RUBICON PROJECT, INC.
Form 10-Q
August 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016
OR

o 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: 001-36384

THE RUBICON PROJECT, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-8881738
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12181 Bluff Creek Drive, 4th Floor
Los Angeles, CA 90094
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code:
(310) 207-0272

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 25, 2016
Common Stock, $0.00001 par value	48,920,591

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THE RUBICON PROJECT, INC.
QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
THE RUBICON PROJECT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$147,188	$116,499
Accounts receivable, net	158,333	218,235
Marketable securities	39,700	23,349
Prepaid expenses and other current assets	7,303	7,624
TOTAL CURRENT ASSETS	352,524	365,707
Property and equipment, net	24,845	25,403
Internal use software development costs, net	15,789	13,929
Goodwill	65,705	65,705
Intangible assets, net	41,923	50,783
Marketable securities and other assets, non-current	1,900	15,209
TOTAL ASSETS	$502,686	$536,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$188,557	$247,967
Other current liabilities	2,556	2,196
TOTAL CURRENT LIABILITIES	191,113	250,163
Deferred tax liability, net	6,774	6,225
Other liabilities, non-current	1,954	2,247
TOTAL LIABILITIES	199,841	258,635
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.00001 par value, 10,000 shares authorized at June 30, 2016 and December 31, 2015; 0 shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, $0.00001 par value; 500,000 shares authorized at June 30, 2016 and December 31, 2015; 48,850 and 46,600 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	383,570	358,406
Accumulated other comprehensive loss	(42)	(15)
Accumulated deficit	(80,683)	(80,290)
TOTAL STOCKHOLDERS' EQUITY	302,845	278,101
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$502,686	$536,736

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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THE RUBICON PROJECT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue	$70,511	$53,046	$139,743	$90,224
Expenses:				
Cost of revenue	17,540	14,009	34,323	20,570
Sales and marketing	21,966	22,161	43,244	37,210
Technology and development	13,294	10,390	25,737	18,804
General and administrative	16,390	17,984	36,995	32,263
Total expenses	69,190	64,544	140,299	108,847
Income (loss) from operations	1,321	(11,498)	(556)	(18,623)
Other (income) expense				
Interest (income) expense, net	(131)	11	(225)	23
Other income	(197)	—	(197)	—
Foreign exchange (gain) loss, net	(578)	847	(317)	(1,343)
Total other (income) expense, net	(906)	858	(739)	(1,320)
Income (loss) before income taxes	2,227	(12,356)	183	(17,303)
Provision (benefit) for income taxes	4,904	(413)	576	(329)
Net loss	$(2,677)	$(11,943)	$(393)	$(16,974)
Net loss per share:				
Basic	$(0.06)	$(0.30)	$(0.01)	$(0.45)
Diluted	$(0.06)	$(0.30)	$(0.01)	$(0.45)
Weighted-average shares used to compute net loss per share:				
Basic	46,341	39,414	45,502	37,596
Diluted	46,341	39,414	45,502	37,596

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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THE RUBICON PROJECT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net loss	$(2,677)	$(11,943)	$(393)	$(16,974)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax	20	(3)	84	(3)
Foreign currency translation adjustments	(138)	93	(111)	30
Comprehensive loss	$(2,795)	$(11,853)	$(420)	$(16,947)

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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THE RUBICON PROJECT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2015	46,600	$ —	$ 358,406	$ (15)	$ (80,290)	$ 278,101
Exercise of common stock options	1,771	—	12,859	—	—	12,859
Restricted stock awards, net	106	—	—	—	—	—
Shares withheld related to net share settlement	(341)	—	(4,886)	—	—	(4,886)
Issuance of common stock related to RSU vesting	621	—	—	—	—	—
Issuance of common stock related to employee stock purchase plan	93	—	1,137	—	—	1,137
Stock-based compensation	—	—	16,054	—	—	16,054
Foreign exchange translation adjustment	—	—	—	(111)	—	(111)
Unrealized gain on investments, net of tax	—	—	—	84	—	84
Net loss	—	—	—	—	(393)	(393)
Balance at June 30, 2016	48,850	$ —	$ 383,570	$ (42)	$ (80,683)	$ 302,845

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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THE RUBICON PROJECT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended	
	June 30, 2016	June 30, 2015
OPERATING ACTIVITIES:		
Net loss	$(393)	$(16,974)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	18,408	13,849
Stock-based compensation	15,517	13,237
Loss on disposal of property and equipment, net	5	29
Change in fair value of contingent consideration	—	3
Unrealized foreign currency (gains) losses, net	(1,179)	508
Deferred income taxes	557	(11)
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable	59,638	(1,007)
Prepaid expenses and other assets	(113)	97
Accounts payable and accrued expenses	(59,252)	19,845
Other liabilities	62	(950)
Net cash provided by operating activities	33,250	28,626
INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(3,933)	(4,246)
Capitalized internal use software development costs	(5,029)	(4,061)
Acquisitions, net of cash acquired	—	(8,647)
Investments in available-for-sale securities	(15,687)	(18,052)
Maturities of available-for-sale securities	12,800	—
Change in restricted cash	256	1,100
Net cash used by investing activities	(11,593)	(33,906)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	12,859	6,710
Proceeds from issuance of common stock under employee stock purchase plan	1,137	759
Taxes paid related to net share settlement	(4,886)	—
Repayment of debt and capital lease obligations	—	(105)
Net cash provided by financing activities	9,110	7,364
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(78)	(46)
CHANGE IN CASH AND CASH EQUIVALENTS	30,689	2,038
CASH AND CASH EQUIVALENTS--Beginning of period	116,499	97,196
CASH AND CASH EQUIVALENTS--End of period	$147,188	$99,234
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Capitalized assets financed by accounts payable and accrued expenses	$1,698	$1,910
Capitalized stock-based compensation	$537	$360
Common stock and options issued for business acquisitions	$—	$76,795

The accompanying notes to unaudited condensed consolidated financial statements are an integral part of these statements.

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THE RUBICON PROJECT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
Note 1—Organization and Summary of Significant Accounting Policies
Company Overview
The Rubicon Project, Inc., or Rubicon Project or the Company, was formed on April 20, 2007 in Delaware and began operations in April 2007. The Company is headquartered in Los Angeles, California.
The Company is a technology company with a mission to keep the Internet free and open and to fuel its growth by making it easy and safe to buy and sell advertising. The Company pioneered advertising automation technology to enable the world's leading brands, content creators, and application developers to trade and protect trillions of advertising requests each month and to improve the advertising experience of consumers. The Company offers a highly scalable platform that provides an automated advertising solution for buyers and sellers of digital advertising.

The Company delivers value to buyers and sellers of digital advertising through the Company's proprietary advertising automation solution, which provides critical functionality to both buyers and sellers. The advertising automation solution consists of applications for sellers, including providers of websites, mobile applications and other digital media properties, to sell their advertising inventory; applications for buyers, including advertisers, agencies, agency trading desks, demand side platforms, and ad networks, to buy advertising inventory; and a marketplace over which such transactions are executed. This solution incorporates proprietary machine-learning algorithms, sophisticated data processing, high-volume storage, detailed analytics capabilities, and a distributed infrastructure. Together, these features form the basis for the Company's automated advertising solution that brings buyers and sellers together and facilitates intelligent decision-making and automated transaction execution for the advertising inventory managed on the Company's platform.

Basis of Presentation and Summary of Significant Accounting Policies
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or GAAP, for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for the interim period presented have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, for any future interim period, or for any future year.

The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in its Annual Report on Form 10-K.

There have been no significant changes in the Company's accounting policies from those disclosed in its audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in its Annual Report on Form 10-K.
Revenue Recognition
The Company generates revenue from buyers and sellers in transactions in which they use the Company's solution for the purchase and sale of advertising inventory, and also in transactions in which the Company manages ad campaigns on behalf of buyers. The Company maintains separate arrangements with each buyer and seller either in the form of a master agreement, which specifies the terms of the relationship and access to the Company's solution, or by insertion orders, which specify price and volume requests and other terms. The Company recognizes revenue upon the fulfillment of its contractual obligations in connection with a completed transaction, subject to satisfying all other

revenue recognition criteria, including (i) persuasive evidence of an arrangement existing, (ii) delivery having occurred or services having been rendered, (iii) the fees being fixed or determinable, and (iv) collectibility being reasonably assured. The Company assesses whether fees are fixed or determinable based on the contractual terms of the arrangements. Historically, any refunds and adjustments have not been material. The Company assesses collectibility based on a number of factors, including the creditworthiness of a buyer and seller and payment and transaction history. The Company's revenue arrangements generally do not include multiple deliverables.

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Revenue is reported depending on whether the Company functions as principal or agent. The determination of whether the Company acts as the principal or the agent requires the Company to evaluate a number of indicators, none of which is presumptive or determinative. For transactions in which the Company is the principal, revenue is reported on a gross basis for the amount paid by buyers for the purchase of advertising inventory and related services and the Company records the amounts paid to sellers as cost of revenue. For transactions in which the Company is the agent, revenue is reported on a net basis for the amount of fees charged to the buyer (if any), and fees retained from or charged to the seller.

The Company enters into arrangements for which it manages advertising campaigns on behalf of buyers. The Company is the principal in these arrangements as it: (i) is the primary obligor in the advertising inventory purchase transaction; (ii) establishes the purchase prices paid by the buyer; (iii) performs all billing and collection activities including the retention of credit risk; (iv) has latitude in selecting suppliers; (v) negotiates the price it pays to suppliers of inventory; and (vi) makes all inventory purchasing decisions. Accordingly, for these arrangements the Company reports revenue on a gross basis.

For the Company's other arrangements, in which the Company's solution matches buyers and sellers, enables them to purchase and sell advertising inventory, and establishes rules and parameters for advertising inventory transactions, the Company reports revenue on a net basis because the Company: (i) is not the primary obligor for the purchase of advertising inventory but rather provides a platform to facilitate the buying and selling of advertising; (ii) does not have pricing latitude as pricing is generally determined through the Company's auction process and/or the Company's fees are based on a percentage of advertising spend; and (iii) does not directly select suppliers.

Reclassifications

Certain amounts in the consolidated balance sheet for December 31, 2015 have been reclassified to conform with current-period presentation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed financial statements and accompanying footnotes. Actual results could differ materially from these estimates.

Recent Accounting Pronouncements

Under the Jumpstart Our Business Startups Act, or the JOBS Act, the Company meets the definition of an emerging growth company. The Company has 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.

In May 2014, the FASB issued new accounting guidance that amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under the "Revenue from Contracts with Customers" topic with those of the International Financial Reporting Standards. The guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. These amendments were effective for reporting periods beginning after December 15, 2016, with early adoption prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Subsequent to issuing the May 2014 guidance, in August 2015, the FASB issued amendments that deferred the effective date one year. As a result, the guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016; in March 2016, the FASB issued further amendments that clarify the implementation guidance on principal versus agent considerations in the new revenue recognition standard. The amendments clarify how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The Company is currently assessing the impact this guidance will have on the Company's consolidated financial statements.

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In January 2016, the FASB issued new accounting guidance that changes certain recognition, measurement, presentation, and disclosure requirements for financial instruments. The new guidance requires all equity investments, except those accounted for under the equity method of accounting or resulting in consolidation, to be measured at fair value with changes in fair value recognized in net income. The guidance also simplifies the impairment assessment for equity investments without readily determinable fair values, amends the presentation requirements for changes in the fair value of financial liabilities, requires presentation of financial instruments by measurement category and form of financial asset, and eliminates the requirement to disclose the methods and significant assumptions used in estimating the fair value of financial instruments. The new guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is not permitted except for the amended presentation requirements for changes in the fair value of financial liabilities. The Company is currently assessing the impact this guidance will have on the Company's consolidated financial statements.

In February 2016, the FASB issued new accounting guidance that requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently assessing the impact this guidance will have on the Company's consolidated financial statements.

In March 2016, the FASB issued new accounting guidance that involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This guidance is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period; however early adoption is permitted. The Company is currently assessing the impact this guidance will have on the Company's consolidated financial statements.

In June 2016, the FASB issued new guidance that changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt the new guidance early.

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Note 2—Net Loss Per Share

The following table presents the basic and diluted net loss per share for each period presented:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(In thousands, except per share data)			
Net loss	$(2,677)	$(11,943)	$(393)	$(16,974)
Weighted-average common shares outstanding	48,740	41,873	47,939	39,747
Weighted-average unvested restricted shares	(1,763)	(1,682)	(1,732)	(1,698)
Weighted-average escrow shares	(636)	(777)	(705)	(453)
Weighted-average common shares outstanding used to compute net loss per share	46,341	39,414	45,502	37,596
Basic net loss per share	$(0.06)	$(0.30)	$(0.01)	$(0.45)
Diluted EPS:				
Net loss	$(2,677)	$(11,943)	$(393)	$(16,974)
Weighted-average common shares used in basic EPS	46,341	39,414	45,502	37,596
Dilutive effect of weighted-average common stock options	—	—	—	—
Dilutive effect of weighted-average restricted stock awards	—	—	—	—
Dilutive effect of weighted-average restricted stock units	—	—	—	—
Dilutive effect of weighted-average ESPP	—	—	—	—
Dilutive effect of weighted-average escrow shares	—	—	—	—
Dilutive effect of weighted-average contingent shares	—	—	—	—
Weighted-average shares used to compute diluted net loss per share	46,341	39,414	45,502	37,596
Diluted net loss per share	$(0.06)	$(0.30)	$(0.01)	$(0.45)

The following weighted-average shares have been excluded from the calculation of diluted net loss per share for each period presented because they are anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Options to purchase common stock	1,317	2,894	1,519	2,951
Unvested restricted stock awards	756	674	685	660
Unvested restricted stock units	930	710	913	500
ESPP	26	28	22	28
Shares held in escrow	635	638	699	381
Contingent shares	—	1,552	—	1,110
Total shares excluded from net loss per share	3,664	6,496	3,838	5,630

In addition to the above anti-dilutive shares, shares contingently issuable if certain milestones were achieved on December 31, 2015 related to business combinations that occurred during the years ended December 31, 2014 and 2015 have been excluded from the calculation of diluted net loss per share for the three and six months ended June 30,

2015. If June 30, 2015 had been the end of the contingency period, 742,161 shares would have been issuable related to the iSocket, Inc., or iSocket, acquisition and 957,407 shares would have been issuable related to the Chango Inc., or Chango, acquisition. On December 31, 2015, the Company issued 585,170 shares in connection with the iSocket contingent consideration and 971,481 shares in connection with the Chango contingent consideration, which were included in the calculation of basic and diluted net loss per share for the three and six months ended June 30, 2016.

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Note 3—Fair Value Measurements

Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs are based on market data obtained from independent sources. The fair value hierarchy is based on the following three levels of inputs, of which the first two are considered observable and the last one is considered unobservable:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs.

The table below sets forth a summary of financial instruments that are measured at fair value on a recurring basis at June 30, 2016:

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Money market funds	$16,495	$ 16,495	$ —	$ —
Corporate debt securities	$15,710	$ 15,710	$ —	$ —
U.S. Treasury, government and agency debt securities	$23,990	$ 23,990	$ —	$ —

The table below sets forth a summary of financial instruments that are measured at fair value on a recurring basis at December 31, 2015:

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Money market funds	$19,257	$ 19,257	$ —	$ —
Corporate debt securities	$12,786	$ 12,786	$ —	$ —
U.S. Treasury, government and agency debt securities	$23,946	$ 23,946	$ —	$ —

At June 30, 2016 and December 31, 2015, cash equivalents of $16.5 million and $19.3 million, respectively, consisted of money market funds with original maturities of three months or less. The fair values of the Company's money market funds, U.S. treasury, government and agency debt securities, and corporate debt securities are based on quoted market prices.

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At June 30, 2015, the Company had contingent consideration liabilities in connection with the acquisitions of iSocket and Chango that the Company classified within Level 3 as factors used to develop the estimated fair value included unobservable inputs that were not supported by market activity. The Company estimated the fair value of the contingent consideration liability for iSocket by discounting the present value of the probability-weighted future payout related to the contingent earn-out criteria using an estimate of the Company's incremental borrowing rate. At June 30, 2015, the Company considered it highly likely that the iSocket earn-out criteria would be met. On December 31, 2015, the Company issued 585,170 shares of common stock in satisfaction of the contingent consideration. The Company estimated the fair value of the contingent consideration liability related to the Chango acquisition by using a Monte-Carlo model as the fair value of the contingent consideration was dependent on both the performance milestones being achieved and the post-acquisition prices of the Company's common stock. Subsequent to Chango's acquisition date, the operations of Chango were fully integrated into the operations of the Company. Accordingly, pursuant to the acquisition agreement, because Chango was no longer operated separately from the Company's other operations in accordance with the agreed-upon business plan, the entire contingent consideration was deemed earned. As a result, the changes in the fair value of the contingent consideration liability post-acquisition were primarily dependent on prices of the Company's common stock for periods subsequent to Chango's acquisition date. On December 31, 2015, the Company issued 971,481 shares of common stock in satisfaction of the contingent consideration.

For the three and six months ended June 30, 2015, the change in fair value of the contingent consideration liabilities, which was recorded in general and administrative expenses, was insignificant.

The Company's contingent consideration liability was recorded at fair value and was determined to be a Level 3 fair value item. The change in the fair value of the contingent consideration liability is summarized below:

	Three Month Roll Forward		Six Month Roll Forward	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Beginning balance	$—	$11,586	$—	$11,448
Increase to contingent consideration liability related to the Chango acquisition	—	16,171	—	16,171
Change in fair value of contingent consideration liability recorded in general and administrative expense	—	(135)	—	3
Ending balance	$—	$27,622	$—	$27,622

Note 4—Other Balance Sheet Amounts

The Company holds restricted cash as collateral for credit cards. At June 30, 2016 and December 31, 2015, restricted cash included in prepaid expenses and other current assets were $0.1 million and $0.3 million, respectively.

Investments in marketable securities as of June 30, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale — short-term:				
U.S. Treasury, government and agency debt securities	$23,973	$ 17	$ —	$23,990
Corporate debt securities	15,710	—	—	15,710
Total	$39,683	$ 17	$ —	$39,700
Available-for-sale — long-term:				
U.S. Treasury, government and agency debt securities	$—	$ —	$ —	$—

As of June 30, 2016, the Company's available-for-sale securities had a weighted remaining contractual maturity of 0.5 years. For the three and six months ended June 30, 2016 the gross realized gains and gross realized losses were not significant and there were no unrealized holding gains (losses) reclassified out of accumulated other comprehensive loss into the consolidated statements of operations for the sale of available-for-sale investments.

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Investments in marketable securities as of December 31, 2015 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale — short-term:				
U.S. Treasury, government and agency debt securities	$10,485	$ —	$ (22)	$10,463
Corporate debt securities	12,786	—	—	12,786
Total	$23,271	$ —	$ (22)	$23,249
Available-for-sale — long-term:				
U.S. Treasury, government and agency debt securities	$13,529	$ —	$ (46)	$13,483

The amortized cost and fair value of the Company's marketable securities at June 30, 2016, by contractual years-to-maturity are as follows:

	Amortized Cost	Fair Value
	(in thousands)	
Due in less than 1 year	$39,683	$39,700
Total	$39,683	$39,700

There were no non-current marketable securities at June 30, 2016.

Accounts payable and accrued expenses included the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Accounts payable—seller	$171,137	$228,850
Accounts payable—trade	7,300	6,962
Accrued employee-related payables	10,120	12,155
Total	$188,557	$247,967

At June 30, 2016 and December 31, 2015, accounts payable—seller are recorded net of $0.5 million and $0.7 million, respectively, due from sellers for services provided by the Company to sellers, where the Company has the right of offset.

Note 5—Business Combinations

On April 24, 2015, or the Acquisition Date, the Company completed the acquisition of all the issued and outstanding shares of Chango, a Toronto, Canada based intent marketing technology company.

The following table provides unaudited pro forma information as if Chango had been acquired as of January 1, 2014. The unaudited pro forma information reflects adjustments for additional amortization resulting from the fair value adjustments to assets acquired and liabilities assumed. The pro forma results do not include any anticipated cost synergies or other effects of the integration of Chango or recognition of compensation expense relating to the earn-out. Accordingly, pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on the dates indicated, nor is it indicative of the actual or future operating results of the combined company.

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015

	(in thousands, except per share data)	
Pro forma revenues	$56,489	$106,874
Pro forma net loss	$(10,575)	$(18,608)
Pro forma net loss per share, basic and diluted	$(0.25)	$(0.45)

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Subsequent to the Acquisition Date, the operations of Chango were fully integrated into the operations of the Company and as a result, the determination of Chango's post-acquisition revenues and operating results on a standalone basis are impracticable given the integration of the Chango operations with the Company's operations.

Note 6—Intangible Assets

Intangible assets primarily consist of acquired developed technology, customer relationships and non-compete agreements resulting from business combinations, which are recorded at acquisition-date fair value, less accumulated amortization. The Company determines the appropriate useful life of its intangible assets by performing an analysis of expected cash flows of the acquired assets. Intangible assets are amortized over their estimated useful lives using a straight-line method, which approximates the pattern in which the economic benefits are consumed.

During the three months June 30, 2016, the Company reassessed the remaining estimated useful lives of the developed technology and customer relationships related to the Chango acquisition. The change in estimated useful lives for the developed technology and customer relationships was based on the remaining expected benefit from those assets. As a result, the remaining estimated useful life for developed technology was changed from a range between 1.8 and 3.8 years to a range between 1.3 and 2.8 years and the remaining estimated useful life for customer relationships was changed from 3.8 years to 1.8 years as of June 30, 2016.

Details of the Company's intangible assets were as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Amortizable intangible assets:		
Developed technology	$35,486	$35,756
Customer relationships	25,330	25,330
Non-compete agreements	4,990	4,990
Total identifiable intangible assets, gross	65,806	66,076
Total accumulated amortization—intangible assets	(23,883)	(15,293)
Total identifiable intangible assets, net	$41,923	$50,783

Amortization expense of intangible assets for the three and six months ended June 30, 2016 were $4.6 million and $8.6 million, respectively. The change in the remaining estimated useful lives for acquired technology and customer relationships resulted in increased amortization expense of $0.5 million for the three and six months ended June 30, 2016. The increased amortization expense decreased the basic and diluted earnings per share by $0.01 for the three and six months ended June 30, 2016.

Given the change in remaining estimated useful lives, the Company revised the estimated remaining amortization expense associated with the Company's intangible assets for each of the next five fiscal years as follows as of June 30, 2016:

Fiscal Year	Amount
	(in thousands)
2016	$ 11,283
2017	19,410
2018	8,415
2019	2,815
2020 and thereafter	—
Total	$ 41,923

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Note 7—Stock-Based Compensation

The Company's equity incentive plans provide for the grant of equity awards, including non-statutory or incentive stock options, restricted stock, and restricted stock units, to the Company's employees, officers, directors, and consultants. The Company's board of directors administers the plans. Options outstanding vest based upon continued service at varying rates, but generally over four years from issuance with 25% vesting after one year of service and the remainder vesting monthly thereafter. Restricted stock and restricted stock units vest at varying rates, usually 25% vesting after one year of service and the remainder vesting semi-annually thereafter. Options, restricted stock, and restricted stock units granted under the plans accelerate under certain circumstances on a change in control, as defined therein. An aggregate of 2,768,110 shares remained available for issuance at June 30, 2016 under the plans.

Stock Options

A summary of stock option activity for the six months ended June 30, 2016 is as follows:

	Shares Under Option	Weighted-Average Exercise Price	Weighted- Average Contractual Life	Aggregate Intrinsic Value
	(in thousands)			(in thousands)
Outstanding at December 31, 2015	6,203	$ 9.76		
Granted	419	$ 14.09		
Exercised	(1,771)	$ 7.26		
Canceled	(457)	$ 11.78		
Outstanding at June 30, 2016	4,394	$ 10.97	7.20 years	$ 15,278
Vested and expected to vest	4,337	$ 10.93	7.18 years	$ 15,216
Exercisable at June 30, 2016	2,592	$ 9.47	6.45 years	$ 12,359

At June 30, 2016, the Company had unrecognized employee stock-based compensation expense relating to stock options of approximately $10.7 million, which is expected to be recognized over a weighted-average period of 2.1 years.

The weighted-average grant date per share fair value of stock options granted in the six months ended June 30, 2016 was $6.52.

The Company estimates the fair value of stock options that contain service and/or performance conditions using the Black-Scholes option pricing model. The weighted-average input assumptions used by the Company were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Expected term (in years)	5.8	4.0	5.9	4.2
Risk-free interest rate	1.39%	1.16%	1.43%	1.23%
Expected volatility	55%	48%	48%	48%
Dividend yield	—%	—%	—%	—%

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Restricted Stock

A summary of restricted stock activity for the six months ended June 30, 2016 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Nonvested shares of restricted stock outstanding at December 31, 2015	1,479	$ 15.58
Granted	525	$ 12.15
Canceled	(419)	$ 14.25
Vested	(337)	$ 16.35
Nonvested shares subject to restricted stock outstanding at June 30, 2016	1,248	$ 14.37

At June 30, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock with service conditions of approximately $9.4 million, which is expected to be recognized over a weighted-average period of 2.7 years. At June 30, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock with market conditions granted in 2014 of approximately $0.6 million, which is expected to be recognized over a weighted-average period of 4.9 years.

In February 2016, the Company granted certain executives shares of restricted stock that vest based on certain stock price performance metrics. The grant date fair value per share of restricted stock was $11.07, which was estimated using a Monte-Carlo lattice model. In May 2015, the Company granted certain executives shares of restricted stock that vest based on certain stock price performance metrics. The grant date fair value per share of restricted stock was $13.81, which was estimated using a Monte-Carlo lattice model. At June 30, 2016, the Company had unrecognized employee stock-based compensation expense relating to these shares of restricted stock with market conditions of approximately $3.6 million, which is expected to be recognized over a weighted-average period of 2.2 years. The compensation expense will not be reversed if the performance metrics are not met.

