

ROCKET FUEL

Q3 2016 Earnings Call

Supplemental Material as of
October 25, 2016



CAUTIONS REGARDING FORWARD LOOKING STATEMENTS

This presentation contains “forward-looking” statements regarding future events and financial performance, including but not limited to our expectations for fourth quarter non-GAAP net revenue, media margins and non-GAAP adjusted EBITDA; and our anticipated cash flows.

These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from the results anticipated by such statements, including our limited operating history, particularly as a relatively new public company; fluctuations in our operating results, including but not limited to fluctuations due to seasonality; our history of losses; our ability to realize the expected benefits of our operating efficiency improvement plans; risks due to employee attrition and integration of new leadership and employees; risks associated with our growth, including growth outside of the U.S.; risks associated with margin shifts in the industry; our ability to adequately address competition, particularly from agency trading desks; our ability to serve the needs of agencies and agency holding companies and make the right investment decisions with regard to new products, technology and sales strategies; risks associated with maintaining or increasing sales to new and existing customers and maintaining customer satisfaction. Additional factors that could cause actual results to differ materially from those anticipated by our forward-looking statements are under the caption “Risk Factors” in our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2016.

The statements in this presentation are made as of October 25, 2016, and we expressly disclaim any obligation to update any information contained in these forward-looking statements for any reason, except to the extent required by applicable law.

We encourage investors to consider all of our publicly filed materials before making an investment decision. Investors may get our most recent Form 10-K, filed on March 14, 2016, and all other documents we file with the SEC, for free at www.sec.gov.

Q316 Financial Results Summary

- GAAP Revenue of \$109.7M was down 6% sequentially compared to \$117.0M in Q216, and down 2% year-over-year compared to \$111.8M in Q315, primarily due to lower than expected political spend and lower than expected business in International.
- Non-GAAP Net Revenue of \$62.6M was slightly below guidance range of \$63-\$66M, and was down 5% sequentially compared to \$66.0M in Q216 on lower GAAP Revenue despite maintaining relatively flat margins. Non-GAAP Net Revenue for Q316 was down 8% year-over-year compared to \$68.2M in Q315 due to a 4-point decline in margin as we continue to transition our business towards more Platform Solutions, which typically yield lower margins.
- Non-GAAP Operating Expenses of \$56.0M were down 9% sequentially compared to \$61.8M in Q216, and down 13% year-over-year compared to \$64.7M in Q315, reflecting our continued efforts to improve the cost of our operations.
- Non-GAAP Adjusted EBITDA of \$6.6M was up \$2.4M sequentially compared to \$4.2M in Q216, and up \$3.2M compared to \$3.4M in Q315, in both cases due to improvements in our cost structure.
- Non-GAAP Free Cash Flow of \$3.8M due to higher Adjusted EBITDA and our focus on cash management.
- GAAP Revenue from Top 50 and Top 250 customers increased to 59% and 86% of total GAAP revenue, up compared to 49% and 80% in Q315.

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.



Definitions

Media Services and Platform Solutions

Media Services is our managed service offering where we execute Insertion Orders on behalf of agencies for their clients, and on behalf of direct clients. Platform Solutions include (i) what we have recently referred to as our self-serve DSP, (ii) our DMP technologies and (iii) professional services we provide to customers to help them implement and operate our platforms.

Channel and Direct

Channel is principally agencies. We are seeking to expand into other channel opportunities such as systems integrators, marketing services firms and resellers. Direct is when a customer purchases our solution from us directly.

Brand and Direct Response

Brand comprises video, including pTV. We are categorizing all non-video revenues into Direct Response. As we supplement our Brand offerings over time, we will disclose those additional offerings to the extent included in Brand revenue.

Summary Financial Metrics

	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15
Revenue	\$ 109.7 M	\$ 117.0 M	\$ 104.7 M	\$ 125.4 M	\$ 111.8 M
Non-GAAP Net Revenue	\$ 62.6 M	\$ 66.0 M	\$ 62.2 M	\$ 74.7 M	\$ 68.2 M
Non-GAAP Operating Expenses	\$ 56.0 M	\$ 61.8 M	\$ 64.8 M	\$ 65.8 M	\$ 64.7 M
Non-GAAP Adjusted EBITDA	\$ 6.6 M	\$ 4.2 M	\$ (2.6) M	\$ 8.9 M	\$ 3.4 M
Non-GAAP Adjusted Net Loss	\$ (3.6) M	\$ (6.7) M	\$ (12.0) M	\$ (1.8) M	\$ (7.0) M

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.



