are unable to compete favorably for advertising inventory on FBX, 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 provide advertising on social media platforms other than FBX or that have a longer history of integration with social media platforms. If we are unable to run advertising campaigns on the FBX platform, integrate with social media platforms that may become available in the future or 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.

Our success in the mobile channel 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 were unable to work on these devices or operating systems, either because of technological constraints or because an operating system or app developer, device maker or carrier wished to impair our ability to purchase inventory and provide advertisements, our ability to generate revenue could be significantly harmed.

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

We have invested significant resources in our sales and marketing teams to educate potential and prospective advertisers and advertising agencies about the value of our solution across display, mobile, social and video channels. Real-time bidding through real-time advertising exchanges is still a small part of the overall display, mobile, social and video digital advertising markets. We often spend substantial time and resources explaining how our solution can optimize advertising campaigns in real time, and responding to requests for proposals from potential advertisers and their advertising agencies, including developing material specific to the needs of such potential advertisers. Our business depends in part upon advertisers' confidence, and the confidence of the advertising agencies that represent those advertisers, that our use of real-time advertising exchanges to purchase inventory is superior to other methods of purchasing digital advertising across all channels. Our business also depends in part on our ability to effectively market our expanded offerings in the video, mobile and social channels, brand solutions and our self-service platform. We may not be successful in attracting new advertisers despite our investment in our business development, sales and marketing organizations.

If we do not effectively grow and train our sales and sales support teams, we may be unable to add new customers, increase sales to our existing customers or maintain customer satisfaction, and our business would be adversely affected.

We are substantially dependent on our sales team to obtain new customers and to drive sales from our existing customers and on our sales support teams to maintain customer satisfaction. We believe that there is significant competition for sales and sales support personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, integrating and retaining sufficient numbers of sales and sales support personnel to support our growth and maintain customer satisfaction. Our ability to slow or reverse an expected decline in our revenue growth rate during the second half of 2014 will depend, in part, on the pace at which sales personnel hired during 2014 become productive. In the second quarter of 2014, we experienced a year-over-year decline in sales productivity, and in the first quarter of 2014, we experienced a year-over-year rate of increase in sales team productivity that was lower than the rates we experienced in past periods. Our current sales team is primarily trained and experienced in selling to advertising agencies, which often control an advertiser’s budget. If more of our business shifts to direct relationships with brand advertisers and enterprise sales, we may not have an adequately trained sales team to support that shift and to sell products effectively to those advertisers. Display advertising has historically represented the majority of our business. As we expand our offerings within mobile, social and video channels and with our self-service platform, our current sales team will be required to spend time learning new offerings and becoming more effective at cross-selling. The rate of growth in sales productivity for those individuals may not improve in the near term. In addition, new hires require significant training and it may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, as we continue to grow rapidly, a large percentage of our sales team will be new to the company and our solution. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base through cross-selling, our business would be adversely affected.

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

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. We continue to pursue additional relationships with third parties, such as technology and content providers, real-time advertising exchanges, market research companies, 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 solution. In addition, these third parties may not perform as expected under our agreements with them, and we may have disagreements or disputes with such third parties, which could negatively affect our brand and reputation.

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

Our solution relies 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 solution.

Our platform, including our computational infrastructure, relies 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 platform on terms that are not economically feasible, to re-engineer our platform 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.

If we fail to maintain adequate security and supporting infrastructure as we scale our systems, we may experience outages and disruptions of our services which could harm our brand and reputation 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 platform, including Big Data and our computational infrastructure, is expensive and complex, and our execution could result in inefficiencies or operational failures and increased vulnerability to cyber-attacks, which, in turn, could diminish the quality of our services and our performance for advertisers. 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 and our data or our advertisers' 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 platform. The steps we take to increase the reliability, integrity and security of our systems as they scale 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 platform and the increasing number of connections with third party partners and vendors' technology. 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 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.

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 platform to operate over 1,000 campaigns at any given time; manage our inventory supply; bid on inventory for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data to optimize campaign performance in real time; and provide billing information to our financial systems. If our technology platform cannot scale to meet demand, or if there are errors in our execution of any of these functions on our platform, then our business could be harmed. Because our software is complex, undetected errors and failures may occur, especially when new versions or updates are made. We do not have the capability to test new releases or updates to our code on a small subset of campaigns, which means that bugs or errors in code could impact all campaigns on our platform. Despite testing by us, errors or bugs in our software have in the past, and may in the future, not be found until the software is in our live operating environment. For example, we have experienced failures in our bidding system to recognize or respond to budget restrictions for campaigns, resulting in overspending on media, and we may in the future have failures in our systems that cause us to buy more media than our advertisers are contractually obligated to pay for, which could be costly and harm our operating results. Errors or failures in our software could also result in negative publicity, damage to our brand and reputation, loss of or delay in market acceptance of our solution, increased costs or loss of revenue, loss of competitive position or claims by advertisers for losses sustained by them. In such an event, we may be required or choose to expend additional resources to help mitigate any problems resulting from errors in our software. We may make errors in the measurement of our campaigns causing discrepancies with our advertisers' measurements leading to a lack in confidence with us or, on occasion, the need for advertiser "make-goods," the standard credits given to advertisers for campaigns that have not been delivered properly. 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 financial position, results of operations and growth prospects.