Restricted Stock Units

A summary of restricted stock unit activity for the six months ended June 30, 2016 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Nonvested shares of restricted stock units outstanding at December 31, 2015	2,647	$ 15.76
Granted	1,756	$ 13.89
Canceled	(512)	$ 15.15
Vested	(622)	$ 16.18
Nonvested shares subject to restricted stock units outstanding at June 30, 2016	3,269	$ 14.78

At June 30, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock units of approximately $41.0 million, which is expected to be recognized over a weighted-average period of 3.3 years.

Employee Stock Purchase Plan

In November 2013, the Company adopted the Company's 2014 Employee Stock Purchase Plan, or ESPP. The ESPP is designed to enable eligible employees to periodically purchase shares of the Company's common stock at a discount through payroll deductions of up to 10% of their eligible compensation, subject to any plan limitations. At the end of each six month offering period, employees are able to purchase shares at a price per share equal to 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. Offering periods generally commence and end in May and November of each year.

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As of June 30, 2016, the Company has reserved 1,100,149 shares of its common stock for issuance under the ESPP. Shares reserved for issuance will increase on January 1 of each year by the lesser of (i) a number of shares equal to 1% of the total number of outstanding shares of common stock on the December 31 immediately prior to the date of increase or (ii) such number of shares as may be determined by the board of directors. In May 2016, 93,416 shares of common stock were purchased under the ESPP. The Company estimated the total grant date fair value of the ESPP awards for the offering period ending in November 2016 of $0.5 million using a Black-Scholes model with the following assumptions: term of 6 months corresponding with the offering period; volatility of 58% based on the Company's historical volatility for a six month period; no dividend yield; and risk-free interest rate of 0.38%. Compensation costs are recognized on a straight-line basis over the offering period.

Stock-Based Compensation Expense

Total stock-based compensation expense recorded in the consolidated statements of operations was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Cost of revenue	$108	$70	$170	$112
Sales and marketing	2,543	1,858	4,657	2,983
Technology and development	1,800	1,116	3,174	1,906
General and administrative	2,675	4,695	7,516	8,236
Total stock-based compensation expense	$7,126	$7,739	$15,517	$13,237

Note 8—Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date income. The Company's annual estimated effective tax rate differs from the statutory rate primarily as a result of state taxes, foreign taxes, nondeductible stock option expenses, and changes in the Company's valuation allowance.

The Company recorded an income tax provision of $4.9 million and an income tax benefit of $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and an income tax provision of $0.6 million and an income tax benefit of $0.3 million for the six months ended June 30, 2016 and 2015, respectively. The tax provision for the three and six months ended June 30, 2016 is primarily the result of the domestic valuation allowance and the geographical mix of income and losses.

Due to uncertainty as to the realization of benefits from the Company's domestic and certain international net deferred tax assets, including net operating loss carryforwards and research and development tax credits, the Company has a full valuation allowance reserved against such net deferred tax assets. The Company intends to continue to maintain a full valuation allowance on the net deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

There were no material changes to the Company's unrecognized tax benefits in the three and six months ended June 30, 2016, and the Company does not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year. Because of the Company's history of tax losses, all years remain open to tax audit.

Note 9—Commitments and Contingencies

Operating Leases

The Company has commitments under non-cancelable operating leases for facilities and certain equipment and its managed data center facilities. Total rental expenses were $4.3 million and $3.1 million for the three months ended June 30, 2016 and 2015, respectively, and $8.3 million and $5.4 million for the six months ended June 30, 2016 and 2015, respectively.

During the six months ended June 30, 2016, the Company entered into new operating leases. Future non-cancelable minimum commitments as of June 30, 2016 relating to these new operating leases totaling $0.2 million are due through March 2020.

The Company has rental income from commercial office space the Company holds under lease and has subleased to other tenants that is included in other income. Rental income was insignificant for the three and six months ended June 30, 2016.

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Guarantees and Indemnification

The Company's agreements with sellers, buyers, and other third parties typically obligate it to provide indemnity and defense for losses resulting from claims of intellectual property infringement, damages to property or persons, business losses, or other liabilities. Generally, these indemnity and defense obligations relate to the Company's own business operations, obligations, and acts or omissions. However, under some circumstances, the Company agrees to indemnify and defend contract counterparties against losses resulting from their own business operations, obligations, and acts or omissions, or the business operations, obligations, and acts or omissions of third parties. For example, because the Company's business interposes the Company between buyers and sellers in various ways, buyers often require the Company to indemnify them against acts or omissions of sellers, and sellers often require the Company to indemnify them against acts or omissions of buyers. In addition, the Company's agreements with sellers, buyers, and other third parties typically include provisions limiting the Company's liability to the counterparty, and the counterparty's liability to the Company. These limits sometimes do not apply to certain liabilities, including indemnity obligations. These indemnity and limitation of liability provisions generally survive termination or expiration of the agreements in which they appear. The Company has also entered into indemnification agreements with its directors, executive officers, and certain other officers 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.

Employment Contracts

The Company has entered into severance agreements with certain employees and officers. The Company may be required to pay severance and accelerate the vesting of certain equity awards in the event of involuntary terminations of employment of such persons.

Other Contracts

The Company is party to an engagement letter with an investment bank entered into in 2009 and amended in 2012. Pursuant to the engagement letter, the investment bank provided and may continue to provide strategic and consulting advice to the Company. The engagement letter also provides that, in case of a merger, tender offer, stock purchase, or other transaction resulting in the acquisition of the Company by another entity or the transfer of ownership or control of the Company or substantially all of its assets to another entity (a "Change in Control Transaction") that is consummated before December 7, 2016 or pursuant to a definitive agreement entered into before that date, (i) the investment bank will provide investment banking services in connection with a Change in Control Transaction, if requested by the Company, and (ii) the Company will pay to the investment bank a fee equal to 2.5% of the total consideration paid or payable to the Company or its stockholders in the Change in Control Transaction, whether or not the Company requests such investment banking services.

Claims and Litigation

The Company and its subsidiaries may from time to time be parties to legal or regulatory proceedings, lawsuits and other claims incident to their business activities and to the Company's status as a public company. Such matters may include, among other things, assertions of contract breach or intellectual property infringement, claims for indemnity arising in the course of the Company's business, regulatory investigations or enforcement proceedings, and claims by persons whose employment has been terminated. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to such matters as of June 30, 2016. However, based on management's knowledge as of June 30, 2016, management believes that the final resolution of these matters known at such date, individually and in the aggregate, will not have a material effect upon the Company's consolidated financial position, results of operations or cash flows.

Note 10—Subsequent Events

Subsequent to June 30, 2016, the Company entered into new operating leases for office facilities. Future non-cancelable minimum commitments relating to the operating leases totaling $3.5 million are due from September 2016 to April 2019.

On July 24, 2016, the Company released 635,396 shares from escrow related to the acquisition of Chango.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q and related statements by the Company contain forward-looking statements, including statements based upon or relating to our expectations, assumptions, estimates, and projections. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "design," "anticipate," "estimate," "predict," "potential," "plan" or the negative of these terms, and similar expressions. Forward-looking statements may include, but are not limited to, statements concerning our anticipated financial performance, including, without limitation, revenue, managed revenue (advertising spending), non-GAAP net revenue, profitability, net income (loss), Adjusted EBITDA, earnings per share, and cash flow; strategic objectives, including focus on mobile, video, and Orders opportunities, expanded header bidding solutions, and implementation of solutions to improve the advertising experience of consumers; investments in our business; development of our technology; introduction of new offerings; scope and duration of client relationships; the fees we may charge in the future; business mix and expansion of our mobile, video, and Orders offerings; sales growth; client utilization of our offerings; our competitive differentiation; our leadership position in the industry; market conditions, trends, and opportunities; user reach; certain statements regarding future operational performance measures including take rate, paid impressions, and average CPM; and factors that could affect these and other aspects of our business. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements. These risks include, but are not limited to:

- our ability to grow rapidly and to manage our growth effectively;
- our ability to develop innovative new technologies and remain a market leader;
- our ability to attract and retain buyers and sellers and increase our business with them;
- our vulnerability to loss of, or reduction in spending by, buyers;
- our ability to maintain a supply of advertising inventory from sellers;
- the effect on the advertising market and our business from difficult economic conditions;
- the freedom of buyers and sellers to direct their spending and inventory to competing sources of inventory and demand;
- our ability to use our solution to purchase and sell higher value advertising and to expand the use of our solution by buyers and sellers utilizing evolving digital media platforms;
- our ability to introduce new offerings and bring them to market in a timely manner in response to client demands and industry trends, including shifts in digital advertising growth from display to mobile channels;
- our ability to implement solutions to improve the advertising experience of consumers;
- the increased prevalence of header bidding and its effect on our competitive position;
- uncertainty of our estimates and expectations associated with new offerings, including private marketplace, mobile, Orders, automated guaranteed, video, and guaranteed audience solutions;
- uncertainty of our estimates and assumptions about the mix of gross and net reported transactions;
- declining fees and take rate and the need to grow through managed revenue (advertising spending) increases rather than fee increases;
- our limited operating history and history of losses;
- our ability to continue to expand into new geographic markets;
- our ability to adapt effectively to shifts in digital advertising to mobile and video channels;
- increased prevalence of ad blocking technologies;
- the slowing growth rate of online digital display advertising;
- the growing percentage of online and mobile advertising spending captured by owned and operated sites (such as Facebook and Google) where we are unable to participate;
- the effects of increased competition in our market and increasing concentration of advertising spending, including mobile spending, in a small number of very large competitors;
-

our ability to differentiate our offerings, compete effectively and to maintain our pricing and take rate in a market trending increasingly toward commodification, transparency, and disintermediation;

- requests from buyers and sellers for discounts, fee concessions or revisions, rebates, and greater levels of pricing transparency and specificity;

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- potential adverse effects of malicious activity such as fraudulent inventory and malware;
- the effects of seasonal trends on our results of operations;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain qualified employees and key personnel;
- our ability to identify future acquisitions of or investments in complementary companies or technologies and our ability to consummate the acquisitions and integrate such companies or technologies;
- our ability to comply with, and the effect on our business of, evolving legal standards and regulations, particularly concerning data protection and consumer privacy and evolving labor standards; and
- our ability to develop and maintain our corporate infrastructure, including our finance, information technology, and data security systems and controls.

We discuss many of these risks and additional factors that could cause actual results to differ materially from those anticipated by our forward-looking statements under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report and in other filings we make from time to time with the Securities and Exchange Commission, or SEC. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Without limiting the foregoing, we generally give guidance only in connection with quarterly and annual earnings announcements, without interim updates, and we may appear at industry conferences or make other public statements without disclosing material nonpublic information in our possession. Given these uncertainties, investors should not place undue reliance on these forward-looking statements.

Investors should read this report and the documents that we reference in this report and have filed or will file with the SEC completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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.

Overview

We provide a complete technology solution to automate the purchase and sale of advertising for both buyers and sellers. Our highly scalable platform reaches approximately one billion Internet users globally on some of the world's leading websites and mobile applications. We help increase the volume and effectiveness of advertising, improving revenue for sellers and return on advertising investment for buyers.

Advertising takes different forms, referred to as advertising units, and is purchased and sold through different transactional methodologies, referred to as inventory types. Finally, it is presented to users through different channels. Our solution enables buyers and sellers to purchase and sell:

- a comprehensive range of advertising units, including display and video;
- utilizing various inventory types, including (i) direct sale of premium inventory, which we refer to as Orders, on a guaranteed, or fully reserved, basis, as well as on a non-guaranteed basis and (ii) real-time bidding, or RTB;
- across digital channels, including mobile web, mobile application and desktop, as well as across various out-of-home channels, such as digital billboards, that are in the early stages of leveraging our advertising automation platform.

Our platform features applications for digital advertising sellers, including websites, mobile applications and other digital media properties, to sell their advertising inventory; applications and services for buyers, including advertisers, agencies, agency trading desks, or ATDs, demand side platforms, or DSPs, and ad networks, to buy advertising inventory; and a marketplace over which such transactions are executed. Together, these features power and optimize a comprehensive, transparent, independent advertising marketplace that brings buyers and sellers together and facilitates intelligent decision-making and automated transaction execution for the advertising inventory we manage on our platform.

Sellers of digital advertising use our platform to maximize revenue by accessing a global market of buyers representing top advertiser brands around the world to monetize their advertising inventory across inventory types, advertising units, and channels. We also help sellers decrease costs and protect their brands and user experience.

At the same time, buyers leverage our platform to manage their advertising spending across inventory types, advertising units, and channels, simplify order management and campaign tracking, obtain actionable insights into audiences for their advertising, and access impression-level purchasing from hundreds of sellers. We believe buyers use our platform because of our powerful solution and our direct relationships and integrations with some of the world's largest sellers.

Our platform incorporates proprietary machine-learning algorithms, sophisticated data processing, high-volume storage, detailed analytics capabilities, and a distributed infrastructure. We analyze billions of data points in real time to enable our solution to make approximately 300 data-driven decisions per transaction in milliseconds and over 12 trillion bid requests per month. Since 2012, we have processed over 200 trillion bid requests. Our solution is constantly self-optimizing based on our systems' ability to analyze and learn from vast volumes of data. The additional data we obtain from the volume of transactions on our platform help make our machine-learning algorithms more intelligent, leading to higher quality matching between buyers and sellers, better return on investment for buyers, and higher revenue for sellers. High quality matching helps us attract more sellers which in turn attracts more buyers and vice versa. We believe this self-reinforcing dynamic creates a strong platform for growth.

In addition to the United States, we have personnel and operations in Canada, England, France, Australia, Germany, Italy, Japan, Singapore, and Brazil. As of June 30, 2016, 172 of our 652 employees were based outside the United States.

We operate our business on a worldwide basis, with an established operating presence in North America and Europe and a developing presence in Asia and Latin America. With the exception of approximately $33.9 million in intangible assets in Canada, substantially all of our assets are U.S. assets. Excluding Canada, our non-U.S. subsidiaries and operations perform primarily sales, marketing, and service functions.

Components of Our Results of Operations

We report our financial results as one operating segment. Our consolidated operating results, together with non-GAAP financial measures and the operational performance measure, are regularly reviewed by our chief operating decision maker, principally to make decisions about how we allocate our resources and to measure our consolidated operating performance.

Revenue

We generate revenue from buyers and sellers who use our solution for the purchase and sale of advertising inventory. Our solution enables buyers and sellers to purchase and sell advertising inventory, by matching buyers and sellers, and establishing rules and parameters for open and transparent auctions of advertising inventory. Buyers use our solution to reach their intended audiences by buying advertising inventory that we make available from sellers through our solution or advertising inventory we purchase from third-party exchanges. Sellers use our solution to monetize their inventory. We recognize revenue upon fulfillment of our contractual obligations in connection with a completed transaction, subject to satisfying all other revenue recognition criteria, including (i) persuasive evidence of an arrangement existing, (ii) delivery having occurred or services having been rendered, (iii) the fees being fixed or determinable, and (iv) collectibility being reasonably assured. We generally bill and collect the full purchase price of impressions from buyers, together with other fees, if applicable. We report revenue on a net basis for arrangements in which we have determined that we do not act as the principal in the purchase and sale of advertising inventory because pricing is determined through our auction process and we are not the primary obligor. We report revenue on a gross basis for arrangements in which we have determined that we act as the principal in the purchase and sale of advertising inventory because we have direct contractual relationships with and manage advertising campaigns on behalf of the buyer by acting as the primary obligor in the purchase of advertising inventory, we exercise discretion in establishing prices, we have credit risk, and we independently select and purchase inventory from the seller. In some cases, we generate revenue directly from sellers who maintain the primary relationship with buyers and utilize our solution to transact and optimize their activities. Our accounts receivable are recorded at the amount of gross billings to buyers, net of allowances, for the amounts we are responsible to collect, and our accounts payable are recorded at the net amount payable to sellers. Accordingly, both accounts receivable and accounts payable appear large in relation to revenue reported on a net basis.

Our revenue, cash flow from operations, operating results, and non-GAAP financial and operational performance measures may vary from quarter to quarter due to the seasonal nature of overall advertiser spending in the market, as well as other circumstances that affect advertising activity. For example, many advertisers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand. Historically, the fourth quarter of the year has reflected our highest level of revenue, and the first quarter has reflected the lowest level of our revenue.

Our revenue may also be impacted by a shift in the mix of managed revenue (advertising spending) by inventory type and channel, changes in the fees we are able to charge or choose to charge buyers and sellers for our services (which drives take rate), whether we are the principal in the transactions and therefore report revenue on a gross basis, and other factors such as changes in the market, our execution of the business, and competition.

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Our revenue recognition policies are discussed in more detail below and in the notes to our condensed consolidated financial statements presented within this Form 10-Q.

Expenses

We classify our expenses into the following four categories:

Cost of Revenue. Our cost of revenue consists primarily of amounts we pay sellers for transactions for which we are the principal and report revenues on a gross basis, data center costs, bandwidth costs, depreciation and maintenance expense of hardware supporting our revenue-producing platform, amortization of software costs for the development of our revenue-producing platform, amortization expense associated with acquired developed technologies, personnel costs, and facilities-related costs. Personnel costs included in cost of revenue include salaries, bonuses, stock-based compensation, and employee benefit costs, and are primarily attributable to personnel in our network operations group who support our platform. We capitalize costs associated with software that is developed or obtained for internal use and amortize the costs associated with our revenue-producing platform in cost of revenue over their estimated useful lives. We amortize acquired developed technologies over their estimated useful lives.

Sales and Marketing. Our sales and marketing expenses consist primarily of personnel costs, including stock-based compensation and the sales bonuses paid to our sales organization, marketing expenses such as brand marketing, travel expenses, trade shows and marketing materials, professional services, and amortization expense associated with customer relationships and backlog from our business acquisitions, and to a lesser extent, facilities-related costs and depreciation and amortization. Our sales organization focuses on increasing the adoption of our solution by existing and new buyers and sellers. We amortize acquired intangibles associated with customer relationships and backlog from our business acquisitions over their estimated useful lives.

Technology and Development. Our technology and development expenses consist primarily of personnel costs, including stock-based compensation and bonuses, and professional services associated with the ongoing development and maintenance of our solution, and to a lesser extent, facilities-related costs and depreciation and amortization, including amortization expense associated with acquired intangible assets from our business acquisitions that are related to technology and development functions. These expenses include costs incurred in the development, implementation, and maintenance of internal use software, including platform and related infrastructure. Technology and development costs are expensed as incurred, except to the extent that such costs are associated with internal use software development that qualifies for capitalization, which are then recorded as internal use software development costs, net on our consolidated balance sheet. We amortize internal use software development costs that relate to our revenue-producing activities on our platform to cost of revenue and amortize other internal use software development costs to technology and development costs or general and administrative expenses, depending on the nature of the related project. We amortize acquired intangibles associated with technology and development functions from our business acquisitions over their estimated useful lives.

General and Administrative. Our general and administrative expenses consist primarily of personnel costs, including stock-based compensation and bonuses, associated with our executive, finance, legal, human resources, compliance, and other administrative personnel, as well as accounting and legal professional services fees, facilities-related costs and depreciation, and other corporate-related expenses. General and administrative expenses also include amortization of internal use software development costs and acquired intangible assets from our business acquisitions over their estimated useful lives that relate to general and administrative functions and changes in fair value associated with the liability-classified contingent consideration related to acquisitions.

Other Expense, Net

Interest Expense, Net. Interest expense is mainly related to our credit facility. Interest income consists of interest earned on our cash equivalents and marketable securities.

Other Income. Other income consists primarily of rental income from commercial office space the Company holds under lease and has subleased to other tenants.

Foreign Currency Exchange (Gain) Loss, Net. Foreign currency exchange (gain) loss, net consists primarily of gains and losses on foreign currency transactions. We have foreign currency exposure related to our accounts receivable and accounts payable that are denominated in currencies other than the U.S. Dollar, principally the British Pound, Euro, Canadian Dollar, and Australian Dollar.

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Provision (benefit) for Income Taxes

Provision (benefit) for income taxes consists primarily of federal, state, and foreign income taxes. Due to uncertainty as to the realization of benefits from our domestic and certain international net deferred tax assets, including net operating loss carryforwards and research and development tax credits, we have a full valuation allowance reserved against such net deferred tax assets. We intend to continue to maintain a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our anticipated future taxable earnings, we believe that there is a reasonable possibility that, within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the domestic valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain net deferred tax assets and a decrease to income tax expense or recognition of a benefit for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

Pursuant to Section 382 of the Internal Revenue Code, we underwent an ownership change for tax purposes (i.e., a more than 50% change in stock ownership in aggregated 5% shareholders) on December 31, 2015. As a result, the use of our domestic NOL carryforwards and tax credits generated prior to the ownership change will be subject to the annual 382 use limitations of approximately $53.1 million. We have concluded that the ownership change will not impact our ability to utilize substantially all of our NOLs and carryforward credits to the extent we generate taxable income that can be offset by such losses.

Non-GAAP Financial Measures

In addition to our GAAP results, we review certain non-GAAP financial measures to help us evaluate our business, measure our performance, identify trends affecting our business, establish budgets, measure the effectiveness of investments in our technology and development and sales and marketing, and assess our operational efficiencies. These non-GAAP financial measures include managed revenue (advertising spending), non-GAAP net revenue, and Adjusted EBITDA, which are discussed immediately following the table below. Revenue and other GAAP measures are discussed under the headings "Components of Our Results of Operations" and "Results of Operations."

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Financial and non-GAAP Financial Measures:				
Revenue (in thousands)	$70,511	$53,046	$139,743	$90,224
Managed revenue (advertising spending) (in thousands)	$257,413	$227,152	$505,910	$424,372
Non-GAAP net revenue (in thousands)	$65,108	$48,544	$128,668	$85,722
Net loss (in thousands)	$(2,677)	$(11,943)	$(393)	$(16,974)
Adjusted EBITDA (in thousands)	$18,439	$6,667	$33,897	$10,859
Operational Measure:				
Take Rate	25.3%	21.4%	25.4%	20.2%

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Managed Revenue (Advertising Spending)

We define managed revenue (advertising spending) as the advertising spending transacted on our platform. Managed revenue (advertising spending) does not represent revenue reported on a GAAP basis. Tracking our managed revenue (advertising spending) allows us to compare our results to the results of companies that report all or substantially all spending transacted on their platforms as GAAP revenue on a gross basis. We also use managed revenue (advertising spending) for internal management purposes to assess market share of total advertising spending and scale of our offerings.

Our managed revenue (advertising spending) may be influenced by demand for our services, the volume and characteristics of paid impressions, average CPM, and other factors such as changes in the market, our execution of the business, and competition.

The following table presents the reconciliation of revenue to managed revenue (advertising spending):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Revenue	$70,511	$53,046	$139,743	$90,224
Plus amounts paid to sellers(1)	186,902	174,106	366,167	334,148
Managed revenue (advertising spending)	$257,413	$227,152	$505,910	$424,372

(1) Amounts paid to sellers for the portion of our revenue reported on a net basis for GAAP purposes.

Our solution enables buyers and sellers to transact through our comprehensive inventory types and channels. The following tables present managed revenue (advertising spending) in dollar terms and by inventory type and channel and managed revenue (advertising spending) by inventory type and channel as a percentage of total managed revenue (advertising spending) for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Managed revenue (advertising spending) by inventory type:				
RTB	$194,528	$170,307	$387,631	$320,004
Orders	53,880	38,948	95,994	68,360
Static bidding(1)	9,005	17,897	22,285	36,008
Total managed revenue (advertising spending)	$257,413	$227,152	$505,910	$424,372
Managed revenue (advertising spending) by channel:				
Desktop	$172,453	$176,574	$347,119	$334,732
Mobile	84,960	50,578	158,791	89,640
Total managed revenue (advertising spending)	$257,413	$227,152	$505,910	$424,372

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	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Managed revenue (advertising spending) by inventory type:				
RTB	76 %	75 %	77 %	75 %
Orders	21 %	17 %	19 %	16 %
Static bidding[(1)]	3 %	8 %	4 %	9 %
Total managed revenue (advertising spending)	100%	100%	100%	100%
Managed revenue (advertising spending) by channel:				
Desktop	67 %	78 %	69 %	79 %
Mobile	33 %	22 %	31 %	21 %
Total managed revenue (advertising spending)	100%	100%	100%	100%

(1) Subsequent to June 30, 2016, the Company decided to terminate its offering related to static bidding as it represented an immaterial amount of our managed revenue (advertising spending) on our platform as advertising spending in the market has shifted from static bidding to RTB. The decision to end the static bidding offering enables the Company to reallocate resources to focus on mobile, video, and Orders growth initiatives. No material impact is expected on the Company's future results of operations as static bidding was expected to further decrease as compared to RTB and Orders.

Non-GAAP Net Revenue

We define non-GAAP net revenue as GAAP revenue less amounts we pay sellers that are included within cost of revenue for the portion of our revenue reported on a gross basis. Non-GAAP net revenue would represent our revenue if we were to record all of our revenue on a net basis. Non-GAAP net revenue does not represent revenue reported on a GAAP basis. Non-GAAP net revenue is one useful measure in assessing the performance of our business because it shows the operating results of our business on a consistent basis without the effect of differing revenue reporting (gross vs. net) that we apply under GAAP across different types of transactions, and facilitates comparison of our results to the results of companies that report all of their revenue on a net basis. A potential limitation of non-GAAP net revenue is that other companies may define non-GAAP net revenue differently, which may make comparisons difficult.

Our non-GAAP net revenue may be influenced by demand for our services, the volume and characteristics of managed revenue (advertising spending), and our take rate.

The following table presents a reconciliation of revenue to non-GAAP net revenue for the three and six months ended June 30, 2016 and 2015. Before our acquisition of Chango in April 2015, we reported all revenue on a net basis and therefore payments to sellers were not included in the cost of revenue before that date.