GAAP Revenue Breakdown

	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15
Geography					
North America	83 %	79 %	81 %	81 %	84 %
International	17 %	21 %	19 %	19 %	16 %
Product					
Media Services	81 %	82 %	84 %	89 %	92 %
Platform Solutions (1)	19 %	18 %	16 %	11 %	8 %

Note: Breakouts based on Total GAAP Revenue.
 (1) Includes DSP Self-Serve, DMP and Professional Services revenues from supporting self-serve clients.



GAAP Revenue Breakdown

	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15
Product					
Direct Response	93 %	93 %	92 %	94 %	94 %
Brand (Video)	7 %	7 %	8 %	6 %	6 %
Channel/Direct					
Channel	73 %	71 %	71 %	73 %	75 %
Direct	27 %	29 %	29 %	27 %	25 %
Customer Spend (1)					
Top 50	59 %	53 %	52 %	46 %	49 %
Top 250	86 %	82 %	83 %	79 %	80 %

Note: Breakouts based on Total GAAP Revenue.

(1) Platform customers and their advertisers are now treated as a single customer. Previously, advertisers of platform customers were considered separately. Percentages have been revised versus our Q116 presentation to reflect this change.



Additional Financial Metrics

	Q3'16	Q2'16	Q1'16	Q4'15	Q3'15
Cash and Cash Equivalents	\$ 78.7 M	\$ 66.7 M	\$ 67.4 M	\$ 78.6 M	\$ 83.1 M
Debt (1)	\$ 87.8 M	\$ 78.9 M	\$ 80.5 M	\$ 83.8 M	\$ 83.4 M
Capital Expenditures	\$ (4.5) M	\$ (4.3) M	\$ (4.7) M	\$ (3.9) M	\$ (3.9) M
Non-GAAP Free Cash Flow	\$ 3.8 M	\$ 0.9 M	\$ (7.5) M	\$ (1.8) M	\$ 5.6 M
DSO	94	89	95	91	90
Employee Headcount	858	899	917	954	962

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP.

A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.

(1) Includes capital lease obligations.



Q4 2016 Financial Outlook

Q4 2016

Non-GAAP Net Revenue	\$57 - \$62 million
Media Margins	~7-point decline sequentially
Non-GAAP Adjusted EBITDA	\$1 - \$6 million

GAAP Consolidated Statements of Operations

(In thousands, except loss per share data)

	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$ 102,098	\$ 139,504	\$ 104,334	\$ 120,065	\$ 111,836	\$ 125,401	\$ 104,745	\$ 116,968	\$ 109,720
Costs and expenses:									
Media costs	43,006	62,834	45,561	49,155	43,673	50,700	42,559	50,922	47,092
Other cost of revenue	11,946	19,819	19,956	19,826	20,105	19,980	20,085	20,397	22,790
Research and development	11,200	12,919	11,323	11,791	11,022	10,786	10,639	9,438	7,913
Sales and marketing	40,421	42,461	42,878	41,750	41,681	39,831	36,840	36,190	29,084
General and administrative	19,320	18,750	17,574	14,761	12,328	13,691	14,321	12,765	11,912
Impairment of goodwill	-	-	-	-	117,521	-	-	-	-
Restructuring	-	-	-	6,471	-	922	(199)	1,766	-
Total costs and expenses	125,893	156,783	137,292	143,754	246,330	135,910	124,245	131,478	118,791
Operating loss	(23,795)	(17,279)	(32,958)	(23,689)	(134,494)	(10,509)	(19,500)	(14,510)	(9,071)
Interest expense	1,157	1,007	1,340	1,045	1,087	1,090	1,237	1,032	1,082
Other (income) expense, net	1,999	2,824	2,208	(696)	797	803	(194)	866	411
Loss before income taxes	(26,951)	(21,110)	(36,506)	(24,038)	(136,378)	(12,402)	(20,543)	(16,408)	(10,564)
Income tax provision (benefit)	(4,120)	(614)	357	372	213	279	230	285	171
Net loss	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)	\$ (16,693)	\$ (10,735)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.61)	\$ (0.49)	\$ (0.88)	\$ (0.58)	\$ (3.19)	\$ (0.29)	\$ (0.48)	\$ (0.38)	\$ (0.24)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	37,230	41,486	41,981	42,296	42,763	43,150	43,601	44,048	44,353