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

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

Our future success depends on the continuing efforts of our key employees, including our three founders, and on our ability to hire, train, motivate and retain additional employees, including key employees.

Our future success depends heavily upon the continuing services of our key employees, including our three founders, George John, our Chief Executive Officer; Richard Frankel, our President; and Abhinav Gupta, our Vice President, Engineering, and on our ability to attract and retain members of our management team and other highly skilled employees, including software engineers, analytics and operations employees and sales professionals. The market for talent in our key areas of operations, including California, New York, Chicago and London, is intensely competitive. Our engineering group is based in Redwood City, California, and we face significant competition for talent from large technology companies such as Google, Facebook, LinkedIn, Twitter and Yahoo!. These companies may provide more generous 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 than those we have to offer. None of our founders or other key employees has an employment agreement for a specific term, and any of our employees may terminate his or her employment with us at any time.

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 little 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 corporate culture has contributed to our success. If we cannot maintain it as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business could be harmed.

We are undergoing rapid growth. We had approximately 826 employees (701 in the United States and 125 employees overseas) as of June 30, 2014, compared with approximately 466 employees (406 and 60 employees in the United States and overseas, respectively), as of June 30, 2013. We intend to further expand our overall headcount and operations both domestically and internationally, including through our proposed acquisition of [x+1], and we cannot provide assurance that we will be able to do so while effectively maintaining our corporate culture. We believe our corporate culture has been a critical component of our success as we believe it fosters innovation, teamwork, passion for customers and focus on execution, while facilitating knowledge sharing across our organization. As we grow and change, we may find it difficult to preserve our corporate culture, which could reduce our ability to innovate and operate effectively. In turn, the failure to preserve our culture could negatively affect our ability to attract, recruit, integrate and retain employees, continue to perform at current levels and effectively execute our business strategy.

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

Our revenue, cash flow from operations, operating results and other key operating and performance metrics may vary from quarter to quarter due to the seasonal nature of our advertisers' spending on digital advertising campaigns. For example, advertisers tend to devote more of their advertising budgets to the fourth calendar quarter to coincide with consumer holiday spending. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand for advertising inventory. Our historical revenue growth through 2013 partially masked the impact of seasonality, but as growth rate declines 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.

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

We must consider the effect of credit risk in transactions with agencies or other third parties and advertisers. A substantial portion of our business is sourced through advertising agencies, and we contract with these agencies as an agent for a disclosed principal, which is the advertiser. Typically, the advertising agency pays for our services once it has received payment from the advertiser for our services. Our contracts typically provide that if the advertiser does not pay the agency, the agency is not liable to us, and we must seek payment solely from the advertiser. Contracting with these agencies, which in certain cases have or may develop high-risk credit profiles, subjects us to greater credit risk than where we contract with advertisers directly. This credit risk may vary depending on the nature of an advertising agency's aggregated advertiser base. In the quarter ended September 30, 2013, one of the agencies with which we conducted business filed for bankruptcy, which resulted in bad debt expense in the period. As of June 30, 2014, two agencies and no single advertiser accounted for 10% of more of accounts receivable. There can be no assurances that we will not experience additional bad debt expense in the future. Any such write-offs for bad debt could have a materially negative effect on our results of operations for the periods in which the write-offs occur. Even if we are not paid, we are still obligated to pay for the media we have purchased for the advertising campaign, and as a consequence, our results of operations and financial condition could be adversely impacted.