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Revenue	$70,511	$53,046	$139,743	$90,224
Less amounts paid to sellers	5,403	4,502	11,075	4,502
Non-GAAP net revenue	$65,108	$48,544	$128,668	$85,722

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Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) adjusted to exclude stock-based compensation expense, depreciation and amortization, amortization of acquired intangible assets, interest income or expense, and other cash and non-cash based income or expenses, which mainly consist of foreign exchange gains and losses, acquisition and related items, and provision (benefit) for income taxes. Adjusted EBITDA should not be considered as an alternative to net income (loss), operating loss, or any other measure of financial performance calculated and presented in accordance with GAAP. Adjusted EBITDA excludes non-cash and other cash items that we do not consider indicative of our core operating performance. We believe Adjusted EBITDA is useful to investors in evaluating our performance for the following reasons:

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company's performance without regard to items such as those we exclude in calculating this measure, which can vary substantially from company to company depending upon their financing, capital structures, and the method by which assets were acquired;
- our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of performance and the effectiveness of our business strategies, and in communications with our board of directors concerning our performance, and Adjusted EBITDA is also used as a metric for determining payment of cash incentive compensation; and
- Adjusted EBITDA provides a measure of consistency and comparability with our past performance that many investors find useful, facilitates period-to-period comparisons of operations, and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results of operations as reported under GAAP. These limitations include:

- stock-based compensation is a non-cash charge and is and will remain an element of our long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period;
- depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future, but Adjusted EBITDA does not reflect any cash requirements for these replacements;
- Adjusted EBITDA does not reflect non-cash charges related to acquisition and related items, such as amortization of acquired intangible assets and changes in the fair value of contingent consideration;
- Adjusted EBITDA does not reflect cash and non-cash charges and changes in, or cash requirements for, acquisition and related items, such as certain transaction expenses and expenses associated with earn-out amounts;
- Adjusted EBITDA does not reflect changes in our working capital needs, capital expenditures, or contractual commitments;
- Adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income or expense; and
- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Our Adjusted EBITDA is influenced by fluctuation in our revenue and the timing and amounts of our investments in our operations.

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The following table presents a reconciliation of net income (loss), the most comparable GAAP measure, to Adjusted EBITDA for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Net loss	$(2,677)	$(11,943)	$(393)	$(16,974)
Add back (deduct):				
Depreciation and amortization expense, excluding amortization of acquired intangible assets	5,190	4,191	9,759	7,565
Amortization of acquired intangibles	4,592	5,268	8,649	6,284
Stock-based compensation expense	7,126	7,739	15,517	13,237
Acquisition and related items	13	967	331	2,396
Interest (income) expense, net	(131)	11	(225)	23
Foreign currency (gain) loss, net	(578)	847	(317)	(1,343)
Provision (benefit) for income taxes	4,904	(413)	576	(329)
Adjusted EBITDA	$18,439	$6,667	$33,897	$10,859

Operational Performance Measure

Take Rate

Take rate is an operational performance measure calculated as non-GAAP net revenue divided by managed revenue (advertising spending). Reconciliations for revenue to both non-GAAP net revenue and managed revenue (advertising spending) are included within "Non-GAAP Financial Measures." We review take rate for internal management purposes to assess the development of our marketplace with buyers and sellers.

Our take rate (and our fees, which drive take rate) can be affected by a variety of factors, including the terms of our arrangements with buyers and sellers active on our platform in a particular period, the scale of a buyer's or seller's activity on our platform, mix of inventory types, the implementation of new products, platforms and solution features, auction dynamics, competitive factors, our strategic pricing decisions, and the overall development of the digital advertising ecosystem.

Industry Trends and Trends in Our Business

The digital advertising market generally, and RTB specifically, continue to experience rapid growth. In December 2015, International Data Corporation, or IDC, estimated RTB was a $10.3 billion global market in 2015 that will increase to $20.5 billion by 2019, and Orders was a $3.7 billion global market in 2015 that will grow to $34.1 billion by 2019. The compound annual growth rate for these market opportunities is 41% on a combined basis.

Another important trend in the digital advertising industry is the expansion of automated buying and selling of advertising through new channels, including mobile, which has market growth rates exceeding those of the desktop channel and is a critical area of operational focus for us. According to IDC estimates, mobile advertising (excluding search advertising) was a $28.1 billion global market in 2015 that is expected to increase to $85.1 billion by 2019, a compound annual growth rate of 32%. We have significantly advanced our mobile capabilities through a combination of internal product development, strategic customer wins, increased mobile activity driven from existing buyer and seller customers, and international expansion, resulting in an increase in our mobile managed revenue (advertising spending) of 126% during the year ended December 31, 2015 compared to the year ended December 31, 2014, and 77% during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

The growth of automated buying and selling of advertising is also expanding into new geographic markets, and in some markets the rate of adoption of automated digital advertising is greater than in the United States. Our managed revenue (advertising spending) in international markets, based upon seller location, grew to approximately 35% during the year ended December 31, 2015 compared to the year ended December 31, 2014, and 40% and 36% during the six months ended June 30, 2016 and 2015, respectively. We intend to continue to expand our business in existing territories served and enter new territories.

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In the midst of these macro growth trends, other changes in the industry are having an adverse impact on our business. In recent years, we have seen an industry-wide slowdown in the rate of growth for traditional desktop display advertising, which has historically been our core business, as advertising spending on mobile continues to grow. Our managed revenue (advertising spending) for desktop increased 35% during the year ended December 31, 2015 compared to the year ended December 31, 2014; while it only increased by 4% during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.
The impact of the slowdown in the rate of growth for traditional desktop display advertising has been compounded for our business by the faster-than-expected industry migration to header bidding in North America in the first half of 2016. Header bidding increases competition for some inventory that we would otherwise be able to sell through our platform, with commensurate adverse revenue effects for us. This may continue to have an adverse impact on us, primarily in North America, in the second half of 2016. We do believe that, in the second half of the year and into 2017, our own header bidding solution—FastLane—will improve our competitiveness in the traditional desktop display market and will support our growth in mobile and video.
As a result of these rapid developments in the industry, growth in our traditional RTB desktop display business has decelerated significantly and can no longer be relied upon to drive the growth of our business. Our strategic focus is on high-growth areas—mobile, video, and Orders—that are expected to represent a majority of our managed revenue (advertising spending) in 2017. Our mobile managed revenue (advertising spending) increased by 126% during the year ended December 31, 2015 compared to the year ended December 31, 2014 and 77% during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. However, despite our solid progress in mobile, our traditional RTB desktop display accounted for approximately 74% and 69% of our managed revenue (advertising spending) during the year ended December 31, 2015 and six months ended June 30, 2016, respectively, and is expected to continue to represent a significant part of our business in the near term. Therefore, the weight of RTB and its slower growth trends will continue to have a significant effect on our growth until our managed revenue (advertising spending) mix has shifted more fully to higher-growth areas.
Another factor impacting our business is that most growth in digital advertising spending worldwide is being captured by owned and operated sites, such as Facebook and Google, where we have been unable to participate. As a result, we are increasingly competing with other independent ad exchanges for the shrinking share of the overall market for digital advertising spending that is addressable by independent advertising exchanges and other intermediaries such as ourselves.

We also believe that customer demands for greater pricing transparency and lower fees will result in a reduction of our take rate. Buyers on our platform have come under growing pressure from their clients to reduce their fees and/or to provide fee transparency, and buyers will apply this pressure to us. Although we believe our pricing is competitive, we experience requests from buyers and sellers for discounts, fee concessions or revisions, rebates, and greater levels of pricing transparency and specificity. In light of increasing market trends toward transparency, commodification of intermediary services, and disintermediation, we may voluntarily reduce our fees in an effort to be more competitive in attracting demand and capturing inventory. While fee reductions could make us more competitive, it is not clear whether they would result in increases in spending on our platform or whether any spending increases will compensate fully for the reduction in fees.

Another factor that we expect to contribute to declining take rate is an increase in Orders as a percentage of overall managed revenue (advertising spending) because Orders carries lower fees. An increase in Orders as a percentage of our managed revenue (advertising spending) could yield higher absolute non-GAAP net revenue despite lower fees due to the higher CPMs typically associated with Orders transactions, but it is not certain that this effect will be realized.
Our revenue, managed revenue, non-GAAP net revenue, cash flow from operations, Adjusted EBITDA, operating results, and certain operational and financial performance measures may also vary from quarter to quarter due to the seasonal nature of advertiser spending, as well as other circumstances that affect advertising activity. For example, many advertisers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar

year to coincide with increased holiday purchasing. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand. Historically, the fourth quarter of the year reflects our highest level of revenue and managed revenue, and the first quarter reflects the lowest level of our revenue and managed revenue.

Although, our managed revenue (advertising spending) has increased period over period as a result of an increase in overall advertising spending in the market, increased use of our solutions by buyers and sellers, and increases in average CPM, we expect managed revenue (advertising spending) growth rates to decelerate year-over-year due to market and competitive pressures and deceleration in traditional desktop display. We also expect growth in revenue and non-GAAP net revenue to decelerate year-over-year through the remainder of 2016 due to deceleration in managed revenue (advertising spending) growth and decreases in our fees. Consequently, we expect lower year-over-year Adjusted EBITDA growth through the remainder of 2016. However, the effect on Adjusted EBITDA of the decrease in revenue growth may be partially offset by operating efficiencies. Finally, we expect take rate to decline over time due to changes in the inventory mix on our platform and reductions in fees we charge.

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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:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Revenue	$70,511	$53,046	$139,743	$90,224
Expenses:				
Costs of revenue [1] [2]	17,540	14,009	34,323	20,570
Sales and marketing [1] [2]	21,966	22,161	43,244	37,210
Technology and development [1] [2]	13,294	10,390	25,737	18,804
General and administrative [1] [2]	16,390	17,984	36,995	32,263
Total expenses	69,190	64,544	140,299	108,847
Income (loss) from operations	1,321	(11,498)	(556)	(18,623)
Other (income) expense	(906)	858	(739)	(1,320)
Income (loss) before income taxes	2,227	(12,356)	183	(17,303)
Provision (benefit) for income taxes	4,904	(413)	576	(329)
Net loss	$(2,677)	(11,943)	$(393)	(16,974)

(1) Stock-based compensation expense included in our expenses was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Costs of revenue	$108	$70	$170	$112
Sales and marketing	2,543	1,858	4,657	2,983
Technology and development	1,800	1,116	3,174	1,906
General and administrative	2,675	4,695	7,516	8,236
Total stock-based compensation expense	$7,126	$7,739	$15,517	$13,237

(2) Depreciation and amortization expense included in our expenses was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Cost of revenue	$6,720	$5,258	$12,668	$8,729
Sales and marketing	1,970	3,240	3,562	3,745
Technology and development	606	479	1,204	733
General and administrative	486	482	974	642
Total depreciation and amortization expense	$9,782	$9,459	$18,408	$13,849

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The following table sets forth our consolidated results of operations for the specified periods as a percentage of our revenue for those periods presented:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	25 %	26 %	25 %	23 %
Sales and marketing	31 %	42 %	31 %	41 %
Technology and development	19 %	20 %	18 %	21 %
General and administrative	23 %	34 %	26 %	36 %
Total expenses	98 %	122 %	100 %	121 %
Income (loss) from operations	2 %	(22)%	— %	(21)%
Other (income) expense, net	(1)%	2 %	(1)%	(1)%
Income (loss) before income taxes	3 %	(23)%	— %	(19)%
Provision (benefit) for income taxes	7 %	(1)%	— %	— %
Net loss	(4)%	(23)%	— %	(19)%

* Certain figures may not sum due to rounding.

Comparison of the Three and Six Months Ended June 30, 2016 and 2015

Revenue

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Revenue	$70,511	$53,046	$139,743	$90,224

Revenue increased $17.5 million, or 33%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to an increase in managed revenue (advertising spending) on our platform during the three months ended June 30, 2016 compared to the three months ended June 30, 2015 of $30.3 million and an increase in take rate from 21.4% during the three months ended June 30, 2015 to 25.3% during the three months ended June 30, 2016. The increase in managed revenue (advertising spending) on our platform was driven by an increase in overall advertising spending in the market, particularly in mobile. These market trends were reflected in our results as the mobile share of our managed revenue (advertising spending), which mainly consists of RTB and Orders, increased from 22% for the three months ended June 30, 2015 to 33% for the three months ended June 30, 2016. Consistent with this trend, managed revenue (advertising spending) on a combined basis for RTB and Orders as a percentage of total managed revenue (advertising spending), which have been our main areas of growth, increased from 92% for the three months ended June 30, 2015 to 97% for the three months ended June 30, 2016 . The increase in take rate (and our fees, which drive take rate) was driven by auction dynamics, including the mix of buyers and sellers participating in our platform, their fee structures across inventory types, and the mix of inventory types through which they transacted on our platform.

Revenue increased $49.5 million, or 55%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 primarily for the same reasons described above.

Revenue may be impacted by seasonality (in particular by the concentration of advertising spending in the fourth quarter), shift in the mix of managed revenue (advertising spending) by inventory type and channel, changes in the fees we are able to charge or choose to charge buyers and sellers for our services (which drives take rate), whether we are the principal in the transactions and therefore report revenue on a gross basis, and other factors such as changes in the market, our execution of the business, and competition.

We expect year-over-year revenue growth to decline through the remainder of 2016 due to an anticipated deceleration in managed revenue (advertising spending) growth resulting from market and competitive pressures, declining growth rates in desktop managed revenue (advertising spending), and a decreasing take rate. Factors that could contribute to declining take rate include changes in the inventory mix on our platform and implementation of fee reductions or lower-fee alternative pricing structures in response to market pressures or in an effort to be more competitive in attracting demand and capturing inventory. Lower fees may result in higher managed revenue (advertising spending) growth, but it is not clear that resulting managed revenue (advertising spending) increases would offset the revenue decreases resulting from fee reductions.

Cost of Revenue

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except percentages)			
Costs of revenue	$17,540	$14,009	$34,323	$20,570
Percent of revenue	25 %	26 %	25 %	23 %

Cost of revenue increased by $3.5 million, or 25%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to an increase of $1.5 million in depreciation and amortization expense, an increase of $0.9 million in amounts we paid sellers for transactions we reported on a gross revenue basis, and an increase in data center, hosting, and bandwidth costs of $0.7 million. The increase in depreciation and amortization expense was primarily attributable to an increase in depreciation of computer equipment and network hardware and the increase in amortization expense for developed technology as a result of the acquisition of Chango as the three months ended June 30, 2016 include a full quarter of amortization expense, while the three months ended June 30, 2015 only include amortization expense from the acquisition date in late April 2015 through June 30, 2015. The increase in amounts we pay sellers was attributable to a full quarter of transactions in which we report revenue on a gross basis during the three months ended June 30, 2016, while the three months ended June 30, 2015 only include amounts we pay sellers for such transactions from the Chango acquisition date in late April 2015 through June 30, 2015. The increases in data center, hosting, and bandwidth costs were primarily to support the increase in the use of our platform and international expansion efforts requiring additional data centers, hardware, software, and maintenance expenses.

Cost of revenue increased by $13.8 million, or 67%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to the addition of $6.6 million in amounts we paid sellers for transactions we reported on a gross revenue basis and due to an increase of $3.9 million in depreciation and amortization expense. The increase in amounts we pay sellers was attributable to the fact that such amounts were not included in cost of revenue because transactions we report revenue on a gross basis did not commence until April 2015. The increases for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 for depreciation and amortization expense was primarily for the same reasons described above.

We expect cost of revenue to increase in absolute dollars in future periods as a result of additional spending on data centers, and personnel to build and maintain our technology and systems, as well as investments in developed technology through acquisitions. Cost of revenue may fluctuate from quarter to quarter and period to period, on an absolute dollar basis and as a percentage of revenue, depending on revenue levels, the timing and amounts of investments, amortization of acquired technology from any future business combinations, changes in the estimated remaining useful life or impairment of current technology, and the volume of transactions we report on a gross basis and the amounts we pay sellers in those transactions.

During the three months ended June 30, 2016, we reduced the remaining estimated useful lives of developed technology associated with the acquisition of Chango, for which the amortization expense is reflected in cost of revenue; as a result, the increase in amortization expense included in cost of revenue during the three and six months ended June 30, 2016 includes $0.2 million in accelerated expense. In addition, amortization expense included in cost of revenue is expected to increase by $0.9 million for the remainder of 2016, $1.7 million in 2017, and $0.9 million in

2018 related to the reduction in the remaining estimated useful lives.

Sales and Marketing

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except percentages)			
Sales and marketing	$21,966	$22,161	$43,244	$37,210
Percent of revenue	31 %	42 %	31 %	41 %

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Sales and marketing expense decreased by $0.2 million, or 1%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to a decrease in depreciation and amortization of $1.3 million, offset by an increase in personnel costs of $0.9 million. The decrease in depreciation and amortization was mainly related to the full amortization of the backlog acquired in our business combinations as of December 31, 2015, resulting in a decrease of $1.9 million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The decrease was partially offset by an increase in amortization expense for acquired intangibles associated with the acquisition of Chango as the three months ended June 30, 2016 include a full quarter of amortization while the three months ended June 30, 2015 only include amortization expense from the acquisition date in late April 2015 through June 30, 2015. The increase in personnel costs was primarily due to an increase in sales and marketing headcount resulting from continued hiring and the acquisition of Chango in April 2015. As a percentage of revenue, sales and marketing expenses decreased for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, and the decrease in sales and marketing expenses.

Sales and marketing expense increased by $6.0 million, or 16%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 primarily due to an increase in personnel costs of $5.0 million for the same reasons described above. As a percentage of revenue, sales and marketing expenses decreased for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, compared to the increase in sales and marketing expenses.

We expect sales and marketing expenses to increase in absolute dollars in future periods as we continue to invest in our business, including expanding our domestic and international business, and through acquisitions. Sales and marketing expense may fluctuate from quarter to quarter and period to period, on an absolute dollar basis and as a percentage of revenue, based on revenue levels, the timing and amounts of our investments, seasonality in our industry and business, increased amortization as a result of customer relationship intangibles acquired in any future business combinations, and any changes in the estimated remaining useful life or impairment of current customer relationships.

During the three months ended June 30, 2016, we reduced the remaining estimated useful life of customer relationships associated with the acquisition of Chango, for which the amortization expense is reflected in sales and marketing; as a result, the decrease in total amortization expense included in sales and marketing during the three and six months ended June 30, 2016 was partially offset by an increase due to $0.4 million in accelerated expense. In addition, amortization expense included in sales and marketing is expected increase by $2.3 million for the remainder of 2016, $4.5 million in 2017, and $1.5 million in 2018 related to the reduction in the remaining estimated useful life.

Technology and Development

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except percentages)			
Technology and development	$13,294	$10,390	$25,737	$18,804
Percent of revenue	19 %	20 %	18 %	21 %

Technology and development expense increased by $2.9 million, or 28%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to an increase in personnel costs of $1.7 million due to an increase in headcount resulting from continued hiring of engineers to maintain and support our technology and development efforts.

Technology and development expense increased by $6.9 million, or 37%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, primarily due to an increase in personnel costs of $4.3 million, and to a lesser extent, an increase due to software license expense of $0.8 million. The increase in personnel costs was primarily for the same reasons described above. The increase in software license expenses was primarily due to annual increases in our existing licenses and additional licenses to maintain and support our technology and development efforts.

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We expect technology and development expense to increase in absolute dollars in future periods as we continue to invest in our engineering and technology teams to support our technology and development efforts, and through investments in developed technology through acquisitions; however, the timing and amount of our capitalized development and enhancement projects may affect the amount of development costs expensed in any given period. As a percentage of revenue, technology and development expense may fluctuate from quarter to quarter and period to period based on revenue levels, the timing and amounts of these investments, the timing and the rate of the amortization of capitalized projects, increased amortization as a result of non-compete intangibles acquired in future business combinations, the timing and amounts of future capitalized internal use software development, amortization of acquired technology from any future business acquisitions, and any changes in the estimated remaining useful life or impairment of current technology.

General and Administrative

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except percentages)			
General and administrative	$16,390	$17,984	$36,995	$32,263
Percent of revenue	23 %	34 %	26 %	36 %

General and administrative expense decreased by $1.6 million, or 9%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to a decrease in personnel costs of $1.8 million primarily due to the reversal of stock-based compensation for unvested awards for terminated employees. As a percentage of revenue, general and administrative expenses decreased for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, and the decrease in general and administrative expenses.

General and administrative expense increased by $4.7 million, or 15%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This increase was primarily due to an increase in personnel costs of $2.0 million. The increase in personnel costs was primarily due to increased headcount. The remaining drivers were individually insignificant. As a percentage of revenue, general and administrative expenses decreased for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, compared to the increase in general and administrative expenses.

We expect general and administrative expense to increase in absolute dollars as we continue to invest in corporate infrastructure to support our growth and our operation as a public company, including professional services fees, insurance premiums and compliance costs. General and administrative expenses may fluctuate from quarter to quarter and period to period based on the timing and amounts of our investments and related expenditures in our general and administrative functions as they vary in scope and scale over periods which may not be directly proportional to changes in revenue.

Other (Income) Expense, Net

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands)			
Interest (income) expense, net	$(131)	$ 11	$(225)	$23
Other income	(197)	—	(197)	—

Foreign exchange (gain) loss, net	(578)	847	(317)	(1,343)
Total other (income) expense, net	$(906)	$ 858	$(739)	$(1,320)

The increase in interest income, net during the three and six months ended June 30, 2016 was primarily attributable to interest income from the Company's marketable securities.

The increase in other income, net during the three and six months ended June 30, 2016 was primarily attributable to the Company subleasing certain commercial office space the Company holds under lease and has subleased to other tenants.

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Foreign exchange (gain) loss, net is impacted by movements in exchange rates, primarily the British Pound and Euro relative to the U.S. Dollar, and the amount of foreign-currency denominated receivables and payables, which are impacted by our billings to buyers and payments to sellers. The foreign currency gain, net during the three and six months ended June 30, 2016 was primarily attributable to the strengthening of the U.S. Dollar in relation to the British Pound and Euro for foreign currency denominated transactions.

Provision (benefit) for Income Taxes

Our income tax provision of $4.9 million and income tax benefit of $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and our income tax provision of $0.6 million and income tax benefit of $0.3 million for the six months ended June 30, 2016 and 2015, respectively, are primarily the result of the domestic valuation allowance and the geographical mix of income and losses.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, the cash flow that we generate from our operations, and our credit facility with Silicon Valley Bank, or SVB. At June 30, 2016, we had cash and cash equivalents of $147.2 million, of which $26.7 million was held in foreign currency cash accounts, and restricted cash of $0.1 million. At June 30, 2016, we had no amounts outstanding under our credit facility and $40.0 million was available for borrowing.

At our option, loans under the credit facility may bear interest based on either the LIBOR rate or the prime rate plus, in each case, an applicable margin. The applicable margins under the credit facility are (i) 2.00% or 3.50% per annum in the case of LIBOR rate loans, and (ii) 0.00% or 1.50% per annum in the case of prime rate loans (based on SVB's net exposure to us after giving effect to unrestricted cash held at SVB and its affiliates plus up to $3.0 million held at other institutions). In addition, an unused revolver fee in the amount of 0.15% per annum of the average unused portion of the credit facility is payable by us to SVB monthly in arrears.

Our credit facility restricts our ability to, among other things, sell assets, make changes to the nature of our business, engage in mergers or acquisitions, incur, assume or permit to exist additional indebtedness and guarantees, create or permit to exist liens, pay dividends, make distributions on or redeem or repurchase capital stock, make certain other investments, engage in transactions with affiliates, and make payments in respect of subordinated debt, in each case unless approved by SVB.

In addition, in the event that the amount available to be drawn is less than 20% of the maximum amount of the credit facility, or if an event of default exists, we are required to satisfy a minimum fixed charge coverage ratio test of 1.10 to 1.00. At June 30, 2016, our fixed charge coverage ratio was 825.7 to 1.0.

The credit facility also includes customary representations and warranties, affirmative covenants, and events of default, including events of default upon a change of control and material adverse change (as defined in the credit facility). Following an event of default, SVB would be entitled to, among other things, accelerate payment of amounts due under the credit facility and exercise all rights of a secured creditor. We were in compliance with the covenants under the credit facility at June 30, 2016.

We believe our existing cash and cash flow from operations, together with the undrawn balance under our credit facility with SVB, will be sufficient to meet our working capital requirements for at least the next 12 months. However, our liquidity assumptions may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect, particularly if we decide to pursue an acquisition or other strategic investment. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in Item 1A: "Risk Factors."

In the future, we may attempt to raise additional capital through the sale of equity securities or through 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 incurring 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. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors.

There can be no assurances that we will be able to raise additional capital, and inability to raise additional capital could 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.

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Cash Flows

The following table summarizes our cash flows for the periods presented:

	Six Months Ended	
	June 30, 2016	June 30, 2015
	(in thousands)	
Cash flows provided by operating activities	$33,250	$28,626
Cash flows provided (used) in investing activities	(11,593)	(33,906)
Cash flows provided by financing activities	9,110	7,364
Effects of exchange rate changes on cash and cash equivalents	(78)	(46)
Change in cash and cash equivalents	$30,689	$2,038

Operating Activities

Our cash flows from operating activities are primarily influenced by increases or decreases in receipts from buyers and related payments to sellers, as well as our investment in personnel and infrastructure to support our business. Cash flows from operating activities have been further affected by changes in our working capital, particularly changes in accounts receivable and accounts payable. The timing of cash receipts from buyers and payments to sellers can significantly impact our cash flows from operating activities for any period presented. We typically collect from buyers in advance of payments to sellers; our collection and payment cycle can vary from period to period depending upon various circumstances, including seasonality. As our revenue earned directly from advertisers and agencies increases, the amount of receipts from buyers collected in advance of payments to sellers will decrease.

For the six months ended June 30, 2016, cash provided by operating activities of $33.3 million resulted from our net loss of $0.4 million, adjusted for non-cash expenses of $33.3 million, and net changes in our working capital of $0.3 million. The net change in operating working capital was primarily related to a decrease in accounts receivable of approximately $59.6 million, offset by a decrease in accounts payable and accrued expenses of approximately $59.3 million. The changes in accounts payable and accrued expenses and accounts receivable was primarily due to the timing of cash receipts from buyers and the timing of payments to sellers driven by seasonality.