Non-GAAP Consolidated Statements of Operations

(In thousands, except loss per share data)

	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$ 102,098	\$ 139,504	\$ 104,334	\$ 120,065	\$ 111,836	\$ 125,401	\$ 104,745	\$ 116,968	\$ 109,720
Media costs	43,006	62,834	45,561	49,155	43,673	50,700	42,559	50,922	47,092
Non-GAAP Net Revenue	59,092	76,670	58,773	70,911	68,163	74,701	62,186	66,046	62,628
Non-GAAP Operating Expenses	62,046	73,826	72,399	69,517	64,741	65,802	64,811	61,827	56,041
Non-GAAP Adjusted EBITDA	(2,954)	2,844	(13,626)	1,394	3,422	8,899	(2,625)	4,219	6,587
Adjustments:									
Depreciation and amortization expense	5,749	11,111	11,866	12,158	14,055	12,684	12,264	12,881	12,546
Stock-based compensation expense	5,929	6,645	7,447	6,434	6,307	5,785	4,810	4,082	3,112
Restructuring expense	-	-	-	6,471	-	922	(199)	1,766	-
Acquisition expense	9,136	2,240	-	-	-	-	-	-	-
Payroll tax expense related to stock-based compensation	27	127	19	20	33	17	-	-	-
Impairment of goodwill	-	-	-	-	117,521	-	-	-	-
Total adjustments	20,842	20,123	19,332	25,084	137,916	19,408	16,876	18,729	15,658
Operating loss	(23,795)	(17,279)	(32,958)	(23,689)	(134,494)	(10,509)	(19,500)	(14,510)	(9,071)
Interest expense	1,157	1,007	1,340	1,045	1,087	1,090	1,237	1,032	1,082
Other (income) expense, net	1,999	2,824	2,208	(696)	797	803	(194)	866	411
Loss before income taxes	(26,951)	(21,110)	(36,506)	(24,038)	(136,378)	(12,402)	(20,543)	(16,408)	(10,564)
Income tax provision (benefit)	(4,120)	(614)	357	372	213	279	230	285	171
Net loss	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)	\$ (16,693)	\$ (10,735)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.61)	\$ (0.49)	\$ (0.88)	\$ (0.58)	\$ (3.19)	\$ (0.29)	\$ (0.48)	\$ (0.38)	\$ (0.24)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	37,230	41,486	41,981	42,296	42,763	43,150	43,601	44,048	44,353
Media Margin (% of Revenue)	57.9%	55.0%	56.3%	59.1%	60.9%	59.6%	59.4%	56.5%	57.1%

Note: A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.



Consolidated Balance Sheets

(In thousands)