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

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

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

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

jurisdictions or otherwise may be the subject of legislation or regulation. Evolving and changing definitions of personal data, within the EU, the United States and elsewhere, especially relating to classification of IP addresses, machine or device identifiers, location data and other information, have in the past and could cause us in the future, to change our business practices, or limit or inhibit our ability to operate or expand our business. Data protection and privacy-related laws and regulations are evolving and could result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. While we take measures to protect the security of information that we collect, use and disclose in the operation of our business, and to offer certain privacy protections with respect to such information, such measures may not always be effective. In addition, while we take steps to avoid collecting personally identifiable information about consumers, we may inadvertently receive this information from advertisers or advertising agencies or through the process of delivering advertising. Our failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement action against us, including fines, imprisonment of our officers and public censure, claims for damages by consumers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse impact on our business, financial condition and results of operations. Even the perception of privacy concerns, whether or not valid, could harm our reputation and inhibit adoption of our solution by current and future advertisers and advertising agencies.
Our proprietary rights may be difficult to enforce. This could enable others to copy or use aspects of our solution without compensating us, which could erode our competitive advantages and harm our business.
Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop under the intellectual property laws of the United States, so that we can prevent others from using our inventions and proprietary information. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business could be adversely affected. We rely on trademark, copyright, trade secret and patent laws, confidentiality procedures and contractual provisions to protect our proprietary methods and technologies. Our patent strategy is still in its early stages and while we have a small number of pending patent applications, valid patents may not be issued from our pending applications, and the claims eventually allowed on any patents may not be sufficiently broad to protect our technology or offerings and services. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages to us. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States, including the recent America Invents Act, and other national governments and from interpretations of the intellectual property laws of the United States and other countries by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain adequate patent protection, or to prevent third parties from infringing upon or misappropriating our intellectual property.
Unauthorized parties may attempt to copy aspects of our technology or obtain and use information that we regard as proprietary. We generally enter into confidentiality and/or license agreements with our employees, consultants, vendors and advertisers, and generally limit access to and distribution of our proprietary information. However, we cannot provide assurance that any steps taken by us will prevent misappropriation of our technology and proprietary information. Policing unauthorized use of our technology is difficult. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those of the United States, and mechanisms for enforcement of our proprietary rights in such countries may be inadequate. From time to time, legal action by us may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Such litigation could result in substantial costs and the diversion of limited resources and could negatively affect our business, financial condition and results of operations. If we are unable to protect our proprietary rights (including aspects of our technology platform) we may find ourselves at a competitive disadvantage to others who have not incurred the same level of expense, time and effort to create and protect their intellectual property.
We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Third parties may assert claims of infringement of intellectual property rights in proprietary technology against us or against our advertisers for which we may be liable or have an indemnification obligation. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from operating our business.

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

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

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

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

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

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

When we are no longer an "emerging growth company," as defined in the JOBS Act, we will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal controls over financial reporting. We will need to disclose any material weaknesses (as defined by SEC rules) in our internal controls over financial reporting that are identified by our management, as well as provide a statement that our independent registered public accounting firm has issued an opinion on our internal controls over financial reporting. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal controls over financial reporting until our first annual report filed with the SEC following the later of (i) the date we are deemed to be an "accelerated filer" or a "large accelerated filer," each as defined in the Securities Exchange Act of 1934, as amended, or the Exchange Act, or (ii) the date we are no longer an emerging growth company.

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

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

Our business depends on the overall demand for advertising and on the economic health of our current and prospective advertisers. Economic downturns or instability in political or market conditions may cause current or new advertisers to reduce their advertising budgets. Adverse economic conditions and general uncertainty about economic recovery are likely to affect our business prospects. In particular, uncertainty regarding the budget crisis in the United States may cause general business conditions in the United States and elsewhere to deteriorate or become volatile, which could cause advertisers to delay, decrease or cancel purchases of our solution, This could expose us to increased credit risk on advertiser orders, which, in turn, could negatively impact our business, financial condition and results of operations. In addition, concerns over the sovereign debt situation in certain countries in the EU as well as continued geopolitical turmoil in many parts of the world have, and may continue to, put pressure on global economic conditions, which could lead to reduced spending on advertising.

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

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

Our loan agreement contains operating and financial covenants that restrict our business and financing activities.

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

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

These restrictions are subject to certain exceptions. In addition, our loan agreement requires us to comply with a minimum EBITDA covenant and maintain a minimum liquidity ratio.

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

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

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations, which could subject our business to higher tax liability.

We may be limited in the portion of net operating loss carry-forwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes. At December 31, 2013, we had U.S. federal net operating loss carry-forwards, or NOLs, of $43.9 million and state NOLs of $18.4 million. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We believe that we experienced an ownership change under Section 382 of the Code in prior years that may limit our ability to utilize a portion of the NOLs. As a result of the ownership change, we estimate that the utilization of U.S. federal NOLs of $11.7 million and state NOLs of $10.5 million are subject to annual limitations under Section 382. In addition, future changes in our stock ownership could result in additional ownership changes under Section 382 of the Code. Our NOLs may also be impaired under similar provisions of state law. We have recorded a full valuation allowance related to our NOLs and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets. Our NOLs may expire unutilized or underutilized, which would prevent us from offsetting future taxable income.

Forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, we cannot provide assurance that our business will grow at similar rates, if at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Forecasts relating to the expected growth in the digital advertising and real-time buying markets may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

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

As of June 30, 2014, we had $203.5 million in cash and cash equivalents. 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. Portions of the proceeds from our initial public offering are invested in our operating accounts with third-party financial institutions in amounts that exceed FDIC insurance limits.

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

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

Risks Related to the Securities Markets and Ownership of Our Common Stock

The price of our common stock has been volatile and the value of our common stock could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has, and is likely going to continue to fluctuate substantially. Since our initial public offering in September 2013 through August 8, 2014, our common stock has ranged in price from a low of $16.50 to a high of $71.89. The price has declined significantly since the end of the first quarter of 2014. These fluctuations could cause stockholders to lose all or part of their investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

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

In addition, if the market for technology stocks or the stock market, in general, experience a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. If our stock price continues to be volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management’s attention and resources from our business. This could have a material adverse effect on our business, financial condition and results of operations.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business and future operating results. In developing this guidance, our management must make certain assumptions and judgments about our future performance. We use a variety of models to forecast revenue in our business, including but not limited to models based on our bookings, estimates from our sales personnel, and projected productivity of our sales representatives. Each of our models has limitations. For example, revenue anticipated by a sales representative for a particular quarter might be delayed, reduced in amount or not materialize at all for a variety of reasons, including many that are out of our control. As another example, sales personnel productivity may change significantly from historical patterns when we hire new, less experience sales personnel, when we introduce new products and services and if we are required to integrate sales personnel and new products as part of an acquired business, such as in connection with our proposed acquisition of [x+1]. In addition, expanding competitive alternatives available to our customers in the market, an unexpected slowdown in general economic conditions and a variety of other factors can lead to unanticipated reductions in spending by our customers. Our industry is rapidly changing, and as we adopt new business models to address customer requirements, our historical methods of forecasting may prove inadequate. Our proposed acquisition of [x+1], if it closes, will likely exacerbate our difficulty in developing accurate forecasts. It may take a number of quarters following the acquisition for us to understand enough about the dynamics that impact its revenue to be able to accurately forecast revenue for the combined post-acquisition entity. See “Note 15 - Subsequent Events” in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this report.

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

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

Our directors, executive officers and all of our stockholders who own greater than 5% of our outstanding common stock, in the aggregate, beneficially owned approximately 44% of the outstanding shares of our common stock based on the number of shares outstanding as of June 30, 2014. As a result, these stockholders will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a manner that is adverse to your interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

The requirements of being a public company may strain our resources, divert our management’s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

For so long as we remain an emerging growth company as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not emerging growth companies, including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions for so long as we are an emerging growth company, which could be as long as five years following the completion of our IPO. Investors may find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. However, we chose to "opt out" of the extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our business prospects, our share price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any dividends on our common stock. We have an accumulated deficit in our stockholders' equity and have not generated income through 2013. In addition, our credit facility contains restrictions on our ability to pay dividends. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least $66^2/_3$% of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated

certificate of incorporation relating to the management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;

- the ability of our board of directors, by majority vote, to amend our amended and restated bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend our amended and restated bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

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

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

(a) Recent Sale of Unregistered Securities

None.

(b) Use of Proceeds

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-190695), which was declared effective on September 19, 2013. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) of the Securities Act and other periodic reports previously filed with the SEC, except that we intend to use approximately $100 million to fund our proposed acquisition of [x+1], which was announced on August 5, 2014. See "Note 15 - Subsequent Events" in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this report.

(c) Purchases of Equity Securities by the Issuer

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

Period	Total Number of Shares Purchased (1)	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30, 2014	—	$—	—	—
May 1 - May 31, 2014	11,042	1.07	—	—
June 1 - June 30, 2014	—	—	—	—
Total	11,042	$1.07	—	

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURE

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

Dated: August 14, 2014

ROCKET FUEL INC.

By: /s/ J. Peter Bardwick

J. Peter Bardwick

Chief Financial Officer (Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
31.1	Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1(1)	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2(1)	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS(2)	XBRL Instance Document					X
101.SCH(2)	XBRL Taxonomy Schema Linkbase Document					X
101.CAL(2)	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF(2)	XBRL Taxonomy Definition Linkbase Document					X
101.LAB(2)	XBRL Taxonomy Labels Linkbase Document					X
101.PRE(2)	XBRL Taxonomy Presentation Linkbase Document					X

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

(2) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability

under these sections.