For the six months ended June 30, 2015, cash provided by operating activities of $28.6 million resulted from our net loss of $17.0 million, adjusted for non-cash expenses of $27.6 million, and net changes in our working capital of $18.0 million. The net change in operating working capital was primarily related to an increase in accounts payable and accrued expenses of approximately $19.8 million. The changes in accounts payable and accrued expenses was primarily due to the timing of payments to sellers.

Investing Activities

Our primary investing activities have consisted of investments in, or maturities of, available-for-sale securities, acquisitions of businesses, purchases of property and equipment in support of our expanding headcount as a result of our growth, and capital expenditures to develop our internal use software in support of creating and enhancing our technology infrastructure. Purchases of property and equipment and investments in internal use software development 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 software development. As our business grows, we expect our capital expenditures and our investment activity to continue to increase. Investments in, or maturities of, available-for-sale securities and acquisitions of businesses vary from period-to-period.

During the six months ended June 30, 2016, we used $11.6 million of cash in investing activities, consisting primarily of $15.7 million of investments in available-for-sale securities, $5.0 million of investments in our internal use software, and $3.9 million in investments in property and equipment, net of amounts reflected in accounts payable and accrued expenses at June 30, 2016. These cash outflows were offset by inflows of $12.8 million due to maturities of available-for-sale securities and decrease in restricted cash by $0.3 million.

During the six months ended June 30, 2015, we used $33.9 million of cash in investing activities, consisting primarily of $18.1 million of investments in available-for-sale securities, $8.6 million for the acquisition of Chango, net of cash acquired, $4.2 million of investments in property and equipment, net of amounts reflected in accounts payable and accrued expenses at June 30, 2015, and $4.1 million of investments in our internal use software. In conjunction with our corporate office building lease, restricted cash decreased by $1.1 million.

Financing Activities

Our financing activities consisted primarily of the issuance of shares of common stock upon the exercise of stock options.

For the six months ended June 30, 2016, cash provided by financing activities of $9.1 million was primarily due to proceeds of $12.9 million from stock option exercises and proceeds of $1.1 million from issuance of common stock under the employee stock purchase plan, offset by $4.9 million in income tax deposits paid in respect of vesting of stock-based compensation awards that were reimbursed by the award recipients through surrender of shares.

For the six months ended June 30, 2015, cash provided by financing activities of $7.4 million was primarily due to proceeds of $6.7 million from stock option exercises and proceeds of $0.8 million from issuance of common stock under the employee stock purchase plan.

Off-Balance Sheet Arrangements

We do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We did not have any other off-balance sheet arrangements at June 30, 2016 other than the operating leases and the indemnification agreements described below.

Contractual Obligations and Known Future Cash Requirements

Our principal commitments consist of leases for our various office facilities, including our corporate headquarters in Los Angeles, California, and non-cancelable operating lease agreements with data centers that expire at various times through January 2024. In certain cases, the terms of the lease agreements provide for rental payments on a graduated basis. Subsequent to December 31, 2015, we entered into new operating leases. Future non-cancelable minimum commitments as of June 30, 2016 relating to these operating leases totaling $0.2 million are due through March 2020.

There were no significant changes to the Company's unrecognized tax benefits in the six months ended June 30, 2016, and we do not expect to have any significant changes to unrecognized tax benefits through December 31, 2016.

In the ordinary course of business, we enter into agreements with sellers, buyers and other third parties pursuant to which we agree to indemnify buyers, sellers, vendors, lessors, business partners, lenders, stockholders, and other parties with respect to certain matters, including, but not limited to, losses resulting from claims of intellectual property infringement, damages to property or persons, business losses, or other liabilities. Generally, these indemnity and defense obligations relate to our own business operations, obligations, and acts or omissions. However, under some circumstances, we agree to indemnify and defend contract counterparties against losses resulting from their own business operations, obligations, and acts or omissions, or the business operations, obligations, and acts or omissions of third parties. These indemnity provisions generally survive termination or expiration of the agreements in which they appear. In addition, we have entered into indemnification agreements with our directors, executive officers and certain other officers 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.

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 the evaluation of revenue recognition criteria, including the determination of revenue recognition as net versus gross in our revenue arrangements, internal-use software development costs, including assumptions used in the valuation models to determine the fair value of stock options and stock-based compensation expense, the assumptions used in the valuation of acquired assets and liabilities in business combinations, and income taxes, including the realization of tax assets and estimates of tax liabilities, have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. There have been no significant changes in our accounting policies from those

disclosed in our audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K.
Our revenue recognition policy is further described below, which is consistent with the policy included in our Annual Report referenced above.

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We generate revenue from buyers and sellers in transactions in which they use our solution for the purchase and sale of advertising inventory, and also in transactions in which we manage ad campaigns on behalf of buyers. We maintain separate arrangements with each buyer and seller either in the form of a master agreement, which specifies the terms of the relationship and access to our solution, or by insertion orders, which specify price and volume requests and other terms. We recognize revenue upon fulfillment of our contractual obligations in connection with a completed transaction, subject to satisfying all other revenue recognition criteria, including (i) persuasive evidence of an arrangement existing, (ii) delivery having occurred or services having been rendered, (iii) the fees being fixed or determinable, and (iv) collectibility being reasonably assured. We assess whether fees are fixed or determinable based on the contractual terms of the arrangements. We assess collectibility based on a number of factors, including the creditworthiness of a buyer and seller and payment and transaction history. Our revenue arrangements generally do not include multiple deliverables.

Revenue is reported depending on whether we function as principal or agent. The determination of whether we act as the principal or the agent requires us to evaluate a number of indicators, none of which is presumptive or determinative. For transactions in which we are the principal, revenue is reported on a gross basis for the amount paid by buyers for the purchase of advertising inventory and related services and we record the amounts we pay to sellers as cost of revenue. For transactions in which we are the agent, revenue is reported on a net basis for the amount of fees charged to the buyer (if any), and fees retained from or charged to the seller.

In April 2015, we began entering into arrangements for which we manage advertising campaigns on behalf of buyers. We are the principal in these arrangements as we: (i) are the primary obligor in the advertising inventory purchase transaction; (ii) establish the purchase prices paid by the buyer; (iii) perform all billing and collection activities including the retention of credit risk; (iv) have latitude in selecting suppliers; (v) negotiate the price we pay to suppliers of inventory; and (vi) make all inventory purchasing decisions. Accordingly, for these arrangements we report revenue on a gross basis.

For our other arrangements, in which our solution matches buyers and sellers, enables them to purchase and sell advertising inventory, and establishes rules and parameters for advertising inventory transactions, we report revenue on a net basis because we: (i) are not the primary obligor for the purchase of advertising inventory but rather provide a platform to facilitate the buying and selling of advertising; (ii) do not have pricing latitude as pricing is generally determined through our auction process and/or our fees are based on a percentage of advertising spend; and (iii) do not directly select suppliers.

Recently Issued Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 1 of Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosure 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 investments consist of U.S. government and agency bonds and corporate debt securities. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash, cash equivalents, and investments have a relatively short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. Our line of credit is at variable interest rates. We had no amounts outstanding under our credit facility at June 30, 2016. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition. In future periods, we will continue to evaluate our investment policy relative to our overall objectives.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and expenses denominated in currencies other than the U.S. Dollar, principally British Pounds and Euros. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net income (loss) as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances and intercompany balances that are denominated in currencies other than the U.S. Dollar. The effect of an immediate 10% adverse change in foreign exchange rates on foreign-denominated accounts at June 30, 2016, including intercompany balances, would result in a foreign currency loss of approximately $2.1 million. In the event our non-U.S. Dollar denominated 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.

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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 might 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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives of ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. There is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. Based upon the evaluation described above, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Management recognizes that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and our subsidiaries may from time to time be parties to legal or regulatory proceedings, lawsuits and other claims incident to our business activities and to our status as a public company. Such matters may include, among other things, assertions of contract breach or intellectual property infringement, claims for indemnity arising in the course of our business, regulatory investigations or enforcement proceedings, and claims by persons whose employment has been terminated. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to such matters as of June 30, 2016. However, based on our knowledge as of June 30, 2016, we believe that the final resolution of such matters pending at the time of this report, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows.

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Item 1A. Risk Factors

The following description of risk factors includes changes to risk factors associated with the Company's business previously disclosed in our first quarter 2016 Form 10-Q under the heading "Risk Factors," and accordingly this description of risk factors should be considered most current. Investing in our common stock involves a high degree of risk, including the risks described below, each of which may be relevant to decisions regarding an investment in or ownership of our stock. The occurrence of any of these risks could have a significant adverse effect on our reputation, business, financial condition, revenue, results of operations, growth, or ability to accomplish our strategic objectives, and could cause the trading price of our common stock to decline. You should carefully consider the risks set forth below and the other information contained in this report, including our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, before making investment decisions related to our common stock. However, this report cannot anticipate and fully address all possible risks of investing in our common stock, and the risks of investing in our common stock may change over time. Accordingly, you are advised to consider additional sources of information and exercise your own judgment in addition to the information we provide.

Risks Relating to Our Business, Growth Prospects and Operating Results

We must grow rapidly to remain a market leader and to accomplish our strategic objectives. If we fail to grow, or fail to manage our growth effectively, the value of our company may decline.

The advertising technology market is dynamic, and our success depends upon the continued adoption of advertising automation and our ability to develop innovative new technologies and solutions for the evolving needs of sellers of advertising, including websites, applications, and other digital media property owners, and buyers of advertising. We also need to grow significantly and expand the scope of our offering in order to keep pace with the growth and change in our market and to develop the market reach and scale necessary to compete effectively with large competitors. This growth depends to a significant degree upon the quality of our strategic vision and planning. The advertising market is evolving rapidly, and if we make strategic errors, there is a significant risk that we will lose our competitive position and be unable to recover and achieve our objectives. Our ability to grow requires access to, and prudent deployment of, capital for hiring, expansion of physical infrastructure to run our solution, acquisition of companies or technologies, and development and integration of supporting technical, sales, marketing, finance, administrative, and managerial infrastructure. Further, the rapid growth we are pursuing will itself strain the organization and our ability to continue that growth and to maintain the quality of our operations.

In order to meet our growth objectives, we will need to rely upon our ability to innovate, the continued adoption of our solution by buyers and sellers for higher value advertising inventory, the extension of the reach of our solution into evolving digital media, continued growth into new geographic markets, shift of our business mix to emphasize higher growth channels and ad units, and the implementation of new offerings.

Historically, real-time bidding, or RTB, open-market transactions, particularly for desktop display advertising, have provided most of the activity on our platform. However, other transaction types, such as private marketplace and guaranteed transactions, other channels, such as mobile and out-of-home, and other advertising units, such as video, have begun or are expected to grow faster than open-market RTB desktop display. We expect our historical open-market RTB desktop display advertising business to continue to be an important source of revenue for us, but consistent with market trends, growth in our RTB desktop display business has decelerated significantly and cannot be relied upon to drive the growth or our business. In order for us to grow and compete effectively, we must continue to increase our business in other areas of digital advertising. We must build upon our early momentum in private marketplace and guaranteed transactions and mobile and out-of-home channels and expand our business in other areas, particularly video. Our growth plans depend upon our ability to innovate, attract buyers and sellers to our solution for purposes of buying and selling higher value inventory, expand the scope of our solution and its use by buyers and sellers utilizing other digital media platforms and advertising units, many of which are outside the historical scope of business conducted by our large DSP buyer clients, and adapt the pricing and other terms we make available in response to changing market conditions. Our growth plans also depend on our ability to further increase our international business in existing and new markets, significantly expand the use of our private marketplace offerings, and effectively drive increasing automation in the advertising industry through implementation of new offerings. In order to innovate successfully, we must hire, train, motivate, and retain talented engineers in a competitive recruiting environment, and we must deploy them based on the development priorities we establish in light of our view of the future of our industry. Mobile, video, and other emerging digital platforms require different technology and business expertise than display advertising, and also present other challenges that may be difficult for us to overcome, including inventory quality issues. Many of our competitors in these emerging platforms have a significant head start in terms of technology, buyer or seller relationships, and the scope of their product offerings. Furthermore, a growing percentage of online and mobile advertising spending is captured by owned and operated sites (such as Facebook and Google), where we are unable to participate. Our business model may not translate well into higher-value advertising due to market resistance or other factors, and we may not be able to innovate quickly or successfully enough to compete effectively on new platforms, or to adapt our solution and infrastructure to international markets. New offerings may not correctly anticipate market demand, may not address demand as effectively as competing offerings, and may not deliver the results we expect.

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Our technology development efforts may be inefficient or ineffective, which may impair our ability to attract buyers and sellers.

Our future success will depend in part upon our ability to enhance our existing solution, to develop and introduce competing new solutions in a timely manner with features and pricing that meet changing client and market requirements, and to persuade buyers and sellers to adopt our new solutions. New elements of our offering must compete with established competitors and may require significant investment in development and marketing to achieve parity, and buyers and sellers may not be ready to adopt new solutions we acquire or develop. We schedule and prioritize these development efforts according to a variety of factors, including our perceptions of market trends, client requirements, and resource availability. We face intense competition in the marketplace and are confronted by rapidly changing technology, evolving industry standards and consumer needs, and the frequent introduction of new solutions by our competitors that we must adapt and respond to. Our solutions are complex and can require a significant investment of time and resources to develop, test, introduce into use, and enhance. These activities can take longer than we expect. We may encounter unanticipated difficulties that require us to re-direct or scale back our efforts and we may need to modify our plans in response to changes in buyer and seller requirements, market demands, resource availability, regulatory requirements or other factors. If development of our solution becomes significantly more expensive due to changes in regulatory requirements or industry practices, or other factors, we may find ourselves at a disadvantage to larger competitors with more resources to devote to development. These factors place significant demands upon our engineering organization, require complex planning and decision making, and can result in acceleration of some initiatives and delay of others. If we do not manage our development efforts efficiently and effectively, we may fail to produce, or timely produce, solutions that respond appropriately to the needs of buyers and sellers, and competitors may develop offerings that more successfully anticipate market evolution and address market expectations. If our solution is not responsive and competitive, buyers and sellers can be expected to shift their business to competing solutions. Buyers and sellers may also resist adopting our new solutions for various reasons, including reluctance to disrupt existing relationships and business practices or to invest in necessary technological integration or preference for competitors' offerings or self-developed capabilities.

We must scale our technology infrastructure to support our growth and transaction volumes. If we fail to do so, we may lose buyers, sellers, and revenue from transactions.

When a user visits a website or uses an application where our auctions technology is integrated, our technology must process a transaction for that seller and conduct an auction within milliseconds. Our technology must scale to process all the advertising impressions from the collection of all visitors of all websites and applications offered on our platform. Additionally, for each individual advertising impression, our technology must be able to send bid requests to appropriate and available buyers. It must perform these transactions end-to-end at speeds often faster than the page or application loads for the user. The addition of new services, support of evolving advertising formats, handling and use of increasing amounts of data, and overall growth also place increasing demands upon our technology infrastructure. The growth of mobile device usage is significantly increasing volume demands on our infrastructure. We must be able to continue to increase the capacity of our platform in order to support substantial increases in the number of buyers and sellers, to support an increasing variety of advertising formats and platforms and to maintain a stable service infrastructure and reliable service delivery, all to support the network effect of our solution. If we are unable, for cost or other reasons, to effectively increase the scale of our platform to support and manage a substantial increase in the number of transactions, as well as a substantial increase in the amount of data we process, on a high-performance, cost-effective basis, the quality of our services could decline and our reputation and business could be seriously harmed. In addition, if we are not able to continue processing these transactions at fast enough speeds or if we are unable to support emerging advertising formats or services preferred by buyers, our revenue may be adversely affected by the inability to obtain new buyers or sellers, loss of existing buyers or sellers, or failure to process auction transactions in a timely manner. We expect to continue to invest in our platform in order to meet increasing demand. Such investment may negatively affect our profitability and results of operations, or cause dilution to our stockholders.

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Our belief that there is significant and growing demand for private marketplaces and automated guaranteed solutions may be inaccurate, and we may not realize a return from our investments in that area.

We believe there is significant and growing demand for private marketplaces and automated guaranteed solutions, and we have made significant investments to meet that demand through internal development efforts and through acquisitions. We believe our technology will be embraced by the market and contribute in a meaningful way to our revenue growth. However, the market for these solutions is new and unproven and may not grow as we expect, or it could have slow adoption rates for various reasons, including reluctance of some sellers to substitute our solution for transactions they have historically handled themselves through direct dealings with buyers. It is our expectation that private marketplaces and automated guaranteed solutions may involve lower fees than we can charge for our real-time bidding services, which may not be fully offset by anticipated higher CPMs. In some cases, we have experienced fee pressure as we have built out our private marketplace offering, and we expect this fee pressure to increase as more competitors, including new entrants as well as sellers themselves, build their own technology and infrastructure to enter this business. Even if the market for these solutions develops as we anticipate, buyers and sellers might not embrace our offerings to the degree we expect due to various factors. For example, we may not be successful in building out these offerings consistent with our vision, or competitive offerings may be offered at lower prices or be perceived as having better features and functionality. Advertising agency buyers may require that their use of our automated guaranteed solution to make inventory purchases take place through established workflow applications they own or license from third parties, and if we are required to work with third parties to access agency demand, we will be required to pay them fees or share with them the revenue generated by transactions processed through their applications, reducing the profitability of this business for us. If those third-party applications are not compatible with our technology, or providers of the applications demand unreasonable terms to integrate, our ability to transact automated guaranteed purchases with those agencies may be limited, which could reduce the revenue we anticipate flowing through this solution. We may also be unable to scale our solution to markets outside of the United States due to local currency or other specific regulatory or operational requirements that we are unable to comply with. Even if the market for these solutions develops as we anticipate, and our buyers and sellers embrace our offerings, the positive effect of our private marketplace and automated guaranteed offerings on our results of operations may be negated by other adverse developments or by similar offerings from our competitors.

Our expectations regarding the growth prospects of our buyer offerings may be incorrect, and we may not realize a return from our investments in that area.

In order to increase the demand on our platform, we have made significant investments in our buyer offerings, including through our acquisition in April 2015 of Chango Inc. However, our intent marketing business has grown slower than anticipated, and performed below our expectations due to changes in the market, stronger offerings by competitors, pricing pressures, and other factors. As a result, we are adapting our buyer offerings based upon various assumptions and expectations, including market growth, acceleration in the development of our Orders business, and viability of our guaranteed audiences initiative. We compete for demand with well-established companies that have technological advantages stemming from their experience in the market, and we must continue to adapt and improve our demand technology to compete effectively. Client demands for transparency and pricing concessions have increased significantly, and more quickly than we previously expected, making it difficult for us to increase our business with some clients, causing others to reduce their spending, reducing our take rate in some transactions with demand sources, requiring us to provide less expensive self-service offerings and more transparent pricing alternatives. Buyers and sellers may not embrace our offering due to various factors, including the perception that competitors have superior technology or produce better results.

We have invested heavily in our mobile technology, which poses additional risks that did not affect our legacy display business. Mobile connected devices or any other devices, their operating systems, Internet browsers or content distribution channels, including those controlled by our competitors, may develop in ways that make it difficult for advertisements to be delivered to their users. Further, we rely upon relationships with third parties to provide our buyers with access to large numbers of mobile inventory sellers that utilize third-party technology to display ads. If our access to mobile inventory is limited by third-party technology or lack of direct relationships with mobile sellers, our ability to grow our business will be impaired.

Due to increased usage of mobile devices and resulting migration of ad spending to mobile platforms, we have invested heavily in our mobile technology and are relying to a significant degree on our mobile offerings to fuel our continued growth. The mobile advertising market is growing and changing quickly, and technological, market, or regulatory developments could render our solutions less competitive. Because mobile advertising uses different data-capture techniques and methods of recording payable transactions, caters to different buyer budgets, may require us to enter emerging markets in which we have less experience, including China and India, and involves development challenges imposed by differing technological requirements and standards, there can be no assurance that we will be successful in achieving our goals in this market. Moreover, buyers' spending to reach consumers through mobile advertising may evolve more slowly than expected, or not grow to levels we anticipate. Our mobile investment has been focused on real-time bidding of mobile impressions, and that market may not grow as we expect. Our mobile revenue growth is largely dependent on the success of our new Exchange API technology, and there can be no assurance that this technology will continue to work as anticipated, without costly bugs or errors. Our success in the mobile channel depends upon the ability of our technology solution to provide advertising for most mobile-connected devices, as well as the major operating systems or Internet browsers that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems, applications, or Internet browsers is controlled by third parties. These parties frequently introduce new devices and applications, and from time to time they may introduce new operating systems or Internet browsers or modify existing ones in ways that may significantly affect our business, such as by providing ad-blocking capabilities. Network carriers may also impact the ability to access specified content on mobile devices. If our solution is unable to work on these devices, operating systems, applications, or Internet browsers for any reason, our ability to generate revenue through mobile advertising could be significantly harmed.

Our growth depends upon our ability to attract and retain buyers and sellers and increase business with them. Buyers and sellers are free to direct their spending and inventory to competing sources of inventory and demand, and large competitors with direct mobile user relationships and proprietary first-party user data have invested early and heavily in mobile advertising solutions, have many established relationships with mobile buyers and sellers that may be difficult for us to replicate, and may provide more compelling solutions than we do. Most of the application providers selling inventory through our platform utilize software development kits, or SDKs, and other proprietary technology of third parties, such as aggregators, and it is those third parties, not the application providers themselves, that contract with us to provide exchange services to help monetize the inventory. Termination or diminution of our relationships with these third parties could result in rapid and significant reduction of the amount of mobile inventory available through our platform, which in turn would adversely affect our mobile managed revenue (advertising spending) and growth prospects.

Market pressure may result in a reduction in spending on our platform or a reduction in the fees or prices we charge on our platform, which could have a material adverse effect on our business and reduce our take rate.

A majority of our managed revenue (advertising spending) comes from demand side platform, or DSP, buyers purchasing advertising inventory in RTB transactions on our platform. Our proprietary auction algorithms include a buyer fee for use of our technology, and we have typically charged buyers a variable price for real-time bidding impressions without specifying the amount or method of determination of the fee that is included in the price. Like other industry participants, DSPs have come under growing pressure from their clients to reduce their fees and/or to provide fee transparency, and DSPs may in turn apply this pressure to us. We also charge fees to sellers for use of our technology, typically as a percentage of the cost of media. As is normal in most industries and companies, the introduction of new offerings requires different pricing rates or structures. Projecting a market's acceptance of a new price or structure is imperfect and we may price too high or too low, both of which may carry adverse consequences. Although we believe our pricing is competitive, we experience requests from buyers and sellers for discounts, fee concessions or revisions, rebates, and greater levels of pricing transparency and specificity. In addition, we may decide to offer discounts or other pricing concessions in order to attract more inventory or demand, or to compete effectively with other providers that have different or lower pricing structures and may be able to undercut our pricing due to greater scale or other factors. Further, in light of increasing market trends toward transparency, commodification of intermediary services, and disintermediation, we may voluntarily reduce our fees in an effort to be more competitive in attracting demand and capturing inventory.

In addition to the fee-based business we have historically conducted with buyers that purchase through our auction platform, and beginning in April 2015, we commenced an intent marketing offering by which we offer buyers dynamic CPM pricing for inventory acquisition in support of their advertising campaigns. In lieu of charging fees for this service, our model has been to attempt to acquire inventory for buyers at prices that satisfy their campaign objectives while allowing us to retain a margin. This business is more risky than our fee-based model but also offers opportunities for greater margins. However, as a result of competitive pressure and growing demands for pricing transparency and fee concessions throughout the advertising technology business, we have begun to experience some margin compression in this part of our business.

If large buyers or sellers, or large numbers of small buyers or sellers, are able to compel us to charge lower fees or provide fee concessions or refunds, or to reveal or reduce our margins in intent marketing transactions, we may not be able to maintain appropriate volumes of inventory supply and demand without agreeing to these concessions. We also may face the risk that, where a buyer is dissatisfied with the execution of a transaction on our platform, a buyer may request a refund from us of the managed revenue (advertising spending) on the transaction notwithstanding that we have only collected a fee on the transaction and may not have the ability to recover the full amount of spending associated with the transaction from the counter party. In addition, the fees we charge and margins we earn are likely to change in response to evolution in the market, customer demands, market opportunities, new products, or competitive pressure. If we cannot maintain and grow our revenue and profitability through volume increases that compensate for any price reductions, or if we are forced to make significant fee concessions or refunds, or if buyers reduce spending with us due to fee disputes or pricing issues, our revenue, take rate, the value of our business, and the price of our stock could be adversely affected.

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

We reported net losses of $0.4 million and $17.0 million during the six months ended June 30, 2016 and 2015, respectively. We reported net income of $0.4 million during the year ended December 31, 2015 and incurred net losses of $18.7 million and $9.2 million during the years ended December 31, 2014 and 2013, respectively. As of June 30, 2016, we had an accumulated deficit of $80.7 million. We may not be able to sustain the revenue growth we have experienced in recent periods, and revenue may decrease due to competitive pressures, maturation of our business, or other factors. Our expenses have increased with our revenue growth, primarily due to substantial investments in our business. Our historical revenue growth should not be considered as indicative of our future performance. We expect our expenses to continue to increase substantially in the foreseeable future as we continue to expand our business, including by hiring engineering, sales, marketing, and related support employees, investing in our technology and infrastructure, and developing additional digital media platforms, such as mobile and video. Accordingly, we may not be able to achieve or sustain profitability in the future. If our revenue growth declines or our expenses exceed expectations, our financial performance will be adversely affected.

Our limited operating history makes it difficult to evaluate our business and prospects and may increase the risks associated with an investment in our common stock.