	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Assets									
Current Assets:									
Cash and cash equivalents	\$ 111,632	\$ 107,056	\$ 92,055	\$ 81,065	\$ 83,083	\$ 78,560	\$ 67,392	\$ 66,664	\$ 78,663
Accounts receivable, net	116,229	135,400	112,689	119,423	110,660	124,998	109,821	114,038	113,169
Deferred tax assets, net	1,154	1,716	1,716	1,716	1,709	-	-	-	-
Prepaid expenses	3,974	3,698	4,029	3,167	3,499	3,803	4,474	3,071	2,812
Other current assets	15,331	12,531	6,915	6,847	1,689	2,081	2,987	3,895	4,034
Total current assets	248,320	260,401	217,404	212,218	200,640	209,442	184,674	187,668	198,678
Property, equipment and software, net	78,217	89,441	91,752	86,719	87,647	82,781	75,715	68,524	65,431
Restricted cash	3,010	2,915	2,188	2,304	2,235	2,141	2,002	1,876	1,839
Intangible assets, net	73,525	69,299	65,072	60,845	55,046	50,919	46,792	42,665	38,639
Goodwill	114,871	115,412	115,412	115,412	-	-	-	-	-
Deferred tax assets, net	-	-	-	-	-	718	722	525	676
Other assets	1,198	1,797	1,364	1,620	1,326	1,053	1,059	1,243	640
Total assets	\$ 519,141	\$ 539,265	\$ 493,192	\$ 479,118	\$ 346,894	\$ 347,054	\$ 310,964	\$ 302,501	\$ 305,903
Liabilities and Stockholders' Equity									
Current Liabilities:									
Accounts payable	\$ 65,284	\$ 76,085	\$ 63,408	\$ 63,305	\$ 61,414	\$ 71,292	\$ 59,999	\$ 64,059	\$ 64,068
Accrued and other current liabilities	33,268	33,258	28,833	32,740	32,484	40,734	34,596	33,745	33,623
Deferred revenue	1,251	593	3,124	1,931	1,651	2,116	1,642	1,988	3,556
Current portion of capital leases	2,695	5,482	5,691	6,233	7,421	8,602	8,723	8,737	8,807
Current portion of debt	45,990	45,705	45,720	45,720	45,720	45,720	61,957	62,035	71,112
Total current liabilities	148,488	161,123	146,776	149,929	148,690	168,464	166,917	170,564	181,166
Debt - Less current portion	15,965	23,335	21,907	20,477	19,047	17,617	-	-	-
Capital leases - Less current portion	5,024	12,341	11,156	10,649	11,257	11,855	9,793	8,148	7,911
Deferred rent - Less current portion	24,260	26,818	26,521	25,498	24,955	14,042	14,866	15,897	15,254
Deferred tax liabilities	2,231	2,068	2,044	1,949	2,061	39	-	-	-
Other liabilities	543	814	808	1,204	1,171	1,137	1,143	1,311	850
Total liabilities	196,511	226,499	209,212	209,706	207,181	213,154	192,719	195,920	205,181
Stockholders' Equity:									
Common stock	41	42	42	43	43	44	44	44	45
Additional paid-in capital	410,923	421,630	429,816	439,542	446,410	453,338	458,631	463,959	468,907
Accumulated other comprehensive loss	(44)	(120)	(229)	(113)	(88)	(151)	(326)	(625)	(698)
Accumulated deficit	(88,290)	(108,786)	(145,649)	(170,060)	(306,652)	(319,331)	(340,104)	(356,797)	(367,532)
Total stockholders' equity	322,630	312,766	283,980	269,412	139,713	133,900	118,245	106,581	100,722
Total Liabilities and Stockholders' Equity	\$ 519,141	\$ 539,265	\$ 493,192	\$ 479,118	\$ 346,894	\$ 347,054	\$ 310,964	\$ 302,501	\$ 305,903

Consolidated Statements of Cash Flows

(In thousands)