We were incorporated in 2007 and consequently have only a limited operating history upon which our business and future prospects may be evaluated. We may not be able to sustain the rate of growth we have achieved to date, or even maintain our current revenue levels. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly evolving industries, including allocating and making effective use of our limited resources; achieving market acceptance of our existing and future solutions; competing against companies with greater financial and technical resources; recruiting; integrating, motivating, and retaining qualified employees; developing relationships with buyers and sellers; developing new solutions; integrating new technologies or companies we acquire; and establishing and maintaining our corporate infrastructure, including internal controls relating to our financial and information technology systems. We must improve our current operational infrastructure and technology to support significant growth and to respond to the evolution of our market and competitors' developments. Our business prospects depend in large part on our ability to:

- build and maintain our reputation for innovation and solutions that meet the evolving needs of buyers and sellers;
- distinguish ourselves from the wide variety of solutions available in our industry;
- maintain and expand our relationships with buyers and sellers;

- 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;
- attract, hire, integrate and retain qualified employees;
- effectively execute upon our international expansion plans;
- evaluate new acquisition targets, and successfully integrate acquired companies' business and technologies;

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- grow our share of online and mobile ad spending and the supply of advertising impressions available to us notwithstanding the growing share of online impressions that is controlled by owned and operated sites (such as Facebook and Google) who may not make their advertising inventory available to us;
- maintain our cloud-based technology solution continuously without interruption 24 hours a day, seven days a week; and
- anticipate and respond to varying product life cycles, regularly enhance our existing advertising solutions, and introduce new advertising solutions and pricing models on a timely basis, including by developing our capabilities in evolving areas of the business, such as mobile and video.

There is no assurance that we will meet these and other challenges.

As a result of various factors, our operating results may fluctuate significantly, be difficult to predict, and fall below analysts' and investors' expectations.

Our operating results may be difficult to predict, particularly because we generally do not have long-term contracts with buyers or sellers. We have experienced significant variations in revenue and operating results from period to period. Our operating results may continue to fluctuate and be difficult to predict due to a number of factors, including:

- seasonality in demand for digital advertising;
- changes in pricing of advertising inventory or pricing for our solutions and our competitors' offerings, including potential reductions in our pricing and overall take rate as a result of competitive pressure, changes in supply, improvements in technology and extension of automation to higher-value inventory, uncertainty regarding rate of adoption, changes in the allocation of demand spend by buyers, changes in revenue mix, auction dynamics, pricing discussions or negotiations with clients and potential clients, and other factors;
- diversification of our revenue mix to include new services, some of which may have lower pricing than our historic lower-value inventory business or may cannibalize existing business;
- the addition or loss of buyers or sellers;
- changes in the advertising strategies or budgets or financial condition of advertisers;
- the performance of our technology and the cost, timeliness, and results of our technology innovation efforts;
- advertising technology and digital media industry conditions and the overall demand for advertising, or changes and uncertainty in the regulatory environment for us or buyers or sellers, including with respect to privacy regulation;
- the introduction of new technologies or service offerings by our competitors and market acceptance of such technologies or services;
- our level of expenses, including investment required to support our technology development, scale our technology infrastructure and business expansion efforts, including acquisitions, hiring and capital expenditures, or expenses related to litigation;
- the impact of changes in our stock price on valuation of stock-based compensation or other instruments that are marked to market;
- the effect of our efforts to maintain the quality of transactions on our platform, including the blocking of non-human inventory and traffic, which could cause a reduction in our revenue if there are fewer transactions consummated through our platform even though the overall quality of the transactions may have improved;
- the effectiveness of our financial and information technology infrastructure and controls;
- foreign exchange rate fluctuations; and
- changes in accounting policies and principles and the significant judgments and estimates made by management in the application of these policies and principles.

Because significant portions of our expenses are relatively fixed, variation in our quarterly revenue could cause significant variations in operating results and resulting stock price volatility from period to period. In order to minimize adverse effects of pricing pressure on revenue, we must increase our scale and add more high-value inventory, which requires ongoing investment that can have an adverse effect at the expense of earnings and might ultimately be unsuccessful. Period-to-period comparisons of our historical results of operations are not necessarily meaningful, and historical operating results may not be indicative of future performance. If our revenue or operating results fall below the expectations of investors or securities analysts, or below any guidance we may provide to the market, the price of our common stock could decline substantially.

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Our revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business.

Our business depends on the overall demand for advertising and on the economic health of our current and prospective sellers and buyers. If advertisers reduce their overall advertising spending, our revenue and results of operations are directly affected. Economic downturns or instability in political or market conditions generally may cause current or new advertisers to reduce their advertising budgets. Reductions in inventory due to loss of sellers would make our solution less robust and attractive to buyers. Adverse economic conditions and general uncertainty about economic recovery or growth, particularly in North America and Europe, where we do most of our business, are likely to affect our business prospects. Many advertisers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing, and buyers may spend more in the fourth quarter for budget reasons. As a result, any events that reduce the amount of advertising spending during the fourth quarter, or reduce the amount of inventory available to buyers during that period, could have a disproportionate adverse effect on our revenue and operating results for that fiscal year. Moreover, any changes in the favorable tax treatment of advertising expenses and the deductibility thereof would likely cause a reduction in advertising demand. In addition, 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.

Seasonal fluctuations in digital advertising activity, which may historically have been less apparent due to our historical revenue growth, could adversely affect our cash flows and operating results.

Our revenue, non-GAAP net revenue, managed revenue (advertising spending), cash flow from operations, operating results, and other key performance measures may vary from quarter to quarter due to the seasonal nature of advertiser spending. For example, many advertisers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand for advertising inventory. Seasonal fluctuations historically have been less apparent due to our historical revenue growth, but if our growth rate declines or seasonal spending becomes more pronounced, seasonality could result in material fluctuations of our revenue, cash flow, operating results and other key performance measures from period to period.

Our corporate culture has contributed to our success, and if we cannot successfully maintain our culture as we assimilate new employees, we could lose the innovation, creativity and teamwork fostered by our culture.

We are undergoing rapid growth, including in our employee headcount. As of June 30, 2016, we had 652 employees. We expect that significant additional hiring will be necessary to support our strategic plans, including increased hiring in other countries. We have in the past added significant numbers of employees through acquisitions, including as a result of our acquisition of Chango in April 2015, and we may continue to do so. This rapid influx of large numbers of people from different business and geographic backgrounds may make it difficult for us to maintain our corporate culture. If our culture is negatively affected, our ability to support our growth and innovation may diminish.

Risks Related to the Advertising Technology Industry, Market, and Competition

The digital advertising market is relatively new, dependent on growth in various digital advertising channels, and vulnerable to adverse public perceptions and increased regulatory responses. If this market develops more slowly or differently than we expect, or if issues encountered by other participants or the industry generally are imputed to or affect us, our business, growth prospects and financial condition would be adversely affected.

The digital advertising market is relatively new and our solution may not achieve or sustain high levels of demand and market acceptance. While desktop display advertising has been used successfully for many years, marketing via new digital advertising channels, such as mobile and social media, and digital video advertising, is emerging and may evolve in unexpected ways, and our future growth will be constrained if we are not able to adapt successfully to market evolution. In addition, the success of our efforts to advance new solutions for increased advertising automation will depend upon adoption of our solution by personnel at buyers and sellers in lieu of their traditional methods of order placement. It is difficult to predict adoption rates, demand for our solution, the future growth rate and size of the digital advertising solutions market or the entry of competitive solutions.

Further, the digital advertising industry is relatively new and complex, and evolving, and there are relatively few publicly traded companies operating in the business. Consequently, the digital advertising industry may not be as widely followed or understood in the financial markets as more mature industries. The markets may not fully appreciate our particular place in the industry and our strengths and differentiating factors. Problems experienced by one industry participant (even private companies) or issues affecting a part of the business have the potential to have adverse effects on other participants in the industry or even the entire industry. Emerging understanding of how the digital advertising industry operates has spurred privacy concerns and misgivings about exploitation of consumer information and prompted regulatory responses that limit operational flexibility and impose compliance costs upon industry participants.

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Any expansion of the market for digital advertising solutions depends on a number of factors, including social and regulatory acceptance, the growth of the digital advertising market, the growth of social, mobile and video as advertising channels, and the actual or perceived technological viability, quality, cost, performance and value associated with emerging digital advertising solutions. If demand for digital display advertising and adoption of automation does not continue to grow, or if digital advertising solutions or advertising automation do not achieve widespread adoption, or there is a reduction in demand for digital advertising caused by weakening economic conditions, decreases in corporate spending, quality, viewability, malware issues or other issues associated with buyers, advertising channels or inventory, negative perceptions of digital advertising, additional regulatory requirements, or other factors, or if we fail to develop or acquire capabilities to meet the evolving business and regulatory requirements and needs of buyers and sellers of multi-channel advertising, our competitive position will be weakened.

We operate in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do.

We face intense competition in the marketplace. We are confronted by rapidly changing technology, evolving user needs and the frequent introduction by our competitors of new and enhanced solutions. We compete for advertising spending against competitors that, in some cases, are also buyers and/or sellers on our platform. We also compete for supply of advertising inventory against a variety of competitors. Some of our existing and potential competitors are better established, benefit from greater name recognition, may have offerings and technology that we do not have or that are more evolved and established than ours, and have significantly more financial, technical, sales, and marketing resources than we do. In addition, some competitors, particularly those with greater scale or a more diversified revenue base and a broader offering, may have greater flexibility than we do to compete aggressively on the basis of price and other contract terms, or to compete with us by including in their product offerings services that we may not provide. Some competitors are able or willing to agree to contract terms that expose them to risks that might be more appropriately allocated to buyers or sellers of advertising (including inventory risk and the risk of having to pay sellers for unsold advertising impressions), and in order to compete effectively we might need to accommodate risks that could be difficult to manage or insure against. Some buyers that use our solution, and some potential buyers, have their own relationships with sellers and can directly connect advertisers with sellers, and many sellers are investing in capabilities that enable them to connect more effectively directly with buyers. Our business may suffer to the extent that buyers and sellers purchase and sell advertising inventory directly from one another or through intermediaries other than us. In addition, as a result of solutions introduced by us or our competitors, our marketplace will experience disruptions and changes in business models, which may result in our loss of buyers or sellers. Our innovation efforts may lead us to introduce new solutions that compete with our existing solutions. New or stronger competitors may emerge through acquisitions and industry consolidation or through development of disruptive technologies. If our offerings are not perceived as competitively differentiated, due to competition and growth in our industry or our failure to develop adequately to meet market evolution, we could lose clients and market share or be compelled to reduce our prices, making it more difficult to grow our business profitably.

There has been rapid evolution and consolidation in the advertising technology industry, and we expect these trends to continue, thereby increasing the capabilities and competitive posture of larger companies, particularly those that are already dominant in various ways, and enabling new or stronger competitors to emerge. For example, while we are investing to participate in the shift of digital advertising spending to mobile channels, the mobile advertising market is dominated by a relatively small number of large competitors with direct mobile user relationships and proprietary first-party user data. These competitors have invested early and heavily in mobile advertising solutions that may be more compelling than ours, and have many established relationships with buyers and sellers that may be difficult for us to replicate. Similar dynamics can be expected as growth in digital video advertising brings established broadcast and content companies into the digital advertising business.

As technology continues to improve and market factors continue to compel investment by others in the business, competition and pricing pressure may increase and market saturation may change the competitive landscape in favor of larger competitors with greater scale and broader offerings, including those that can afford to spend more than we can to grow more quickly and strengthen their competitive position through innovation, development and acquisitions.

In order to compete effectively, we may need to innovate, further differentiate our offerings, and expand the scope of our operations more quickly than would be feasible through our own internal efforts. However, because some capabilities may reside only in a small number of companies, our ability to accomplish necessary expansion through acquisitions may be limited because available companies may not wish to be acquired or may be acquired by larger competitors with the resources to outbid us, or we may need to pay substantial premiums to acquire those businesses. Our ability to make strategic acquisitions could also be hampered if the value of our stock, which we might seek to use as acquisition currency, is viewed negatively by an acquisition target, and the lower our stock price, the more dilution we will incur as a result of stock-based acquisitions.

Many buyers and sellers are large consolidated organizations that may need to acquire other companies in order to grow. Smaller buyers and sellers may need to consolidate in order to compete effectively. There is a finite number of large buyers and sellers in our target markets, and any consolidation of buyers or sellers may give the resulting enterprises greater bargaining power or result in the loss of buyers and sellers that use our platform, and thus reduce our potential base of buyers and sellers, each of which would lead to erosion of our revenue.

Our business depends on our ability to collect and use data to deliver advertisements, and to disclose data relating to the performance of advertisements. Any limitation imposed on our collection, use or disclosure of this data could significantly diminish the value of our solution and cause us to lose sellers, buyers, and revenue.

As we process transactions through our solutions, we are able to collect significant amounts of information about advertisements, their buyers and sellers, and the transactions in which they are placed. This includes buyer and seller preferences and requirements for media and advertisement content and specifications such as placement, size and format; pricing of advertisements; and auction activity such as price floors, bid response behavior, and clearing prices. We also are able to collect non-personally identifiable information about users, including browser or device location and characteristics; online behavior; exposure to and interaction with advertisements; and inferential data about purchase intentions and preferences. We collect this data through various means, including from our own systems, pixels that sellers allow us to place on their websites to track user visits, software development kits installed in mobile applications, and cookies (which are discussed below). Our sellers and buyers also may provide us with their proprietary data about users.

We aggregate this data over trillions of advertising impressions and analyze it in order to optimize our services, including the pricing, placement and scheduling of advertisements purchased by buyers across the advertising inventory provided by sellers. We also share this data, or analyses based upon the data, with clients as part of our services. Our ability to collect, use, and share data about advertising purchase and sale transactions and user behavior and interaction with content is critical to the value of our services, and any limitation on our data practices could impair our ability to deliver effective solutions that meet the needs of sellers and buyers of advertising, resulting in loss of volume and reduced pricing.

Much of the data we collect and use belongs to our buyers or sellers, and we use it with their consent. (Other data is subject to control by Internet users, either as a result of regulation or through choices such as behavioral advertising opt-outs or use of ad blocking technologies, as discussed below). We use data related to our buyers and sellers and their transactional activity on our platform to facilitate our services, but we must exercise care not to use this data in ways that provide unfair advantages to, or adversely affect, buyers or sellers. Although our sellers and buyers generally permit us to aggregate and use data from advertising placements, subject to certain restrictions, sellers or buyers might decide to restrict our collection or use of their data. There could be various reasons for this, including perceptions by buyers that their data can be used by sellers to extract higher prices for impressions, or perceptions by sellers that their data can be used by buyers to bid tactically to reduce pricing for impressions. As a result, for example, sellers might not agree to provide us with data generated by interactions with the content on their properties, or buyers might not agree to allow us to analyze bid responses. Buyers and sellers may also request that we discontinue using data obtained from their transactions that has already been aggregated with other data. It would be difficult, if not impossible, and costly to comply with such requests. In addition, interruptions, failures, defects, or other challenges in our data collection, mining, analysis, and storage systems could also limit our ability to aggregate and analyze the data from transactions effected through our solution. As consumers continue to increase their use of digital technology and to incorporate multiple devices into their lives, linking and using data across such devices will become increasingly important. Various challenges affect our ability to link data relating to discrete devices, including different technologies used in different platforms, increased user awareness and sensitivity regarding use of data about their device usage, and evolving regulatory and self-regulatory standards. These challenges may slow growth, and if we are not able to cope with these challenges as effectively as other companies, we will be competitively disadvantaged. Any limitation on our ability to collect data about user behavior and interaction with content could make it more difficult for us to deliver effective solutions that meet the needs of sellers and buyers.

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If the use of cookies is restricted or subject to unfavorable regulation, or cookies are replaced by alternative tracking mechanisms, our performance may decline and we may lose buyers and revenue.

We use "cookies," or small text files placed through an Internet browser on an Internet user's computer, to gather data to enable our solution to be more effective. Our cookies record non-personally identifiable information, such as when an Internet user views or clicks on an advertisement, where a user is located, how many advertisements the user has seen, and browser or device information. We may also receive information from cookies placed by buyers or other parties who give us permission to use their cookies. We use data from cookies to help buyers decide whether to bid on, and how to price, an opportunity to place an advertisement in a certain location, at a given time, in front of a particular Internet user. Without cookie data, transactions occurring through our solution would be executed with less insight into activity that has taken place through an Internet user's browser, reducing the ability of buyers to make accurate decisions about which inventory to purchase for an advertising campaign. This could make placement of advertising through our solution less valuable, with commensurate reduction in pricing. If our ability to use cookies is limited, we may be required to develop or obtain additional applications and technologies to compensate for the lack of cookie data, which could be time consuming to develop or costly to obtain, less effective than our current use of cookies, and subject to additional regulation.

Cookies are an important component of our ability to provide a satisfactory offering to our customers, and our continued use of cookies is vulnerable to actions by sellers of inventory, consumers, and regulators. For example, the European Union, or EU, Cookie Directive directs EU member states to ensure that Internet users consent to storing or accessing information on their devices, such as through a cookie. Because we lack a direct relationship with Internet users, we rely on our sellers to obtain such consent. Some EU member states have interpreted the Cookie Directive to require sellers to provide increasingly granular data to end users about cookies placed in the course of delivering an advertisement, including cookies placed by us, or by buyers using our technology, in order to obtain effective consent. Providing this granular level of data may be difficult, and in some cases where a buyer is non-responsive or recalcitrant, may not be possible. Further, such disclosures may conflict with data provisions in our contracts with buyers and sellers designed to protect information the buyer deems to be confidential or proprietary, or may require us to impose additional contractual requirements on buyers or sellers. As a result, these types of disclosure requirements, as well as any other limitations on our or our buyers' ability to place or use third party cookies, may impair our ability to provide services in certain jurisdictions.

Separately, some prominent sellers have announced intentions to discontinue the use of cookies, and to develop alternative methods and mechanisms for tracking web users. It is possible that these companies may rely on proprietary algorithms or statistical methods to track web users without cookies, or may utilize log-in credentials entered by users into other web properties owned by these companies, such as their digital email services, to track web usage, including usage across multiple devices, without cookies. Alternatively, such companies may build different and potentially proprietary user tracking methods into their widely-used web browsers.

If cookies are effectively replaced by proprietary alternatives, our continued reliance upon cookie-based methods may face negative consumer sentiment and otherwise place us at a competitive disadvantage, compelling us to develop or license alternative proprietary tracking methodologies. Development would take time, potentially subjecting us to competitive disadvantages, and require substantial investment from us. Development also may not be commercially feasible given our relatively small size, the fact that development of such technologies may require technical skills that differ from our core engineering competencies, and the likelihood that the market would adopt solutions developed by larger competitors. Licensing new proprietary tracking mechanisms and data from companies that have developed them may not be viable for us for various reasons; creators of such technology may compete with us and may offer to provide the technology to us only on unfavorable terms or not at all, and if proprietary web tracking standards are owned by sellers or browser operators that have access to user information by virtue of their popular consumer-oriented websites or browsers and design their technology for use in conjunction with the types of user information collected from their websites, we may still be at a competitive disadvantage even if we license their technology.

If cookies are effectively replaced by open industry-wide tracking standards rather than proprietary standards, we may still incur substantial re-engineering costs to replace cookies with these new tracking technologies. This may also diminish the quality or value of our services to buyers if such new web-tracking technologies do not provide us with the quality or timeliness of the tracking data that we currently generate from cookies.

If the use of "third-party cookies" or digital advertising generally is rejected by Internet users, through opt-out or ad-blocking technologies or other means, or if other consumer choice mechanisms like "Do Not Track" and "Limit Ad Tracking" inhibit our ability to collect and use data about end users, our performance may decline and we may lose buyers and revenue.

Internet users can, with increasing ease, implement practices or technologies that may limit our ability to collect and use data to deliver advertisements, or otherwise inhibit the effectiveness of our solution. First, cookies may easily be deleted or blocked by Internet users. All of the most commonly used Internet browsers allow Internet users to modify their browser settings to block first-party cookies (placed directly by the publisher or website owner that the user intends to interact with) or third-party cookies (placed by parties, like Rubicon Project, that have no direct relationship with the user), and some browsers, such as Safari, may block third-party cookies by default. Most browsers also now support temporary privacy modes that allow the user to suspend, with a single click, the placement of new cookies or reading or updates of existing cookies. Many applications and other devices allow users to avoid receiving advertisements by paying for subscriptions or other downloads. Mobile devices based upon the Android and iOS operating systems limit the ability of cookies to track users while they are using other applications other than their web browser on their device. As a consequence, fewer of our cookies or sellers' cookies may be set in browsers or accessible in mobile devices, which would adversely affect our business.

Second, some Internet users also download free or paid "ad blocking" software, not only for privacy reasons, such as a desire to avoid being targeted for ads based upon location or online activity, but also to counteract the adverse effect advertisements can have on users' experience, including increased load times, data consumption, and screen overcrowding. Similar ad-blocking technology has also recently emerged for mobile devices. Such ad-blocking technology may prevent certain third-party cookies, or other tracking technologies, from being stored on a user's computer or mobile device. If more Internet users adopt these measures, our business could be harmed. Estimates of the use of ad-blocking technologies vary by user population, type of media content, geography, and other factors, and the ultimate prevalence and effect of ad-blocking technologies is not certain, but it could have an adverse effect on our business if it reduces the volume or effectiveness (and therefore value) of advertising. In addition, some ad blocking technologies block only ads that are targeted through use of third-party data, while allowing ads based on first-party data (i.e. data owned by the provider of the website or application being viewed). These ad blockers could place us at a disadvantage because we rely on third-party data, while large competitors have troves of first-party data they use to direct advertising. Other technologies allow ads that are deemed "acceptable," which could be defined in ways that place us or our clients at a disadvantage, particularly if such technologies are controlled or influenced by our competitors. Even if ad blockers do not ultimately have a material impact on our business, investor concerns about ad blockers could cause our stock price to decline.

Increased prevalence of ad blocking has prompted examination of the effect of digital advertising industry practices upon the quality of user experiences, and changes in industry practices may emerge as a result. Such changes could reduce the viability of our existing business model, place us at a competitive disadvantage, or require us to invest significantly in developing new technologies and business practices.

Third, current versions of the most widely used web browsers allow users to send "Do Not Track" signals to indicate that they do not wish to have their web usage tracked. However, there is currently no definition of "tracking" and no standards regarding how to respond to a "Do Not Track" preference that are accepted or standardized in the industry. The World Wide Web Consortium, or W3C, chartered a "Tracking Protection Working Group" in 2011 to convene a multi-stakeholder group of academics, thought leaders, companies, industry groups and consumer advocacy organizations to create a voluntary "Do Not Track" standard for the web. The W3C is continuing to work on a policy specification that will provide guidance as to how websites and buyers should respond to a "Do Not Track" signal. The W3C's current draft policy specification, which has not yet been finalized, allows first parties to continue to track users, even if the users have enabled the "Do Not Track" signal in their web browser. At the same time, the draft policy specification would prevent third parties, like us, from any further tracking of such users across the Internet. This policy specification has not been finalized, and it remains unclear to what extent that specification will be accepted by legislators and regulators worldwide. Nonetheless, if we are required to respond to "Do Not Track" signals as required by the W3C's current draft policy specification, we may be placed at a significant competitive disadvantage compared to first-party data owners such as large website operators, many of whom own or are developing or acquiring capabilities that compete with our solutions.

Even absent an industry standard, various government authorities have indicated an intent to implement some type of "Do Not Track" standard. For example, the Federal Trade Commission, or FTC, and the European Commission, which proposes legislation to the European Parliament, have previously stated that they will pursue a legislative solution if the industry does not agree to a standard. Additionally, the "Do Not Track Online Act of 2015" was recently introduced in the US Senate, and members of the U.S. House of Representatives have also issued public statements supporting the idea of a legislative solution. Such legislation or regulation may affect our ability to collect or use data collected through our platform when a user enables "Do Not Track," and may also include a distinction between first-party and third party collection and usage of data, similar to the distinction in the W3C's current draft policy specification, which may impact our ability to compete in the marketplace.

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The California Online Privacy Protection Act of 2003 requires operators of websites or online services to disclose how the operator responds to "Do Not Track" signals regarding the collection of personally identifiable information about an individual consumer's online activities over time and across third-party websites or online services, as well as to disclose whether third parties may collect personally identifiable information about an individual consumer's online activities over time and across different websites or online services. It is possible that other states or the U.S. government could adopt similar legislation. While we do not collect data that is traditionally considered personally identifiable information in the United States without user consent, we may nonetheless elect to respond to such legislation by adopting a policy to discontinue profiling or web tracking in response to "Do Not Track" requests, and it is possible that we could in the future be prohibited from using non-personal consumer data by industry standards or state or federal legislation, which may diminish our ability to optimize and target advertisements and the value of our services.

Fourth, in addition to "Do Not Track" options, certain mobile devices allow users to "Limit Ad Tracking" on their devices. Like "Do Not Track," "Limit Ad Tracking" is a signal that is sent by particular mobile devices when a user chooses to send such a signal. While there is no clear guidance on how third parties must respond upon receiving such a signal, it is possible that buyers, sellers, regulators, or future legislation may dictate a response that would limit our access to data, and consequently negatively impact the effectiveness of our solution and the value of our services on mobile devices.

These mechanisms for users to limit the presence of advertising in their online activities generally stem from a failure of the advertising technology industry to consider adequately the needs and preferences of the users sellers serve and buyers try to reach, and resulting user sentiment that digital advertising is often intrusive or irrelevant and can degrade users' online experience. The industry will evolve to address these issues, presenting not only opportunities for advertising technology companies that can help improve the user experience, but also risks for those that don't.

Legislation and regulation of digital businesses, including privacy and data protection regimes, could create unexpected additional costs, subject us to enforcement actions for compliance failures, or cause us to change our technology solution or business model, which may have an adverse effect on the demand for our solution.

Many local, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of data collected from and about consumers and devices, and the regulatory framework for privacy issues is evolving worldwide. Various U.S. and foreign governments, consumer agencies, self-regulatory bodies, and public advocacy groups have called for new regulation directed at the digital advertising industry in particular, and we expect to see an increase in legislation and regulation related to the collection and use of data to target advertisements and communicate with consumers, including mobile device and cross-device data, geo-location data, anonymous Internet user data and unique device identifiers, such as IP address or mobile advertising identifiers, and the collection of data from apps and websites that are directed to children. Such legislation or regulation could affect the costs of doing business online and may adversely affect the demand for or effectiveness and value of our solution. Some of our competitors may have more access to lobbyists or governmental officials and may use such access to effect statutory or regulatory changes in a manner that commercially harms us while favoring their solutions.

The U.S. government, including the FTC and the FCC, has announced that it is reviewing the need for greater regulation of the collection of consumer information, including regulation aimed at restricting some targeted advertising practices. For example, the U.S. Senate is currently considering enacting the Location Privacy Protection Act, which would place significant restrictions on the collection and use of geo-location data, including for advertising purposes. More recently, the FTC has announced that it plans to issue guidance on the tracking and delivery of targeted advertisements to consumers across multiple devices. The FTC has also adopted revisions to the Children's Online Privacy Protection Act that expand liability for the collection of information (including certain anonymous information such as persistent identifiers) by operators of websites and other online services that are directed to children or that otherwise use (for certain purposes) information collected from or about children. In addition, the European Union has adopted a General Data Protection Regulation, Regulation (EU) 2016/679 or the "GDPR," that will supersede the EU Data Protection Directive. The GDPR sets out higher potential liabilities for certain data protection violations, as well as a greater compliance burden for us in the course of delivering our solutions in Europe.

Further, the European Union has indicated that it intends to propose reforms to the EU Cookie Directive governing the use of technologies to collect consumer information. The UK decision to leave the European Union may add cost and complexity to our compliance efforts. The UK is an important geography for us and we have structured our EU privacy and data protection compliance in a UK-centric way by using our UK subsidiary as our EU data controller. If UK and EU privacy and data protection laws and regulations diverge, we will be required to implement alternative EU compliance mechanisms and adapt separately to any new UK requirements. Complying with any new regulatory requirements could force us to incur substantial costs or require us to change our business practices in a manner that could reduce our revenue or compromise our ability to effectively pursue our growth strategy.

Additionally, although we do not currently collect from consumers data that is traditionally considered personal data in the United States, such as names, contact information, or financial or health data in the ordinary course of providing our solution (except to the limited extent personal data is voluntarily submitted by a user or collected by us with the user's knowledge and consent), we typically do collect and store IP addresses, geo-location information, and persistent identifiers. Some of this data are or may be considered personal data in some jurisdictions or otherwise may be the subject of future legislation or regulation. For example, some jurisdictions in the EU already regard IP addresses and unique device identifiers as personal data, and certain regulators, like the California Attorney General's Office and the FTC, have advocated for including IP addresses, GPS-level geolocation data, and unique device identifiers as personal data under California and Federal law. Evolving definitions of personal data, within the EU, the United States and elsewhere, especially relating to the classification of IP addresses, geo-location data, and persistent identifiers, may cause us in the future to change our business practices, diminish the quality of our data and the value of our solution, and hamper our ability to expand our offerings into the EU or other jurisdictions outside of the United States. They might likewise result in additional regulatory, legislative or public scrutiny, including investigations.

Further, many governments are restricting the storage of information about individuals beyond their national borders. Such restrictions could, depending upon their scope, limit our ability to utilize technology infrastructure consolidation, redundancy, and load-balancing techniques, resulting in increased infrastructure costs, decreased operational efficiencies and performance, and potentially a greater risk of system failure.

We strive to comply with all applicable laws and regulations relating to privacy and data collection processing, use and disclosure, but these laws and regulations are continually evolving, not always clear, and not always consistent across the jurisdictions in which we do business. The measures we take to protect the security of information that we collect, use, and disclose in the operation of our business may not always be effective. Our failure to protect, and comply with applicable laws and regulations or industry standards applicable to, personal data or other data relating to consumers 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. This is particularly true given that the FTC, Attorneys General of various U.S. States and various international regulators (including numerous data protection authorities in the European Union), have specifically cited as enforcement priorities certain practices that relate to digital advertising. Even the perception of concerns relating to our collection, use, disclosure, and retention of data, including our security measures applicable to the data we collect, whether or not valid, may harm our reputation and inhibit adoption of our solution by current and future buyers and sellers. We are aware of ongoing lawsuits filed against, or regulatory investigations into, companies in the digital advertising industry concerning various alleged violations of consumer protection, data protection, and computer crime laws, asserting various privacy-related theories. Any such proceedings brought against us could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, adversely affect the demand for our services, and ultimately result in the imposition of monetary liability or restrictions on our ability to conduct our business. We may also be contractually liable to indemnify and hold harmless buyers or sellers from the costs or consequences of litigation or regulatory investigations resulting from using our services or from the disclosure of confidential information, which could damage our reputation among our current and potential sellers or buyers, require significant expenditures of capital and other resources and cause us to lose business and revenue.

Further, privacy and other regulatory violations by other participants in the digital advertising ecosystem could lead to increased regulatory and enforcement activities, reductions in the growth of demand for digital advertising, and increased user requirements, all of which could have adverse consequences and impose additional costs for all industry participants, including us.

The EU's recently finalized General Data Protection Regulation, which restricts the transfer of personal data of EU residents to the United States, as well as the Court of Justice of the European Union's recent opinion invalidating the EU-U.S. Safe Harbor which previously allowed the transfer of such personal data to the United States, could require us to adopt costly compliance mechanisms, subject us to increased regulatory scrutiny, and hamper our plans to expand our business in Europe.

The use and transfer of personal data in EU member states is currently governed under Directive 95/46/EC (which is commonly referred to as the Data Protection Directive) as well as legislation adopted in the member states to implement the Data Protection Directive. The Data Protection Directive generally prohibits the transfer of personal data of EU subjects outside of the EU, unless the party exporting the data from the EU implements a compliance mechanism designed to ensure that the receiving party will adequately protect such data. One such compliance mechanism was the process agreed to by the EU and the United States known as the EU-U.S. Safe Harbor Framework, pursuant to which U.S. businesses certified that they treat the personal data of EU residents in accordance with privacy principles promulgated by the Data Protection Directive.

We previously relied upon the Safe Harbor Framework to allow us to transfer certain personal data of EU Subjects, including both data about our employees and consumer data that is collected and processed through our technology, to the United States. In 2015, however, the Court of Justice of the European Union issued an opinion concluding that the Safe Harbor Framework is not sufficient to allow transfers of personal data of EU subjects to the United States. Therefore, we can no longer rely on the Safe Harbor Framework to justify the transfer of personal data of EU subjects to the United States. Instead, we must rely on alternative compliance measures, which are complex, which may also be subject to legal challenge, and which, unlike the Safe Harbor Framework, directly subject us to regulatory enforcement by data protection authorities located in the European Union. As a result, by relying on these alternative compliance measures, we risk becoming the subject of regulatory investigations in any of the individual jurisdictions in which we operate. Each such investigation could cost us significant time and resources, and could potentially result in fines, criminal prosecution, or other penalties. Being forced to rely on alternative compliance measures could also affect the market for our technology, as EU customers may choose to do business with EU-based companies or other competitors that do not need to transfer personal data to the United States in order to avoid the above-identified risks and legal issues.

Additionally, the EU recently adopted the GDPR, which will supersede the Data Protection Directive in May 2018, or perhaps earlier in some jurisdictions. Among other requirements, the GDPR obligates companies that process large amounts of personal data about EU residents to implement a number of formal processes and policies reviewing and documenting the privacy implications of the development, acquisition, or use of all new products, technologies, or types of data. Implementing these policies before the GDPR takes effect will take considerable time and resources, and could result in slowing our ability to develop, acquire, or enter into agreements to use new products, technologies, or types of data. Further complicating this effort, the GDPR enables EU member states to enact jurisdiction-specific requirements in key areas, which could require us to modify our plans to comply with the GDPR, or otherwise to implement multiple policies unique to the jurisdictions in which we operate, which could make it more difficult and resource-intensive to continue to operate in the EU.

Changes in tax laws affecting us and other market participants could have a material adverse effect on our business.

U.S. legislative proposals have been made that, if enacted, would limit or delay the deductibility of advertising costs for U.S. federal income tax purposes. Any such proposals, if enacted, will likely cause advertisers to reduce their advertising spending in order to mitigate or offset any loss resulting from a change in the tax treatment of such costs. Any such changes would likely have a negative impact on the advertising industry and us by reducing the aggregate amount of money spent on advertising.

U.S. legislative and budget proposals have also included limits on the ability to defer taxation for U.S. federal income tax purposes of earnings outside the United States until those earnings are repatriated, and immediate taxes on unremitted foreign earnings. Any changes in the taxation of our non-U.S. earnings could increase our tax expense and harm our financial position and results of operations.

We generally do not have privity with Internet users who view advertisements that we place, and we may not be able to disclaim liabilities from such Internet users or consumers.

Potential liabilities to Internet users include malicious activities, such as the introduction of malware into users' computers through advertisements served through our platform, and code that redirects users to sites other than the ones users sought to visit, potentially resulting in malware downloads or use charges from the redirect site. Sellers of advertisement space purchased through our solution often have terms of use in place with their users that disclaim or limit their potential liabilities to such users, or pursuant to which users waive rights to bring class-action lawsuits against the sellers related to advertisements. Certain of our competitors are also prominent sellers, and may be able to include protections in their website terms of use that also limit liability to users of their advertising services. We generally do not have terms of use in place with such users. As a consequence, we generally cannot disclaim or limit potential liabilities to such users through terms of use, which may expose us to greater liabilities than competing advertising networks that are also prominent sellers.

Changes in market standards applicable to our solution could require us to incur substantial additional development costs.

Market forces, competitors' initiatives, regulatory authorities, industry organizations, seller integration revisions, and security protocols are causing the emergence of demands and standards that are or could be applicable to our solution. We expect compliance with these kinds of standards to become increasingly important to buyers and sellers, and conforming to these standards is expected to consume a substantial and increasing portion of our development resources. If our solution is not consistent with emerging standards, our market position and sales could be impaired. If we make the wrong decisions about compliance with these standards, or are late in conforming, or if despite our efforts our solution fails to conform, our offerings will be at a disadvantage in the market to the offerings of competitors who have complied.

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Evolving concepts of viewability involve competitive uncertainty and may cause us to incur additional costs and liability risk.

Viewability of digital advertising inventory is relevant to marketers because it represents a way of assessing the value of particular inventory as a means to reach a target audience. However, there is no consensus definition of viewability. Some approaches focus on whether an advertisement can be seen at all, and others focus on whether an advertisement that can be seen is actually seen, in whole or part, or for how long. Low viewability can be caused by various factors, including technical issues (e.g. device screen size, browser functionality and settings, web site load times), media design (e.g. below-the-fold or sub-page placements), and user behavior (e.g. the decision whether to scroll down a website or click on an advertisement or how long to watch a video). Non-viewability is a separate issue and may result, for example, from stacking ads so the one in the back is obscured, or serving ads into a single pixel space too small to be seen. Sometimes these two concepts of viewability are conflated, which tends to obscure analysis.

Aside from non-viewable inventory, which is generally well understood, various vendors and other industry participants advocate definitions and measurements of low viewability that are consistent with their technology or interests. We cannot predict whether consensus views will emerge, or what they will be. Nevertheless, some themes seem to have emerged:

- Buyers of advertising inventory are increasingly using technology, often provided by third parties, to assess viewability of impressions for use as a bidding or purchasing criterion, or to determine value for purposes of determining pricing.
- Assessment of viewability is imperfect, but technology can be expected to improve as data providers, DSPs, and buyers themselves develop viewability assessment tools and build viewability factors into their algorithms for bidding, purchasing, and pricing decisions.
- Inventory viewability and value correlate. More viewable inventory is more valuable, and viewability of inventory increases in importance with the price paid for that inventory.
- Viewability can be used as an inventory differentiator, by domain or on an impression level, with higher viewability generally associated with higher value and pricing, and lower viewability generally associated with lower value and pricing.

These themes are relevant to our business of facilitating fully informed purchase and sale of advertising, and evolution of viewability standards may represent an opportunity to refine matching of supply and demand. However, incorporating viewability concepts fully into our business as they evolve will require us to incur additional costs to integrate relevant technologies and process additional information through our system. If we do not handle viewability well, we could be competitively disadvantaged.

In addition, inventory that is well differentiated on the basis of viewability will also be differentiated on the basis of value, with less viewable inventory valued lower. In this context, if we are not positioned to transact the higher viewability inventory competitively, our revenue and profitability could be adversely affected.

Buyers could attempt to hold us responsible for impressions that do not satisfy their viewability requirements or expectations, and depending upon how viewability evolves, market practice or emerging regulation may require us to incur compliance costs and assume some responsibility for viewability of advertisements transacted through our solution. Divergent views of how to measure viewability and imperfect measurement technology could lead to disagreement, increasing risk of disputes, demands for refunds, and reputational harm.

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

In addition to compliance with government regulations, we voluntarily participate in trade associations and industry self-regulatory groups that promulgate best practices or codes of conduct addressing privacy and the provision of Internet advertising. However, in the past, some of these guidelines have not comported with our business practices, making them difficult for us to implement. If we encounter difficulties 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 may be subject to negative publicity, as well as investigation and litigation by governmental authorities, self-regulatory bodies or other accountability groups, buyers, sellers, or other private parties. Any such action against us could be costly and time consuming, require us to change our business practices, divert management's attention and our resources, and be damaging to our reputation and our business. In addition, we could be adversely affected by new or altered self-regulatory guidelines that are inconsistent with our practices or in conflict with applicable laws and regulations in the United States and other countries where we do business. As a result of such inconsistencies or conflicts, or other business or legal considerations, we may choose not to comply with some self-regulatory guidelines. Additionally, as we expand geographically, we may begin to operate in jurisdictions that have self-regulatory groups in which we do not participate. If we fail to abide by or are perceived as not operating in accordance with applicable laws and regulations and industry best practices, or any industry guidelines or codes with regard to privacy or the provision of Internet advertising, our reputation may suffer and we could lose relationships with buyers and sellers.

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

We have in the past provided, and may continue to provide, forecasts related to our market, including forecasts relating to the expected growth in the digital advertising market and parts of that market as well as the forecasted trend towards automation of analog and print advertising markets. Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may prove to be inaccurate. Moreover, the anticipation that the advertising industry will continue to shift from analog and print media to digital advertising at the rate forecasted, or the anticipation of the shift in advertising spending from analog to digital, may not come to fruition. Further, we may not succeed in our plans to enter or increase our presence in various markets for various reasons, including possible shortfall or misallocation of resources or superior technology development or marketing by competitors.

Risks Related to Our Relationships with Buyers and Sellers and Other Strategic Relationships

We depend on owners of digital media properties for advertising inventory to deliver for advertising campaigns, and any decline in the supply of advertising inventory from these sellers could hurt our business.

We depend on digital media properties to provide us with advertising inventory. The sellers that supply inventory to us typically do so on a non-exclusive basis and are not required to provide us with any minimum amounts or consistent supply of inventory; they are free to, and often do, maintain concurrent relationships with various sources of demand that compete with us, and it is easy for sellers quickly to shift their advertising inventory among these concurrent demand sources, or shift inventory to new demand sources, without notice or accountability. Sellers may seek to change the terms at which they offer inventory to us, or allocate their advertising inventory to our competitors who offer advertisements to them on more favorable terms or whose offerings are considered more beneficial. Sellers may also sell inventory directly to buyers through other channels. Generally, sellers allocate their available inventory among channels according to various methodologies that often result in ranked prioritization in their ad servers. Competitors ranked higher in priority see available impressions earlier and have more opportunity to acquire more inventory and more high value inventory. It is easy for sellers to change rankings in their ad servers, and we cannot control how sellers rank us, and to the extent that competitors have higher priority than us, our revenue and the quality of inventory available to our buyers can be adversely affected. Supply of advertising inventory is also limited for some sellers, such as special sites or new technologies, and sellers may request higher prices, fixed price arrangements or guarantees that we cannot provide as effectively as our competitors, or that would reduce the profitability of that business. In addition, sellers sometimes place significant restrictions on the sale of their advertising inventory, such as strict security requirements, prohibitions on advertisements from specific advertisers or specific industries, and restrictions on the use of specified creative content or format. In addition, sellers or competitors could pressure us to increase the prices for inventory, which may reduce our operating margins, or otherwise block our access to that inventory, without which we would be unable to deliver advertisements using our solution.

If sellers limit advertising inventory made available to us, or increase the price of inventory, or place significant restrictions on the sale of their advertising inventory, we may not be able to replace this with inventory from other sellers that satisfies our requirements in a timely and cost-effective manner. In addition, significant sellers in the industry may enter into exclusivity arrangements with our competitors, which could limit our access to a meaningful supply of advertising inventory. If any of this happens, the value of our solution to buyers could decrease and our revenue could decline or our cost of acquiring inventory could increase, lowering our operating margins.

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Our contracts with buyers and sellers are generally not exclusive and generally do not require minimum volumes or long-term commitments. If buyers or sellers representing a significant portion of the demand or inventory in our marketplace decide to materially reduce the use of our solution, we could experience an immediate and significant decline in our revenue and profitability and harm to our business.

Generally, our buyers and sellers are not obligated to provide us with any minimum volumes of business, may do business with our competitors as well as with us, and may bypass us and transact directly with each other or through other intermediaries. Most of our business with buyers originates pursuant to arrangements that are limited in scope and can be reduced or canceled by the buyer without penalty. Similarly, sellers make inventory available to us on a discretionary basis. Accordingly, our business is highly vulnerable to changes in the macro environment, price competition, and development of new or more compelling offerings by our competitors, which could reduce business generally or motivate buyers or sellers to migrate to competitors' offerings. Further, if our relationships with buyers or sellers become strained due to service failures or other reasons, including possible perceptions by our buyers that we compete with them, it might not be difficult for these clients to reduce or terminate their business with us. Because we do not have long-term contracts, our future revenue may be difficult to predict and there is no assurance that our current buyers and sellers will continue to use our solution or that we will be able to replace lost buyers or sellers with new ones. If a buyer or group of buyers representing a significant portion of the demand in our marketplace, or a seller or group of sellers representing a significant portion of the inventory in our marketplace decides to materially reduce use of our solution, it could cause an immediate and significant decline in our revenue and profitability and harm to our business. Additionally, if we overestimate future usage, we may incur additional expenses in adding infrastructure without a commensurate increase in revenue, which would harm our profitability and other operating results.

The emergence of header bidding may reduce the amount or value of inventory available to us from some sellers.

Sellers have begun to embrace so-called header bidding, by which impressions that would previously have been exposed to different potential sources of demand in a sequence dictated by ad server placement are instead available for concurrent competitive bidding by demand sources that use header bidding tags that the seller accepts. This can help sellers increase revenue by exposing their inventory to more bidders, thereby allocating more inventory to demand sources that value it most highly. However, the number of header bidding tags that sellers accept is limited because too many header bidding tags can cause delays in the transaction execution process, and therefore we must compete with other demand sources for sellers' header bidding slots. With sellers that accept our header bidding tags, we may be able to participate in improved demand dynamics by competing for impressions that would previously have been allocated first to demand sources prioritized above us in the seller's ad server, with accompanying potential for improved revenue. However, some sellers may not accept our header bidding tags, and our opportunities with those sellers may be impaired as a result. Certain sources of demand with unique value propositions may be prioritized by sellers in their allocation of available header bidding slots, leaving us to compete with other competitors for the remainder. Further, header bidding allows smaller competitors with less demand and/or fewer established seller relationships to compete for higher-value impressions on a more even footing. Just as header bidding allows us to compete with demand sources that would previously have been above us in sellers' ad server sequences, it exposes us to additional competition by demand sources that, prior to the emergence of header bidding, might have been below us in the sellers' ad server sequences or otherwise unable to compete effectively for inventory. In order to compete more effectively for inventory in header bidding transactions, we may reduce our fees in order to pass more money to sellers. It is too early to predict what effect the emergence of header bidding will ultimately have on our business, but to date we have experienced negative results, including increased competition for some inventory that we would have been able to sell through our platform in the absence of header bidding, with commensurate adverse revenue effects.

Loss of business associated with large buyers or sellers could have significant negative impact on our results of operations and overall financial condition.

We serve large numbers of buyers and sellers, but certain large buyers and sellers have accounted for and will continue to account for a disproportionate share of business transacted through our solution. Our contracts with buyers and sellers generally do not provide for any minimum volumes and may be terminated on relatively short notice. Buyer and seller needs and plans can change quickly, and buyers or sellers may reduce volumes or terminate their arrangements with us, quickly and without penalty, for a variety of reasons, including financial issues or other changes in circumstances; development or acquisition by buyers or sellers of their own technologies that reduce their reliance upon us; the fact that we compete directly with some of our buyers; new offerings by or strategic relationships with our competitors; change or removal of personnel with whom we traditionally had relationships; opportunities for buyers and sellers to bypass us and deal directly with each other; change in control (including consolidations through mergers and acquisitions); or declining general economic conditions (including those resulting from dissolutions of companies). Technical issues affecting our systems or the systems of our larger buyers or sellers could also cause a decline in spending. As is typical in our industry, some of the largest buyers and sellers on our platform are also competitors, which could increase the risk that such companies could reduce their business with us.

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These factors make it important for us to expand and diversify our client relationships. The number of large media buyers and sellers in the market is finite, and it could be difficult for us to replace revenue loss from any buyers or sellers whose relationships with us diminish or terminate. Just as growth in our inventory strengthens buyer activity in a network effect, loss of inventory or buyers could have the opposite effect. Loss of revenue from significant buyers or failure to collect accounts receivable, whether as a result of buyer payment default, contract termination or other factors, or significant reductions in inventory, could have a significant negative impact on our results of operation and overall financial condition.

We must provide value to both buyers and sellers of advertising without being perceived as favoring one over the other or being perceived as competing with them through our service offerings.

Buyers and sellers have different interests, with each trying to maximize its value in their transactions through use of data, requests that we adapt our solutions to help them, and other means. We are interposed between buyers and sellers, and to be successful, we must continue to find ways of providing value to both without being perceived as favoring one at the expense of the other. For example, our proprietary auction algorithms, which are designed to optimize auction outcomes, influence the allocation and pricing of impressions and must do so in ways that add value to both buyers and sellers. Continued technological evolution in our business results in the availability and use of more data more incisively to inform buying and selling decisions. Third-party data analytics providers encourage this dynamic by offering products to buyers and sellers to attempt to swing transactional dynamics to their advantage at the expense of the other. We come under pressure to provide raw data to fuel these products and to facilitate their use by buyers and sellers on our platform. Unlike some competitors, who focus on serving either buyers or sellers, we must serve the interests of both, meaning that we must exercise caution in use of data and may determine not to facilitate some data products, which could result in loss of business from clients that insist upon using such products. Furthermore, because new business models continue to emerge, we must constantly adapt our relationship with buyers and sellers and how we market ourselves to each. Further, consistent with our goal of connecting buyers and sellers, we inevitably grow closer to each, and we must take care that our deeper connections with buyers, on the one hand, or sellers, on the other hand, do not come at the expense of the other's interests. In addition, as our own capabilities evolve, we may be perceived by clients, particularly buyers, as competing with them. For example, with the growth of our buy-side capabilities, including our intent marketing business, we have taken steps to provide assurances to some of our buyer clients that our own buy-side capabilities will not result in operational disadvantages to them, such as reduced access to our inventory supply. If we fail to balance our clients' interests appropriately, our ability to provide a full suite of services and our growth prospects may be compromised.

We rely on buyers to use our solution to purchase advertising on behalf of advertisers. Such buyers may have or develop high-risk credit profiles or pay slowly, which may result in credit risk to us or require additional working capital to fund our accounts payable. In addition, direct billing arrangements between buyers and sellers may result in unfavorable fee dynamics and increased working capital demands.

Our revenue is generated from advertising spending transacted over our platform using our technology solution. Generally, we invoice and collect from buyers the full purchase price for impressions they have purchased, retain our fees (where applicable), and remit the balance to sellers. However, in some cases, we may be required to pay sellers for impressions delivered before we have collected, or even if we are unable to collect, from the buyer of those impressions. There can be no assurances that we will not experience bad debt 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. In addition, we attempt to coordinate collections from our buyers so as to fund our payment obligations to our sellers. However, some buyers and sellers are beginning to require direct billing and collection arrangements between themselves, particularly for our Guaranteed Orders solution. When we collect from buyers and pay sellers, we are able to include our buyer fees in cost of media billed and retain our buyer and seller fees from cash we collect before remitting balances to sellers. However, more buyers and sellers are beginning to handle billing and collections directly, and if we do not manage collections and payments, we will need to invoice buyers and sellers for our fees, which may increase visibility and result in pressure for more transparent or lower fees. Further, growth and increased competitive pressure in the digital advertising industry is causing brand spenders to become more demanding, resulting in overall increased focus by all industry participants on pricing, transparency, and cash and collection cycles. Some buyers have experienced financial pressures that have motivated them to pressure us to reduce our fees and/or limit our pricing flexibility, to challenge some details of our invoices, or to slow the timing of their payments to us. If buyers slow their payments to us or our cash collections are significantly diminished as a result of these dynamics, our revenue and/or cash flow could be adversely affected and we may need to use working capital to fund our accounts payable pending collection from the buyers. This may result in additional costs and cause us to forgo or defer other more productive uses of that working capital.

Our sales efforts with buyers and sellers may require significant time and expense and may not yield the results we seek.

Attracting new buyers and sellers and increasing our business with existing buyers and sellers involves substantial time and expense, and we may not be successful in establishing new relationships or in maintaining or advancing our current relationships. We may spend substantial time and effort educating buyers and sellers about our offerings, including providing demonstrations and comparisons against other available solutions. This process can be costly and time-consuming, and is complicated by us having to spend time integrating our solution with software of buyers and sellers. Because our solution may be less familiar in some markets outside the United States, the time and expense involved with attracting, educating and integrating buyers and sellers in international markets may be even greater than in the United States. If we are not successful in targeting, supporting and streamlining our sales processes, our ability to grow our business may be adversely affected. In addition, because of competitive market conditions and negotiating leverage enjoyed by large buyers and sellers, we are sometimes forced to choose between loss of business or contracting on terms that allocate more risk to us than we would prefer to accept.

We rely on buyers and sellers to abide by contractual requirements and relevant laws, rules, and regulations when using our solution, and legal claims or enforcement actions resulting from the actions of buyers or sellers could expose us to liabilities, damage our reputation, and be costly to defend.