	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
OPERATING ACTIVITIES:									
Net Loss	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)	\$ (16,693)	\$ (10,735)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:									
Impairment of goodwill	-	-	-	-	117,521	-	-	-	-
Depreciation and amortization	5,749	11,111	11,866	12,157	14,055	12,684	12,264	12,881	12,546
Impairment of leasehold improvements	-	-	-	2,704	-	3,929	-	3,533	-
Stock-based compensation	5,952	6,645	7,447	6,434	6,307	5,785	4,810	4,082	3,112
Deferred taxes	-	(1,618)	285	(305)	20	(379)	-	-	(152)
Excess tax benefit from stock-based activity	(16)	(99)	-	-	-	-	-	-	-
Other non-cash adjustments, net	189	483	509	535	71	384	1,350	450	1,110
Changes in operating assets and liabilities, net of effects of acquisition:									
Accounts receivable	(1,883)	(20,072)	22,549	(7,187)	8,771	(14,858)	14,103	(4,001)	(173)
Prepaid expenses and other assets	2,216	3,245	5,379	939	3,574	(764)	(1,796)	(413)	1,109
Accounts payable	14,173	13,027	(14,812)	3,274	(2,093)	9,616	(10,846)	3,054	857
Accrued and other liabilities	(4,180)	484	(4,271)	4,453	(1,671)	1,758	(1,851)	3,727	(539)
Deferred rent	4,722	3,597	1,184	(294)	(206)	(3,868)	(3,074)	(3,029)	(392)
Deferred revenue	(134)	(657)	2,530	(1,192)	(280)	465	(474)	346	1,568
Net cash (used in) provided by operating activities	3,957	(4,350)	(4,197)	(2,892)	9,478	2,071	(2,754)	5,155	8,310
INVESTING ACTIVITIES:									
Purchases of property, equipment and software	(21,145)	(7,579)	(5,519)	(4,566)	(712)	(715)	(1,787)	(1,268)	(1,977)
Business acquisition, net	(97,444)	-	-	-	(367)	-	-	-	-
Capitalized internal use software development costs	(1,904)	(2,141)	(3,076)	(2,972)	(3,159)	(3,195)	(2,924)	(3,000)	(2,496)
Proceeds from sale of fixed assets	-	-	-	-	-	-	293	-	92
Change in restricted cash	-	-	636	-	-	53	39	-	-
Net cash used in investing activities	(120,493)	(9,720)	(7,959)	(7,538)	(4,238)	(3,857)	(4,379)	(4,268)	(4,381)
FINANCING ACTIVITIES:									
Proceeds from the issuance of common stock in public offering, net of underwriting discounts and commission and issuance costs	273	-	-	-	-	-	-	1,052	1,632
Proceeds from employee stock plans, net	796	3,712	189	2,950	234	1,146	28	-	174
Excess tax benefit from stock-based activity	16	99	-	-	-	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	(188)	(326)	-	(533)	(441)	(458)	(241)	(368)	(411)
Repayment of capital lease obligations	(129)	(776)	(1,090)	(1,665)	(1,582)	(1,902)	(2,092)	(2,126)	(2,191)
Proceeds from debt facilities, net of issuance costs	35,000	9,479	(242)	-	-	-	22,350	-	9,000
Repayment of debt facilities	(11,133)	(2,445)	(1,500)	(1,500)	(1,500)	(1,500)	(24,000)	-	-
Net cash (used in) provided by financing activities	24,635	9,743	(2,643)	(748)	(3,289)	(2,714)	(3,955)	(1,442)	8,204
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS									
	(7)	(249)	(202)	188	67	(23)	(80)	(173)	(134)
CHANGE IN CASH AND CASH EQUIVALENTS	(91,908)	(4,576)	(15,001)	(10,990)	2,018	(4,523)	(11,168)	(728)	11,999
CASH AND CASH EQUIVALENTS—Beginning of period	203,540	111,632	107,056	92,055	81,065	83,083	78,560	67,392	66,664
CASH AND CASH EQUIVALENTS—End of period	\$ 111,632	\$ 107,056	\$ 92,055	\$ 81,065	\$ 83,083	\$ 78,560	\$ 67,392	\$ 66,664	\$ 78,663

Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.
UNAUDITED RECONCILIATION FROM GAAP REVENUE TO NON-GAAP NET REVENUE
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 109,720	\$ 111,836	\$ 331,433	\$ 336,235
Less: Media costs	47,092	43,673	140,573	138,389
Non-GAAP net revenue	<u>\$ 62,628</u>	<u>\$ 68,163</u>	<u>\$ 190,860</u>	<u>\$ 197,846</u>

Note: Non-GAAP net revenue is defined as GAAP revenue less media costs. Media costs consist of costs for advertising impressions we purchase from real-time advertising exchanges or other third parties.



Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.
UNAUDITED RECONCILIATION FROM GAAP NET LOSS TO NON-GAAP ADJUSTED EBITDA
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (10,735)	\$ (136,591)	\$ (48,201)	\$ (197,864)
Adjustments:				
Interest expense	1,082	1,087	3,351	3,472
Income tax provision (benefit)	171	213	686	942
Amortization of intangibles	4,026	5,798	12,280	14,251
Amortization of capitalized software	2,891	2,027	7,924	5,471
Depreciation	5,629	6,230	17,487	18,356
Stock-based compensation expense	3,112	6,307	12,004	20,188
Other (income) expense, net	411	797	1,083	2,309
Restructuring expense (credit), net	—	—	1,567	6,471
Payroll tax expense related to stock-based compensation	—	33	—	73
Impairment of goodwill	—	117,521	—	117,521
Total adjustments	17,322	140,013	56,382	189,054
Non-GAAP adjusted EBITDA	<u>\$ 6,587</u>	<u>\$ 3,422</u>	<u>\$ 8,181</u>	<u>\$ (8,810)</u>

Note: Non-GAAP adjusted EBITDA is defined as GAAP net income (loss) before interest expense, other income (expense), net, income tax provision (benefit), depreciation and amortization expense (including amortization of capitalized software development expenses), stock-based compensation expense and related payroll taxes, acquisition and restructuring related expenses, and impairment charges.

Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.
UNAUDITED RECONCILIATION FROM GAAP NET LOSS TO NON-GAAP ADJUSTED NET INCOME (LOSS)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (10,735)	\$(136,591)	\$ (48,201)	\$ (197,864)
Stock-based compensation expense	3,112	6,307	12,004	20,188
Amortization of intangible assets	4,026	5,799	12,280	14,253
Restructuring expense (credit), net	—	—	1,567	6,471
Tax impact of the above items	—	7	—	198
Impairment of goodwill	—	117,521	\$ —	117,521
Non-GAAP adjusted net income (loss)	<u>\$ (3,597)</u>	<u>\$ (6,957)</u>	<u>\$ (22,350)</u>	<u>\$ (39,233)</u>
Basic and diluted net income (loss) per share attributable to common stockholders	<u>\$ (0.24)</u>	<u>\$ (3.19)</u>	<u>\$ (1.09)</u>	<u>\$ (4.67)</u>
Non-GAAP adjusted net income (loss) per diluted share	<u>\$ (0.08)</u>	<u>\$ (0.16)</u>	<u>\$ (0.51)</u>	<u>\$ (0.93)</u>
Weighted average shares used in computing non-GAAP adjusted net income (loss) per diluted share	<u>44,353</u>	<u>42,763</u>	<u>44,167</u>	<u>42,350</u>

Note: Non-GAAP adjusted net income (loss) is defined as GAAP net income (loss) excluding stock-based compensation expense, amortization of intangible assets, impairment charges, acquisition and restructuring related expenses and the estimated tax impact of the foregoing items.

Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.

UNAUDITED RECONCILIATION FROM GAAP TOTAL COSTS AND EXPENSES TO NON-GAAP OPERATING EXPENSES

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total costs and expenses	\$ 118,791	\$ 246,330	\$ 374,514	\$ 527,376
Less media costs	47,092	43,673	140,573	138,389
Adjustments:				
Amortization of intangibles	4,026	5,798	12,280	14,251
Amortization of capitalized software	2,891	2,027	7,924	5,471
Depreciation	5,629	6,230	17,487	18,356
Stock-based compensation	3,112	6,307	12,004	20,188
Restructuring expense (credit), net	—	—	1,567	6,471
Payroll tax expense related to stock based compensation	—	33	—	73
Impairment of goodwill	—	117,521	—	117,521
Total adjustments	15,658	137,916	51,262	182,331
Non-GAAP operating expenses	\$ 56,041	\$ 64,741	\$ 182,679	\$ 206,656

Note: Non-GAAP operating expenses is defined as GAAP total costs and expenses less media costs, depreciation and amortization expense (including amortization of capitalized software development costs), impairment charges, stock-based compensation expense and related payroll taxes, and acquisition and restructuring related expense.

Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.
UNAUDITED RECONCILIATION FROM CASH PROVIDED BY (USED IN) OPERATING
ACTIVITIES TO NON-GAAP FREE CASH FLOW
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cash provided by (used in) operating activities	8,310	9,478	10,711	2,389
Less: Purchases of property, equipment and software	(1,977)	(712)	(5,032)	(10,797)
Less: Capitalized internal-use software development costs	(2,496)	(3,159)	(8,420)	(9,207)
Non-GAAP free cash flow	<u>\$ 3,837</u>	<u>\$ 5,607</u>	<u>\$ (2,741)</u>	<u>\$ (17,615)</u>

Note: Non-GAAP free cash flow is defined as net cash provided by (or used in) operating activities less the cash used for purchases of property, equipment and software and for capitalized internal-use software development costs.