The buyers and sellers engaging in transactions through our platform impose various requirements upon each other, and they and the underlying advertisers are subject to regulatory requirements by governments and standards bodies applicable to their activities. We assume responsibility for satisfying or facilitating the satisfaction of some of these requirements through the contracts we enter into with buyers and sellers. In addition, we may have responsibility for some acts or omissions of buyers or sellers transacting business through our solution under applicable laws or regulations or as a result of common law duties, even if we have not assumed responsibility contractually. These responsibilities could expose us to significant liabilities, perhaps without the ability to impose effective mitigating controls upon, or to recover from, buyers and sellers. Moreover, for those third parties who are both a buyer and seller on our platform, it is feasible that they could use our platform to buy and sell advertisements in an effort to inflate their own revenue. While we do not believe we would have legal liability in connection with such a scheme, we could still nevertheless be subject to litigation as a result of such actions, and, if we were sued, we would incur legal costs in our defense and cannot guarantee that a court would not attribute some liability to us.

We contractually require our buyers and sellers to abide by relevant laws, rules and regulations, as well as restrictions by their counterparties, when transacting on our platform, and we generally attempt to obtain representations from buyers that the advertising they place through our solution complies with applicable laws and regulations and does not violate third-party intellectual property rights, and from sellers about the quality and characteristics of the impressions they provide. We also generally receive representations from buyers and sellers about their privacy practices and compliance with applicable laws and regulations, including their maintenance of adequate privacy policies that disclose and permit our data collection practices. Nonetheless, there are many circumstances in which it is difficult or impossible for us to monitor or evaluate their compliance. For example, we cannot control the content of seller's media properties, and we are often unable to determine exactly what information a buyer collects after an ad has been placed, and how the buyer uses any such collected information. If buyers or sellers fail to abide by relevant laws, rules and regulations, or contract requirements, when transacting over our platform, or after such a transaction is completed, we could potentially face liability for such misuse. Similarly, if such misconduct results in enforcement action by a regulatory body or other governmental authority, we could become involved in a potentially time-consuming and costly investigation or we could be subject to some form of sanction or penalty. We may not have adequate indemnity to protect us against, and our policies of insurance may not cover, such claims and losses.

Our business relationships expose us to risk of substantial liability for contract breach, violation of laws and regulations, intellectual property infringement and other losses, and our contractual indemnities and limitations of liability may not protect us adequately.

Our agreements with sellers, buyers and other third parties typically obligate us to provide indemnity and defense for losses resulting from claims of intellectual property infringement, damages to property or persons, business losses or other liabilities. Generally, these indemnity and defense obligations relate to our own business operations, obligations and acts or omissions. However, under some circumstances, we agree to indemnify and defend contract counterparties against losses resulting from their own business operations, obligations and acts or omissions, or the business operations, obligations and acts or omissions of third parties. For example, because our business interposes us between buyers and sellers in various ways, buyers often require us to indemnify them against acts and omissions of sellers, and sellers often require us to indemnify them against acts and omissions of buyers. In addition, our agreements with sellers, buyers and other third parties typically include provisions limiting our liability to the counterparty and the counterparty's liability to us. These limits sometimes do not apply to certain liabilities, including indemnity obligations. These indemnity and limitation of liability provisions generally survive termination or expiration of the agreements in which they appear.

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We have limited ability to control acts and omissions of buyers and sellers or other third parties that could trigger our indemnity obligations, and our policies of insurance may not cover us for acts and omissions of others. We attempt to obtain indemnity from buyers and sellers (as well as other third parties) to protect us in case we become liable for their acts and omissions, but because we contract with many buyers and sellers and those contracts are individually negotiated with different scopes of indemnity and different limits of liability, it is possible that in any case our obligation to provide indemnity for the acts or omissions of a third party such as a buyer or seller may exceed what we are able to recover from that party. Further, contractual limits on our liability may not apply to our indemnity obligations, contractual limits on our counterparties' liability may limit what we can recover from them, and contract counterparties may be unable to meet their obligations to indemnify and defend us as a result of insolvency or other factors. Large indemnity obligations, or obligations to third parties not adequately covered by the indemnity obligations of our contract counterparties, could expose us to significant costs.

In addition to the effects on indemnity described above, the limitation of liability provisions in our contracts may, depending upon the circumstances, be too high to protect us from significant liability for our own acts or omissions, or so low as to prevent us from recovering fully for the acts or omissions of our counterparties.

Our solution relies on third-party open source software components. Failure to comply with the terms of the underlying open source software licenses could expose us to liabilities, and the combination of certain open source software with code that we develop could compromise the proprietary nature of our solution.

Our solution utilizes 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 lower development effort and time and ultimately put us at a competitive disadvantage.

Although we monitor our use of open source software in an effort to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on us. 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 using our solution on terms that are not economically feasible, to re-engineer our solution 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.

Risks Relating to Our Operations

Real or perceived errors or failures in the operation of our solution could damage our reputation and impair our sales.

Our solution processes over 12 trillion bid requests per month and must operate without interruption to support the needs of sellers and buyers. Because our software is complex, undetected errors and failures may occur, especially when new versions or updates are made to our software or network infrastructure or changes are made to sellers' or buyers' software interfacing with our solution. Errors or bugs in our software, faulty algorithms, technical or infrastructure problems, or updates to our systems could lead to an inability to effect transactions or process data to place advertisements or price inventory effectively, cause the inadvertent disclosure of proprietary data, or cause advertisements to display improperly or be placed in proximity to inappropriate content. 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, changes to our solution have in the past caused errors in the reporting and analytics applications for buyers, resulting in delays in their spending on our platform. Errors or failures in our solution, even if caused by the implementation of changes by buyers or sellers to their systems, could also result in negative publicity, disclosure of confidential information, damage to our 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.

We may make errors in the measurement of transactions conducted through our solution, causing discrepancies with the measurements of buyers and sellers, which can lead to a lack in confidence in us and require us to reduce our fees or provide refunds to buyers and sellers. 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.

Various risks could interrupt access to our network infrastructure or data, exposing us to significant costs and other liabilities.

Our revenue depends on the technological ability of our solution to deliver and measure advertising impressions, and the operation of our exchange and our ability to place impressions depend on the continuing and uninterrupted performance of our IT systems. Our platform operates on our data processing equipment that is housed in third-party commercial data centers that we do not control. In addition, our systems interact with systems of buyers and sellers and their contractors. All of these facilities and systems are vulnerable to interruption and/or damage from a number of sources, many of which are beyond our control, including, without limitation: (i) power loss, loss of adequate cooling, and telecommunications failures; (ii) fire, flood, earthquake, hurricane, and other natural disasters; (iii) software and hardware errors, failures, or crashes; (iv) financial insolvency; and (v) computer viruses, malware, hacking, terrorism, and similar disruptive problems. In particular, intentional cyber-attacks present a serious issue because they are difficult to prevent and remediate and can be used to defraud our buyers and sellers and their customers and to steal confidential or proprietary data from us, our customers, or their users. Further, because our Los Angeles headquarters and San Francisco offices and our California data center sites are in seismically active areas, earthquakes present a particularly serious risk of business disruption. These vulnerabilities may increase with the complexity and scope of our systems and their interactions with buyer and seller systems.

We attempt to mitigate these risks to our business through various means, including redundant infrastructure, disaster recovery plans, separate test systems, and change control and system security measures, but our precautions may not protect against all problems, and our ability to mitigate risks to related third-party systems is limited. In addition, we rely to a significant degree upon security and business continuity measures of our data center operators, which may be ineffective. Our disaster recovery and business continuity plans rely upon third-party providers of related services, and if those vendors fail us, we could be unable to meet the needs of buyers and sellers. Any steps we take to increase the reliability and redundancy of our systems may be expensive and may not be successful in preventing system failures.

Any failures with our solution or delays in the execution of transactions through our system may result in the loss of advertising placements on impressions and, as a result, the loss of revenue. Our facilities would be costly to repair or replace, and any such efforts would likely require substantial time.

Buyers may attribute to us any technical disruption or failure in the performance of advertisements on sellers' digital media properties, harming our reputation and resulting in buyers seeking to avoid payment or demand future credits for disruptions or failures. If we are unable to operate our exchange and deliver advertising impressions successfully, our ability to attract potential buyers and sellers and retain and expand business with existing buyers and sellers could be harmed.

Malfunction or failure of our systems, or other systems that interact with our systems, or inaccessibility or corruption of data, could disrupt our operations and negatively affect our business and results of operations to a level in excess of any applicable business interruption insurance, result in potential liability to buyers and sellers, and negatively affect our reputation and ability to sell our solution.

Any breach of our computer systems or confidential data in our possession could expose us to significant expense and liabilities and harm our reputation.

We maintain our own confidential and proprietary information in our IT systems, and we control or have access to confidential, proprietary, and personal data belonging or related to sellers, buyers, and their clients, as well as vendors and business partners. Our clients and various third parties also have access to our confidential and proprietary information. We take steps to protect the security, integrity and confidentiality of this data, but there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this data despite our efforts.

We are subject to ongoing security threats and breaches, computer malware, computer hacking attacks, and inadvertent transmission of computer viruses or other harmful software code may occur on our systems or those of our clients, business partners, or information technology vendors. Security measures undertaken by us, our vendors, and our buyers and sellers may be ineffective as a result of employee error, failure to implement appropriate processes and procedures, malfeasance, cyber-attacks, cyber-extortion or other intentional misconduct by computer hackers, "phishing" or other tactics to obtain illicit system access, or otherwise. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, and because we typically are not able to control the efficacy of security measures implemented by our clients and vendors, we may be unable to anticipate these techniques or to implement adequate preventative or mitigation measures.

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Though it is difficult to determine what harm may directly result from any specific interruption or breach, any security incident could disrupt computer systems or networks, interfere with services to our sellers, buyers, or their clients, and result in unauthorized access to personally identifiable information, intellectual property, and other confidential business information owned by us or our buyers, sellers, or vendors. As a result, we could be exposed to legal claims and litigation, indemnity obligations, regulatory fines and penalties, contractual obligations, other liabilities, significant costs for remediation and re-engineering to prevent future occurrences, significant distraction to our business, and damage to our reputation, our relationships with buyers and sellers, and our ability to retain and attract new buyers and sellers. If personally identifiable information is compromised, we may be required to undertake notification and remediation procedures, provide indemnity, and undergo regulatory investigations and penalties, all of which can be extremely costly and result in adverse publicity.

Failure to maintain the brand security features of our solution could harm our reputation and expose us to liabilities.

Auction-based advertising is bought and sold through our solution in automated transactions that occur in milliseconds. It is important to sellers that the advertising placed on their media not conflict with existing seller arrangements and be of high quality, consistent with applicable seller standards and compliant with applicable legal and regulatory requirements. It is important to buyers that their advertisements are placed on appropriate media, in proximity with appropriate content, that the impressions for which they are charged are legitimate, and that their advertising campaigns yield their desired results. We use various measures, including proprietary technology, in an effort to store, manage and process rules set by buyers and sellers and to ensure the quality and integrity of the results delivered to sellers and buyers through our solution. If we fail to properly implement or honor rules established by buyers and sellers, or if our measures are not adequate, advertisements may be improperly placed through our platform, which can result in harm to our reputation as well as the need to pay refunds and other potential legal liabilities.

If we fail to detect or prevent fraud, intrusion of malware through our platform into the systems or devices of our clients and their customers, or other actions that impact the integrity of our solution or advertisement performance, sellers and buyers could lose confidence in our solution and we could face legal claims, which would cause our business to suffer. If we terminate relationships with sellers as a result of our screening efforts, our volume of paid impressions may decline.

We have in the past, and may in the future, be subject to fraudulent and malicious activities undertaken by persons seeking to use our platform for improper purposes, including to divert or artificially inflate the purchases by buyers through our platform, or to disrupt or divert the operation of the systems and devices of our clients and their customers to misappropriate information, generate fraudulent billings, stage hostile attacks, or for other illicit purposes. Examples of such activities include the use of bots or other automated or manual mechanisms to generate fraudulent impressions that are delivered through our platform, which could overstate the performance of advertising impressions. Such activities could also include the introduction of malware through our platform by persons seeking to commandeer, or gain access to information on, consumers' devices. We use proprietary technology to identify non-human inventory and traffic, as well as malware, and we generally terminate relationships with parties that appear to be engaging in such activities, which may result in fewer paid impressions in the year the relationships are terminated than would have otherwise occurred. Because buyers will frequently re-allocate campaigns to other sellers, and there may be alternative sources of demand to replace any buyer, it is difficult to measure the precise impact on paid impressions and revenue from the loss of these customers. Although we assess the quality and performance of advertising on sellers' digital media properties, it may be difficult to detect fraudulent or malicious activity because we do not own content and we rely in part on sellers and buyers for controls with respect to such activity. Further, perpetrators of fraudulent impressions and malware change their tactics and may become more sophisticated, requiring us to improve over time our processes for assessing the quality of sellers' inventory and controlling fraudulent activity. If we fail to detect or prevent fraudulent or other malicious activity, we could face legal claims from customers and/or consumers and the affected advertisers may experience or perceive a reduced return on their investment or heightened risk associated with use of our solution, resulting in dissatisfaction with our solution, refusals to pay, refund demands, loss of confidence of buyers or sellers, or withdrawal of future business. We could experience similar consequences if inventory sold through our platform is not viewable by the consumer for technical or other reasons.

Any acquisitions we undertake may disrupt our business, adversely affect operations, and dilute stockholders.

Acquisitions have been an important element of our business strategy. We expect to continue to pursue acquisitions in an effort to increase revenue, expand our market position, add to our service offering and technological capabilities, respond to dynamic market conditions, or for other strategic or financial purposes. However, there is no assurance that we will identify suitable acquisition candidates or complete any acquisitions on favorable terms, or at all. Further, the acquisitions we do complete would involve a number of risks, including the following:

- The identification, acquisition, and integration of acquired businesses require substantial attention from management. The diversion of management's attention and any difficulties encountered in the transition process could hurt our business.

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- The identification, acquisition, and integration of acquired businesses requires significant investment, including to determine which new service offerings we might wish to acquire, harmonize service offerings, expand management capabilities and market presence, and improve or increase development efforts and technology features and functions.
- The anticipated benefits from the acquisition may not be achieved, including as a result of loss of customers or personnel of the target, other difficulties in supporting and transitioning the target's customers, the inability to realize expected synergies from an acquisition, or negative culture effects arising from the integration of new personnel.
- We may face difficulties in integrating the personnel, technologies, solutions, operations, and existing contracts of the acquired business.
- We may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company, technology, or solution, including issues related to intellectual property, solution quality or architecture, income tax and other regulatory compliance practices, revenue recognition or other accounting practices, or employee or customer issues.
- To pay for future acquisitions, we could issue additional shares of our common stock or pay cash. Issuance of shares would dilute stockholders. Use of cash reserves could diminish our ability to respond to other opportunities or challenges. Borrowing to fund any cash purchase price would result in increased fixed obligations and could also include covenants or other restrictions that would impair our ability to manage our operations.
- Acquisitions expose us to the risk of assumed known and unknown liabilities including contract, tax, and other obligations incurred by the acquired business or fines or penalties, for which indemnity obligations, escrow arrangements or insurance may not be available or may not be sufficient to provide coverage.
- New business acquisitions can generate significant intangible assets that result in substantial related amortization charges and possible impairments.
- The operations of acquired businesses, or our adaptation of those operations, may require that we apply revenue recognition or other accounting methodologies, assumptions, and estimates that are different from those we use in our current business, which could complicate our financial statements, expose us to additional accounting and audit costs, and increase the risk of accounting errors.
- Acquired businesses may have insufficient internal controls that we must remediate, and the integration of acquired businesses may require us to modify or enhance our own internal controls, in each case resulting in increased administrative expense and risk that we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or that our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, resulting in late filing of our periodic reports, loss of investor confidence, regulatory investigations, and litigation.
- Acquisition of businesses based outside the U.S. would require us to operate in foreign languages and manage non-U.S. currency, billing, and contracting needs and require us to comply with laws and regulations, including labor laws and privacy laws that in some cases may be more restrictive on our operations than laws applicable to our business in the U.S.
- Acquisitions can sometimes lead to disputes with the former owners of the acquired company, which can result in increased legal expenses, management distraction and the risk that we may suffer an adverse judgment if we are not the prevailing party in the dispute.

The purchase price allocation for any acquisition we complete is generally not finalized until well after the closing of the acquisition, and any final adjustment to the valuation could have a material change on what is reported as the fair value assigned to the assets and liabilities.

The final purchase price allocation for any acquisition we complete depends upon the finalization of asset and liability valuations, among other things. The valuation studies necessary to estimate the fair values of acquired assets and assumed liabilities and the related allocation of purchase price may not be finalized until well after the closing of the acquisition. Initially, we allocate the total estimated purchase price to the acquired assets and assumed liabilities based on preliminary estimates of their fair values. The final determination of these fair values is subsequently determined based upon the actual net tangible and intangible assets that existed on the closing date of the acquisition. Any final adjustment could change the fair values assigned to the assets and liabilities, resulting in a change to our consolidated financial statements, including a change to goodwill. Such change could be material.

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If we fail to attract, motivate, train, and retain highly qualified engineering, marketing, sales and management personnel, our ability to execute our business strategy could be impaired.

We rely to a significant degree upon our founder and Chief Executive Officer, Frank Addante, and our President, Gregory R. Raifman, for their strategic vision, industry knowledge, management execution, and leadership. The loss of either of them would have a significant adverse effect upon our business.

In addition, our success depends significantly upon our ability to recruit, train, motivate, and retain key technology, engineering, sales, and management personnel. We are a technology-driven company and it is imperative that we have highly skilled mathematicians, computer scientists, engineers and engineering management to innovate and deliver our complex solutions. Increasing our base of buyers and sellers depends to a significant extent on our ability to expand our sales and marketing operations and activities, and our solution requires a sophisticated sales force with specific sales skills and specialized technical knowledge that takes time to develop. Appropriately qualified personnel can be difficult to recruit and retain. In addition, as we execute on our international expansion strategy, we will encounter staffing challenges that are unique to a particular country or region, such as recruiting and retaining qualified personnel in foreign countries and difficulty managing such personnel and integrating them into our culture. In particular, it may be difficult to find qualified sales personnel in international markets, or sales personnel with experience in emerging segments of the market. Skilled and experienced management is critical to our ability to achieve revenue growth, execute against our strategic vision and maintain our performance through the growth and change we anticipate. For certain of our key employees, a significant portion of their equity ownership is vested. As a result, it may be more difficult, and require additional equity awards, for us to continue to retain and motivate these team members.

Competition for employees with experience in our industry can be intense, particularly in California, New York and London, where our operations and the operations of other digital media companies are concentrated and where other technology companies compete for management and engineering talent. Other employers may be able to provide better compensation, more diverse opportunities and better chances for career advancement. None of our founders, officers, or other key employees has an employment agreement for a specific term, and any of such individuals may terminate his or her employment with us at any time.

It can be difficult, time-consuming, and expensive to recruit personnel with the combination of skills and attributes required to execute our business strategy, 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. These challenges will increase as we grow. New hires require significant training and it may take significant time (often six months or more) 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 before new hires contribute to sales or productivity, and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training. Moreover, new employees may not be or become as productive as we expect, and we may face challenges in adequately or appropriately integrating them into our workforce and culture. At times we have experienced elevated levels of unwanted attrition, and as our organization grows and changes and competition for talent increases, this type of attrition may increase.

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.

Our proprietary rights may be difficult to enforce, which could enable others to copy or use aspects of our solution without compensating us, thereby eroding our competitive advantages and harming our business.

Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop or otherwise acquire, so that we can prevent others from using our inventions and proprietary information. Establishing trade secret, copyright, trademark, domain name, and patent protection is difficult and expensive. We rely on trademark, copyright, trade secret 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 seven issued patents, ten pending U.S. patent applications and two pending patent applications in Canada, valid patents may not be issued from our pending applications. Further, the claims of our issued patents or the claims eventually allowed on any pending applications 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, time-consuming, and uncertain, and we may not be able to prosecute all necessary or desirable patent applications to successful conclusion at a reasonable cost or in a timely manner. 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, and the steps we take to protect our proprietary information may not prevent misappropriation of our technology and proprietary information or infringement of our intellectual property rights. Policing unauthorized use of our technology and intellectual property is difficult. We may be required to protect our intellectual property in an increasing number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location. Our competitors and others could attempt to capitalize on our brand recognition by using domain names or business names similar to ours, and we may be unable to prevent third parties from acquiring or using domain names and other trademarks that infringe on, are similar to, or otherwise decrease the value of our brands, trademarks or service marks. 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. Also, despite the steps we have taken to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse engineer aspects of our technology or otherwise obtain and use information that we regard as proprietary, or to develop technologies similar or superior to our technology or design around our proprietary rights.

From time to time, we may take legal action to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, or defend against claims of infringement. Such litigation could result in substantial costs and the diversion of limited resources, and might not be successful. If we are unable to protect our proprietary rights (including aspects of our technology solution) 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 technology and intellectual property.

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

The digital advertising industry is characterized by the existence of large numbers of patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights. Companies in this industry are often required to defend against litigation claims that are based on allegations of infringement or other violations of intellectual property rights.

Third parties may assert claims of infringement or misappropriation of intellectual property rights against us or buyers, sellers, or third parties with which we work; we cannot be certain that we are not infringing any third-party intellectual property rights, and we may have liability or indemnification obligations as a result of such claims. As a result of disclosure of information in filings required of a public company, our business and financial condition are visible, which may result in threatened or actual litigation, including by competitors and other third parties. Regardless of whether claims that we are infringing patents or infringing or misappropriating other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend, and can impose a significant burden on management and employees. The outcome of any claim is inherently uncertain, and we may receive unfavorable interim or preliminary rulings in the course of litigation. There can be no assurances that favorable final outcomes will be obtained in all cases. We may decide to settle lawsuits and disputes on terms that are unfavorable to us. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. Although third parties may offer a license to their technology or intellectual property, 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, results of operations or financial condition 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 or intellectual property licensed to us. Alternatively, we may be required to develop non-infringing technology or to make other changes, such as to our branding, 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. Claims of intellectual property infringement or misappropriation also could result in injunctive relief against us, or otherwise result in delays or stoppages in providing all or certain aspects of our solution.

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We are subject to government regulations concerning our employees, including wage-hour laws and taxes.
We are subject to applicable rules and regulations relating to our relationship with our employees, including health benefits, sick days, unemployment and similar taxes, overtime and working conditions, equal pay, immigration status, and classification of employee benefits for tax purposes. Legislated increases in labor cost components, such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Many employers nationally have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, and failure to provide meal and rest breaks or pay for missed breaks, with such actions sometimes brought as class actions, and these actions can result in material liabilities and expenses. Federal and state standards for classifying employees under wage-hour laws differ and are often unclear or require application of judgment, and classification may need to be changed as employment duties evolve over time. We may misclassify employees and be subject to liability as a result. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break and working time, it may distract our management from business matters and result in increased labor costs.
Risks Related to Our International Business Strategy
Our international operations and expansion plans require increased expenditures and impose additional risks and compliance imperatives, and failure to execute successfully our international plans will adversely affect our growth and operating results.
We have numerous operations outside of North America, in Northern and Southern Europe, Australia, Japan, Singapore, and Brazil. Our expansion plans are also focused on other Asian and Latin American countries, and other countries in Europe, but many of these plans are nascent. We view further international expansion as imperative, and we expect our international operations to contribute significantly to our future growth, particularly through the mobile business, which could provide access to vast user populations in China and the developing world. However, our experience operating outside the United States is still limited. Achievement of our international objectives will require a significant amount of attention from our management, finance, legal, analytics, operations, sales, and engineering teams, as well as significant investment in developing the technology infrastructure necessary to deliver our solution and establishing sales, delivery, support, and administrative capabilities in the countries where we operate. Attracting new buyers and sellers outside the United States may require more time and expense than in the United States, in part due to language barriers, the need to educate such buyers and sellers about our solution, and we may not be successful in establishing and maintaining these relationships. The data center and telecommunications infrastructure in some overseas markets may not be as reliable as in North America and Europe, which could disrupt our operations. In addition, our international operations will require us to develop and administer our internal controls and legal and compliance practices in countries with different cultural norms, languages, currencies, legal requirements, and business practices than the United States.
International operations also impose risks and challenges in addition to those faced in the United States, including management of a distributed workforce; the need to adapt our offering to satisfy local requirements and standards (including differing privacy policies and labor laws that are sometimes more stringent); laws and business practices that may favor local competitors; legal requirements or business expectations that agreements be drafted and negotiated in the local language and disputes be resolved in local courts according to local laws; the need to enable transactions in local currencies; longer accounts receivable payment cycles and other collection difficulties; the effect of global and regional recessions and economic and political instability; potentially adverse tax consequences in the United States and abroad; staffing challenges, including difficulty in recruiting and retaining qualified personnel as well as managing such a diversity in personnel; reduced or ineffective protection of our intellectual property rights in some countries; and costs and restrictions affecting the repatriation of funds to the United States.
One or more of these requirements and risks may make our international operations more difficult and expensive or less successful than we expect, and may preclude us from operating in some markets. There is no assurance that our international expansion efforts will be successful, and we may not generate sufficient revenue or margins from our international business to cover our expenses or contribute to our growth.

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Operating in multiple countries requires us to comply with different legal and regulatory requirements.

Our international operations subject us to laws and regulations of multiple jurisdictions, as well as U.S. laws governing international operations, which are often evolving and sometimes conflict. For example, the Foreign Corrupt Practices Act, or FCPA, and comparable foreign laws and regulations (including the U.K. Bribery Act) prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. Other laws and regulations prohibit bribery of private parties and other forms of corruption. As we expand our international operations, there is some risk of unauthorized payment or offers of payment or other inappropriate conduct by one of our employees, consultants, agents, or other contractors, including by persons engaged or employed by a business we acquire, which could result in violation by us of various laws, including the FCPA. Safeguards we implement to discourage these practices may prove to be ineffective and violations of the FCPA and other laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, including class action lawsuits and enforcement actions from the SEC, Department of Justice, and foreign regulators. Other laws applicable to our international business include local employment, tax, privacy, data security, and intellectual property protection laws and regulations, including restrictions on movement of information about individuals beyond national borders. In some cases, buyers and sellers operating in non-U.S. markets may impose additional requirements on our non-U.S. business in efforts to comply with their interpretation of their own or our legal obligations. These requirements may differ significantly from the requirements applicable to our business in the United States and may require engineering, infrastructure and other costly resources to accommodate, and may result in decreased operational efficiencies and performance. As these laws continue to evolve and we expand to more jurisdictions or acquire new businesses, compliance will become more complex and expensive, and the risk of non-compliance will increase.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business abroad, and violation of these laws or regulations may interfere with our ability to offer our solution competitively in one or more countries, expose us or our employees to fines and penalties, and result in the limitation or prohibition of our conduct of business. As we continue to grow, we will need to expand into new geographies and learn the regulatory and business laws and customs of each new geography. The Chinese government could exercise significant influence or control over our business operations. The Chinese government has recently announced plans to require certain foreign companies operating in China to submit their software and other technology to intrusive security testing, include indigenous Chinese intellectual property and encryption technology in their software, disclose source code and other proprietary information to the Chinese government, and engineer their products to restrict the flow of data outside of China. It is not clear whether such requirements would apply to us, but our operations could attract Chinese government scrutiny as a result of our significant consumer reach and large database. Also, any censorship of websites and content served on computers in mainland China could result in latency with respect to our services in mainland China if our servers are located in Hong Kong or otherwise outside of mainland China, which could significantly impair our ability to process the auction impressions on a timely basis or our ability generally to facilitate the serving of advertisements in China. These factors could result in increased operational expense, and if we are not able to comply with these new regulatory requirements, our business, results of operations and prospects may be adversely affected.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

Our operations are subject to U.S. export controls, specifically the Export Administration Regulations, or EAR, and economic sanctions enforced by the Office of Foreign Assets Control. These regulations limit and control export of encryption technology. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments, and persons targeted by U.S. sanctions. We incorporate encryption technology into the servers that operate our solution. As a result of locating some servers in data centers outside of the United States, we must comply with these export control laws.

In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to deploy our technology or our customers' ability to use our solution in those countries. Changes in our technology or changes in export and import regulations may delay introduction of our solution or the deployment of our technology in international markets, prevent our customers with international operations from using our solution globally or, in some cases, prevent the export or import of our technology to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our solution by, or in our decreased ability to export our technology to, international markets.

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Fluctuations in the exchange rates of foreign currencies could result in currency transaction losses.

We currently have transactions denominated in various non-U.S. currencies, and may, in the future, have sales denominated in the currencies of additional countries. In addition, we incur a portion of our expenses in non-U.S. currencies, and to the extent we need to convert currency to pay expenses, we are exposed to potentially unfavorable changes in exchange rates and added transaction costs. We expect international transactions to become an increasingly important part of our business, and such transactions may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in relevant currency exchange rates may negatively impact our business, financial condition and results of operations. We have not previously engaged in foreign currency hedging, and any effort to hedge our foreign currency exposure may not be effective due to lack of experience, unreasonable costs or illiquid markets. In addition, hedging may not protect against all foreign currency fluctuations and can result in losses.

Risks Related to Our Internal Controls and Finances

Failure to maintain effective internal controls could cause our investors to lose confidence in us and adversely affect the market price of our common stock. If our internal controls are not effective, we may not be able to accurately report our financial results or prevent fraud.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we maintain internal control over financial reporting that meets applicable standards and report on the effectiveness of our internal controls and any material weaknesses we identify. When we are no longer an "emerging growth company" we will also need to provide a statement that our independent registered public accounting firm has issued an opinion on our internal control over financial reporting. We may err in the design or operation of our controls, and all internal control systems, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Because there are inherent limitations in all control systems, there can be no absolute assurance that all control issues have been or will be detected. We previously identified certain material weaknesses in our internal controls which were remediated during 2014. However, completion of remediation does not provide assurance that our remediated controls will continue to operate properly or that our financial statements will be free from error. There may be undetected material weaknesses in our internal control over financial reporting, as a result of which we may not detect financial statement errors on a timely basis. Moreover, in the future we may implement new offerings and engage in business transactions, such as acquisitions, reorganizations, or implementation of new information systems that could require us to develop and implement new controls and could negatively affect our internal control over financial reporting and result in material weaknesses.

If we identify new material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, or, once required, if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, we may be unable, or be perceived as unable, to produce timely and reliable financial reports, investors may 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 such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition, or divert financial and management resources from our core business.

Impairment of intangible assets could increase our expenses.

A portion of our assets consists of capitalized software development costs, as well as goodwill and other intangible assets acquired in connection with acquisitions. Current accounting standards require us to evaluate goodwill on an annual basis and other intangibles if certain triggering events occur, and adjust the carrying value of these assets to net realizable value when such testing reveals impairment of the assets. Various factors, including regulatory or competitive changes, could affect the value of our intangible assets. If we are required to write down the value of our goodwill or intangible assets due to impairment, our reported expenses will increase, resulting in a corresponding decrease in our reported profit.

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Our accounting is becoming more complex, and relies upon estimates or judgments relating to our critical accounting policies. If our accounting is erroneous or based on assumptions that change or prove to be incorrect, our operating results could fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.
The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and also to comply with many complex requirements and standards. We devote substantial resources to compliance with accounting requirements and we base our estimates on our best judgment, historical experience, information derived from third parties, and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. However, various factors are causing our accounting to become complex. As a result of the introduction of different transaction types in our intent marketing business beginning in April 2015, we use both gross and net revenue reporting, as opposed to our historical use only of net reporting, and the determination of gross versus net treatment for various transactions requires application of complex rules and exercise of judgment and can be uncertain. Further, our recent acquisitions have imposed purchase accounting requirements, required us to integrate accounting personnel, systems, and processes, necessitated various consolidation and elimination adjustments, and imposed additional filing and audit requirements. Ongoing evolution of our business, and any future acquisitions, will compound these complexities. Our operating results may be adversely affected if we make accounting errors or our judgments prove to be wrong, assumptions change or actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors or guidance we may have provided, resulting in a decline in our stock price and potential legal claims. Significant judgments, assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, stock-based compensation, purchase accounting, and income taxes.
We report a portion of our revenue on a gross basis. The combination of gross and net revenue reporting may make our financial reporting more complex and difficult to predict and understand.
The recognition of our revenue is governed by certain criteria that must be met and that determine whether we report revenue either on a gross basis, as a principal, or net basis, as an agent, depending upon the nature of the sales transaction. Before April 2015, we reported our revenue on a net basis, but beginning in April 2015 we commenced an intent marketing offering by which we offer buyers dynamic CPM pricing for inventory acquisition in support of their advertising campaigns. We do not charge fees for this service; instead we attempt to acquire inventory for buyers at prices that satisfy their campaign objectives while allowing us to retain a margin. We report revenue from these transactions on a gross basis, and gross reporting results in higher GAAP revenue and lower GAAP margins on a particular amount of managed revenue (advertising spending) than for an equivalent level of managed revenue (advertising spending) for which we report revenue on a net basis, even though the take rate on the transactions reported gross may be higher than the take rate on transactions reported net. The portion of our revenue reported gross may increase as a result of growth in our intent marketing services, as well as through the evolution of our business to include other transactions for which revenue is reported on a gross basis, due to substantive changes in our business, such as through acquisitions, changes to the commercial terms with buyers and sellers or structural changes to our existing business, or due to changes in accounting standards or interpretations. It is also possible that revenue reporting for existing business may change from gross to net or vice versa as a result of changes in contract terms or transaction mechanics. We may experience significant fluctuations in revenue in future periods depending upon, in part, the nature of our sales and our reporting of such revenue and related accounting treatment, without proportionate correlation to our underlying activity or net income. The combination of net and gross revenue reporting, and potential changes from one to the other in various parts of our business, may make our financial reporting more complex and difficult for investors to understand, and may make comparison of our results of operations to prior periods or other companies more difficult. As our business evolves, the need to consider the use of gross reporting more broadly for different kinds of transactions and the potential for changes in reporting for particular elements of our business will require application of judgment and could increase the potential for reporting errors.

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In order to provide guidance or make other projections regarding our expectations of revenue for future periods, we must make estimates and assumptions about the mix of gross and net-reported transactions based upon the volumes and characteristics of the transactions we think will make up the total mix of revenue in the period covered by the projection. Those estimates and assumptions may be inaccurate when made, or may be rendered inaccurate by circumstances occurring after the guidance is given, such as changing the characteristics of our offerings or particular transactions in response to client demands, market developments, regulatory pressures, acquisitions, and other factors. In addition, the rules governing revenue recognition in our business are complex, and the rules or their interpretation may evolve. Even apparently minor changes in transaction terms from those initially envisioned can result in different accounting conclusions from those foreseen. In addition, we may incorrectly extrapolate from revenue recognition treatment of prior transactions to future transactions that we believe are similar, but that ultimately are determined to have different characteristics that dictate different revenue reporting treatment. As a result, it is possible that our projections of revenue guidance may vary, possibly significantly, from actual results, or comparisons of our projections from period to period may be difficult, resulting in potential confusion and even claims against us based upon alleged inaccuracy of our projections.

Our tax liabilities may be greater than anticipated.

The U.S. and non-U.S. tax laws applicable to our business activities are subject to interpretation. We are subject to audit by the Internal Revenue Service and by taxing authorities of the state, local, and foreign jurisdictions in which we operate. Our tax obligations are based in part on our corporate operating structure, including the manner in which we develop, value, and use our intellectual property and sell our solutions, the jurisdictions in which we operate, how tax authorities assess revenue-based taxes such as sales and use taxes, the scope of our international operations, and the value we ascribe to our intercompany transactions. Taxing authorities may challenge our tax positions and methodologies for valuing developed technology or intercompany arrangements, as well as our positions regarding jurisdictions in which we are subject to certain taxes, which could expose us to additional taxes and increase our worldwide effective tax rate. Any adverse outcomes of such challenges to our tax positions could result in additional taxes for prior periods, interest, and penalties, as well as higher future taxes. In addition, our future tax expense could increase as a result of changes in tax laws, regulations, or accounting principles, or as a result of earning income in jurisdictions that have higher tax rates. An increase in our tax expense could have a negative effect on our financial position and results of operations. Moreover, the determination of our provision (benefit) for income taxes and other tax liabilities requires significant estimates and judgment by management, and the tax treatment of certain transactions is uncertain. Although we believe we will make reasonable estimates and judgments, the ultimate outcome of any particular issue may differ from the amounts previously recorded in our financial statements and any such occurrence could materially affect our financial position and results of operations.

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Our ability to use our net operating losses and tax credit carryforwards to offset future taxable income may be subject to certain limitations, which could result in higher tax liabilities.

Our ability to fully utilize our net operating loss and tax credit carryforwards to offset future taxable income may be limited. At December 31, 2015, we had U.S. federal net operating loss carryforwards, or NOLs, of approximately $59.8 million, state NOLs of approximately $54.8 million, foreign NOLs of approximately $13.7 million, federal research and development tax credit carryforwards, or credit carryforwards, of approximately $6.1 million, state credit carryforwards of approximately $5.1 million, and foreign credit carryforwards of approximately $0.5 million. A lack of future taxable income would adversely affect our ability to utilize these NOLs and credit carryforwards. In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, and comparable state income tax laws, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs and credit carryforwards to offset future taxable income following the ownership change. As a result, future changes in our stock ownership, including because of issuance of shares of common stock in connection with acquisitions or other direct or indirect changes in our ownership that may be outside of our control, could result in limitations on our ability to fully utilize our NOLs and credit carryforwards. The Company had an ownership change on December 31, 2015 subjecting the federal and state NOLs to an annual limitation. Additionally, the Company had an ownership change in January 2008 and $2.3 million of federal and state NOLs are already subject to limitation under Section 382 of the Code. Additionally, approximately $3.4 million of our federal NOLs and approximately $3.4 million of our state NOLs were generated during the pre-acquisition period by corporations that we acquired, and thus those NOLs already are subject to limitation under Section 382 of the Code and comparable state income tax laws. Also, depending on the level of our taxable income, all or a portion of our NOLs and credit carryforwards may expire unutilized, which could prevent us from offsetting future taxable income by the entire amount of our current and future NOLs and credit carryforwards. We have recorded a full valuation allowance related to our NOLs, credit carryforwards, and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets. To the extent we determine that all, or a portion of, our valuation allowance is no longer necessary, we will reverse the valuation allowance and recognize an income tax benefit in the reported financial statement earnings in that period. Once the valuation allowance is eliminated or reduced, its reversal will no longer be available to offset our current financial statement tax provision in future periods. Given our anticipated future taxable earnings, we believe that there is a reasonable possibility that, within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the domestic valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain net deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

We may require additional capital to support growth, and such capital might not be available on terms acceptable to us, if at all. Inability to obtain financing could limit our ability to conduct necessary operating activities and make strategic investments.

We intend to continue to make investments in pursuit of our strategic objectives and to support our business growth. Various business challenges may require additional funds, including the need to respond to competitive threats or market evolution by developing new solutions and improving our operating infrastructure, either through additional hiring or acquisition of complementary businesses or technologies, or both. In addition, we could incur significant expenses or shortfalls in anticipated cash generated as a result of unanticipated events in our business or competitive, regulatory, or other changes in our market, or longer payment cycles required or imposed by our buyers.

Our available cash and cash equivalents, the cash we anticipate generating from operations, and our available line of credit under our credit facility may not be adequate to meet our capital needs, and therefore we may need to engage in equity or debt financings to secure additional funds. 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 may be adversely affected.

If we do 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. In addition, if we issue debt, the holders of that debt would have prior claims on the Company's assets, and in case of insolvency, the claims of creditors would be satisfied before distribution of value to equity holders, which would result in significant reduction or total loss of the value of our equity.

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Our credit facility subjects us to operating restrictions and financial covenants that impose risk of default and may restrict our business and financing activities.

We have a $40.0 million credit facility with Silicon Valley Bank. At June 30, 2016, we had no amounts outstanding under this facility. Borrowings are secured by substantially all of our tangible personal property assets and all of our intangible assets are subject to a negative pledge in favor of Silicon Valley Bank. This credit facility is subject to certain financial ratio and liquidity covenants, as well as restrictions that limit our ability, among other things, to:

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

These covenants may restrict our ability to finance our operations and to pursue our business activities and strategies. Our ability to comply with these covenants may be affected by events beyond our control. If a default were to occur and not be waived, such default could cause, among other remedies, all of the outstanding indebtedness under our loan and security agreement to become immediately due and payable. In such an event, our liquid assets might not be sufficient to meet our repayment obligations, and we might be forced to liquidate collateral assets at unfavorable prices or our assets may be foreclosed upon and sold at unfavorable valuations.

Our ability to renew our existing credit facility, which matures in September 2018, or to enter into a new credit facility to replace or supplement the existing facility may be limited due to various factors, including the status of our business, global credit market conditions, and perceptions of our business or industry by sources of financing. In addition, if credit is available, lenders may seek more restrictive covenants and higher interest rates that may reduce our borrowing capacity, increase our costs, and reduce our operating flexibility.

If we make borrowings under the facility and 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. Our inability to obtain financing may negatively impact our ability to operate and continue our business as a going concern.

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

The price of our common stock may be volatile and the value of an investment in our common stock could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has fluctuated substantially and may continue to do so. These fluctuations could result in significant decreases in the value of an investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new offerings, products, services or technologies, commercial relationships, acquisitions, or other events by us or our competitors;
- price and volume fluctuations in the overall stock market 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;
- actual or anticipated changes in the expectations of investors or securities analysts, and whether our results of operations meet these expectations;
- litigation involving us, our industry, or both;
- regulatory developments in the United States, foreign countries, or both;

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- general economic conditions and trends;
- major catastrophic events;
- breaches or system outages;
- departures of officers or other key employees; or
- an adverse impact on the company resulting from other causes, including any of the other risks described in this report.

In addition, if the market for technology stocks or the stock market, in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business. 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, volatility in the market price of a company's securities has often resulted in securities litigation being brought against that company. Declines in the price of our common stock, even following increases, may result in securities litigation against us, which would result in substantial costs and divert our management's attention and resources from our business.

Our equity compensation and acquisition practices expose our stockholders to dilution.

We have relied and may continue to rely heavily upon equity compensation, and consequently our outstanding unvested equity awards represent substantial dilution to our stockholders. In addition, we have used our common stock as consideration for acquisitions of other companies, and we anticipate using shares of our common stock or securities convertible into our common stock from time to time in connection with financings, acquisitions, investments, or other transactions. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline. As of July 25, 2016, we had 48,920,591 shares of common stock outstanding, including 1,242,830 shares of unvested restricted stock issued under our various equity incentive plans. At that date, we also had outstanding under our equity incentive plans 3,236,776 unvested restricted stock units and 4,315,518 stock options, of which 2,579,000 were vested at a weighted-average exercise price of $9.63 per share and 1,736,518 were unvested. All of these outstanding stock awards, together with an additional 2,808,330 shares of our common stock reserved for issuance under our equity incentive plans and 1,100,149 shares of common stock reserved under our 2014 Employee Stock Purchase Plan, and any increase in the shares available pursuant to the plans' evergreen provisions (if applicable), are registered for offer and sale on Form S-8 under the Securities Act of 1933. We also intend to register the offer and sale of all other shares of common stock that may be authorized under our current or future equity compensation plans, issued under equity plans we may assume in acquisitions, or issued as inducement awards under New York Stock Exchange rules. Shares registered under these registration statements on Form S-8 will be available for sale in the public market subject to vesting arrangements and exercise of options, our Insider Trading Policy trading blackouts, and the restrictions of Rule 144 in the case of our affiliates.

Insiders and certain large stockholders have substantial control over us, which could limit investors' ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers, and stockholders who own greater than 5% of our outstanding common stock may 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 other investors and may vote in a manner that is adverse to investors' interests. This concentration of ownership may have the effect of deterring, delaying, or preventing a change of control of the company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of the company, and might ultimately affect the market price of our common stock.

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Our public float is still relatively small, increasing the risk that sales by significant holders could adversely affect the market price for our stock.

A significant portion of our outstanding shares are held by pre-IPO investors and employees. In addition, institutional investors may from time to time accumulate relatively large amounts of our publicly traded shares. The average daily trading volume for our common stock during 2015 was 411,080 shares. In addition, we are relatively new to the public markets and not well known to many analysts, investors, and others who could influence demand for our shares. Further, because we are a relatively small company without an established history of profitability, the range of investors willing to invest in our shares may be relatively limited. As a result of these factors, our shares can be susceptible to sudden, rapid declines in price, especially when large blocks of shares are sold. Under our Insider Trading Policy, we impose trading blackouts during the period beginning on or about the fifteenth day of the last month of each quarter and ending after two trading days following the filing of our next quarterly report on Form 10-Q or Annual Report on Form 10-K. A substantial number of our employees are limited to selling their equity incentive plan shares during these open windows. In addition, our employee restricted stock and restricted stock unit awards typically vest each May 15 and November 15, and are subject to automatic sale arrangements at those dates to cover taxes accruing on vesting. Finally, shares we issue as consideration for acquisitions may be subject to lock-up arrangements that expire in large numbers on certain dates. These insider trading windows, restricted stock vesting mechanics, and acquisition stock arrangements tend to concentrate selling into certain periods, and the resulting sales pressure can cause the trading price of our common stock to decline at those times. Sales of a substantial number of such shares, or the perception that such sales may occur, could cause our share price to fall or make it more difficult for investors to sell our common stock at a time and price that they deem appropriate, and could also impair our ability to raise capital through the sale of equity securities.

Competition for investors could adversely affect the price of our stock.

There are many companies in the advertising technology or "ad tech" space, but we are one of a relatively small portion of those companies that is publicly traded. Some of the other publicly traded ad tech companies are substantially larger than us and have more diversified offerings, or may be perceived by investors as having greater stability or growth potential. Others may be focused on parts of the business that investors may view as more appealing. Ad tech or related advertising companies that are not yet public may become public, and publicly traded companies may enter the ad tech business through acquisitions. Increase in the number of publicly traded companies available to investors wishing to invest in ad tech may result in a decrease in demand for our shares, either because overall demand for ad tech investment does not increase commensurately with the increase in public companies in the ad tech space, or because we are not perceived as competitively differentiated or offering superior value compared to other such companies. Decrease in demand for our shares would result in suppressed growth, or decrease, in the value of our stock.

Our business could be negatively affected as a result of actions of activist stockholders.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. If we are targeted by an activist stockholder in the future, the process could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Additionally, perceived uncertainties as to our future direction as a result of stockholder activism or changes to the composition of our board of directors may lead to the perception of a change in the direction of our business, instability or lack of continuity, which may be exploited by our competitors, cause concern to current or potential buyers and sellers on our platform, who may choose to transact with our competitors instead of us, and make it more difficult to attract and retain qualified personnel.

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

The trading market for our common stock to some extent depends on the research and reports that securities or industry analysts publish about us. We do not control these analysts, and their reports or analyst consensus may not reflect our guidance, plans, or expectations. If one or more of the analysts who cover us downgrades our shares or expresses a negative opinion of our business prospects, our share price could decline. If one or more of these analysts

decreases or ceases coverage of our company, 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, investors' ability to achieve a return on their investment will depend on appreciation in the price of our common stock.
We have never declared or paid any dividends and we do not anticipate paying any cash dividends in the foreseeable future. In addition, our credit facility contains restrictions on our ability to pay dividends. As a result, investors may only receive a return on their investment in our common stock if the market price of our common stock increases.

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Provisions of our charter documents and Delaware law may inhibit a potential acquisition of the company and limit the ability of stockholders to cause changes in company management.

Our amended and restated certificate of incorporation and amended and restated bylaws include provisions, as described below, that could delay or prevent a change in control of the company, and make it difficult for stockholders to elect directors who are not nominated by the current members of our board of directors or take other actions to change company management.

- Our certificate of incorporation gives our board of directors the authority to issue shares of preferred stock in one or more series, and to establish the number of shares in each series and to fix the price, designations, powers, preferences and relative, participating, optional or other rights, if any, and the qualifications, limitations, or restrictions of each series of the preferred stock without any further vote or action by stockholders. The issuance of shares of preferred stock may discourage, delay or prevent a merger or acquisition of the company by significantly diluting the ownership of a hostile acquirer, resulting in the loss of voting power and reduced ability to cause a takeover or effect other changes.
- Our certificate of incorporation provides that our board of directors is classified, with only one of its three classes elected each year, and directors may be removed only for cause and only with the vote of 66 $^{2}/_{3}$% of the voting power of stock outstanding and entitled to vote thereon. Further, the number of directors is determined solely by our board of directors, and because we do not allow for cumulative voting rights, holders of a majority of shares of common stock entitled to vote may elect all of the directors standing for election. These provisions could delay the ability of stockholders to change the membership of a majority of our board of directors.
- Under our bylaws, only the board of directors or a majority of remaining directors, even if less than a quorum, may fill vacancies resulting from an increase in the authorized number of directors or the resignation, death or removal of a director.
- Our certificate of incorporation prohibits stockholder action by written consent, so any action by stockholders may only be taken at an annual or special meeting.
- Our certificate of incorporation provides that a special meeting of stockholders may be called only by the board of directors. This could delay any effort by stockholders to force consideration of a proposal or to take action, including the removal of directors.
- Under our bylaws, advance notice must be given to nominate directors or submit proposals for consideration at stockholders' meetings. This gives our board of directors time to defend against takeover attempts and could discourage or deter a potential acquirer from soliciting proxies or making proposals related to an unsolicited takeover attempt.
- The provisions of our certificate of incorporation noted above may be amended only with the affirmative vote of holders of at least 66 $^{2}/_{3}$% of the voting power of all of the then-outstanding shares of the company's voting stock, voting together as a single class. The same two-thirds vote is required to amend the provision of our certificate of incorporation imposing these supermajority voting requirements. Further, our bylaws may be amended only by our board of directors or by the same percentage vote of stockholders noted above as required to amend our certificate of incorporation. These supermajority voting requirements may inhibit the ability of a potential acquirer to effect such amendments to facilitate an unsolicited takeover attempt.
- Our board of directors may amend our bylaws by majority vote. This could allow the board to use bylaw amendments to delay or prevent an unsolicited takeover, and limits the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt.

We are also subject to Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in any business combination with an interested stockholder for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. These provisions make it more difficult for stockholders or potential acquirers to acquire the company without negotiation and may apply even if some of our stockholders consider the proposed transaction beneficial to them. For example, these provisions might discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer were to be at a premium over the then current market price for our common stock. These provisions could also limit the price that investors are willing to pay in the future for shares of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(a) Recent Sales 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. 333-193739), which was declared effective on April 1, 2014. 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.

(c) Purchases of Equity Securities by the Company and Affiliated Purchasers
In May 2016 we purchased 341,438 shares of our common stock at an average price of $14.31. All these purchases reflect shares withheld upon vesting of restricted stock and restricted stock units for minimum tax withholding obligations.
We presently have no publicly announced repurchase plan or program.

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SIGNATURES

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.

THE RUBICON PROJECT, INC.
(Registrant)

/s/ David Day
David Day
Chief Financial Officer and Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: August 4, 2016

EXHIBIT INDEX

Number	Description
3.1	Sixth Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2014).
3.2	Amended and Restated Bylaws the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 8, 2016).
31.1*	Certification of 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.
31.2*	Certification of 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.
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.
101.ins*(2)	XBRL Instance Document
101.sch*(2)	XBRL Taxonomy Schema Linkbase Document
101.cal*(2)	XBRL Taxonomy Calculation Linkbase Document
101.def*(2)	XBRL Taxonomy Definition Linkbase Document
101.lab*(2)	XBRL Taxonomy Label Linkbase Document
101.pre*(2)	XBRL Taxonomy Presentation Linkbase Document

*Filed herewith

(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, or the Exchange Act, and is not to be incorporated by reference into any filing of The Rubicon Project, Inc. under the Securities Act of 1933, as amended, or 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.