

# ROCKET FUEL INC.

## FORM 10-Q (Quarterly Report)

Filed 05/10/16 for the Period Ending 03/31/16

|             |   |
|-------------|---|
| Address     | 1900 SEAPORT BLVD<br>REDWOOD CITY, CA 94063       |
| Telephone   | 650-595-1300                                      |
| CIK         | 0001477200  |
| Symbol      | FUEL  |
| SIC Code    | 7370 - Computer Programming, Data Processing, And |
| Industry    | Software & Programming                            |
| Sector      | Technology  |
| Fiscal Year | 12/31   |

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36071

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**ROCKET FUEL INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**30-0472319**

(I.R.S. Employer Identification Number)

**1900 Seaport Boulevard, Pacific Shores Center, Redwood City, CA 94063**

(Address of principal executive offices and Zip Code)

**(650) 595-1300**

(Registrant's telephone number, including area code)

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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  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  No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. On April 30, 2016, there were 43,858,580 shares of the registrant's common stock, par value \$0.001, outstanding.

**EMERGING GROWTH COMPANY**

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

**ROCKET FUEL INC.**  
**FORM 10-Q**  
**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |             |
| <u>Item 1.</u>   | <u>4</u>    |
| <u>Financial Statements (Unaudited)</u>  |             |
| <u>Condensed Consolidated Balance Sheets</u>   | <u>4</u>    |
| <u>Condensed Consolidated Statements of Operations</u>                                       | <u>5</u>    |
| <u>Condensed Consolidated Statements of Comprehensive Loss</u>                               | <u>6</u>    |
| <u>Condensed Consolidated Statements of Cash Flows</u>                                       | <u>7</u>    |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                  | <u>9</u>    |
| <u>Item 2.</u>   | <u>20</u>   |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |             |
| <u>Item 3.</u>   | <u>37</u>   |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            |             |
| <u>Item 4.</u>   | <u>37</u>   |
| <u>Controls and Procedures</u>   |             |
| <br>   |             |
| <b><u>PART II OTHER INFORMATION</u></b>  |             |
| <u>Item 1.</u>   | <u>38</u>   |
| <u>Legal Proceedings</u>   |             |
| <u>Item 1A.</u>  | <u>39</u>   |
| <u>Risk Factors</u>  |             |
| <u>Item 2.</u>   | <u>64</u>   |
| <u>Unregistered Sales of Equity Securities and use of Proceeds</u>                           |             |
| <u>Item 3.</u>   | <u>64</u>   |
| <u>Defaults upon Senior Securities</u>   |             |
| <u>Item 4.</u>   | <u>64</u>   |
| <u>Mine Safety Disclosures</u>   |             |
| <u>Item 5.</u>   | <u>65</u>   |
| <u>Other Information</u>   |             |
| <u>Item 6.</u>   | <u>65</u>   |
| <u>Exhibits</u>  |             |
| <u>Signature</u>   | <u>66</u>   |

**TRADEMARKS**

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

**PART I****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

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

|   | March 31,<br>2016 | December 31,<br>2015 |
|---|-------------------|----------------------|
| <b>Assets</b>   |                   |                      |
| Current Assets:   |                   |                      |
| Cash and cash equivalents   | \$ 67,392         | \$ 78,560            |
| Accounts receivable, net  | 109,821           | 124,998              |
| Prepaid expenses  | 4,474             | 3,803                |
| Other current assets  | 2,987             | 2,081                |
| Total current assets  | 184,674           | 209,442              |
| Property, equipment and software, net   | 75,715            | 82,781               |
| Restricted cash   | 2,002             | 2,141                |
| Intangible assets, net  | 46,792            | 50,919               |
| Deferred tax assets, net  | 722               | 718                  |
| Other assets  | 1,059             | 1,053                |
| Total assets  | \$ 310,964        | \$ 347,054           |
| <b>Liabilities and Stockholders' Equity</b>   |                   |                      |
| Current Liabilities:  |                   |                      |
| Accounts payable  | \$ 59,999         | \$ 71,292            |
| Accrued and other current liabilities   | 34,596            | 40,734               |
| Deferred revenue  | 1,642             | 2,116                |
| Current portion of capital leases   | 8,723             | 8,602                |
| Current portion of debt   | 61,957            | 45,720               |
| Total current liabilities   | 166,917           | 168,464              |
| Debt—Less current portion   | —                 | 17,617               |
| Capital leases—Less current portion   | 9,793             | 11,855               |
| Deferred rent—Less current portion  | 14,866            | 14,042               |
| Other liabilities   | 1,143             | 1,176                |
| Total liabilities   | 192,719           | 213,154              |
| Commitments and contingencies (Note 10)   |                   |                      |
| Stockholders' Equity:   |                   |                      |
| Common stock, \$0.001 par value— 1,000,000,000 authorized as of March 31, 2016 and December 31, 2015; 43,709,562 and 43,567,016 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively | 44                | 44                   |
| Additional paid-in capital  | 458,631           | 453,338              |
| Accumulated other comprehensive loss  | (326)             | (151)                |
| Accumulated deficit   | (340,104)         | (319,331)            |
| Total stockholders' equity  | 118,245           | 133,900              |
| Total liabilities and stockholders' equity  | \$ 310,964        | \$ 347,054           |

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2016</b>               | <b>2015</b> |
| Revenue  | \$ 104,745                | \$ 104,334  |
| Costs and expenses:  |                           |             |
| Media costs  | 42,559                    | 45,561      |
| Other cost of revenue  | 20,085                    | 19,956      |
| Research and development   | 10,639                    | 11,323      |
| Sales and marketing  | 36,840                    | 42,878      |
| General and administrative   | 14,321                    | 17,574      |
| Restructuring  | (199)                     | —           |
| Total costs and expenses   | 124,245                   | 137,292     |
| Operating loss   | (19,500)                  | (32,958)    |
| Interest expense   | 1,237                     | 1,340       |
| Other (income) expense, net  | (194)                     | 2,208       |
| Loss before income taxes   | (20,543)                  | (36,506)    |
| Income tax provision   | 230                       | 357         |
| Net loss   | \$ (20,773)               | \$ (36,863) |
| Basic and diluted net loss per share attributable to common stockholders   | \$ (0.48)                 | \$ (0.88)   |
| Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders | 43,601                    | 41,981      |

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

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

|  | <b>Three Months Ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>March 31,</b>          |                    |
|  | <b>2016</b>               | <b>2015</b>        |
| Net loss                                 | \$ (20,773)               | \$ (36,863)        |
| Other comprehensive income (loss): (1)   |                           |                    |
| Foreign currency translation adjustments | (173)                     | (109)              |
| Comprehensive loss                       | <u>\$ (20,946)</u>        | <u>\$ (36,972)</u> |

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

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

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

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
|   | <b>2016</b>               | <b>2015</b>      |
| <b>Operating Activities:</b>  |                           |                  |
| Net loss  | \$ (20,773)               | \$ (36,863)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                           |                  |
| Depreciation and amortization   | 12,264                    | 11,866           |
| Accelerated amortization of leasehold improvements                          | 3,533                     | —                |
| Stock-based compensation expense  | 4,810                     | 7,447            |
| Other non-cash adjustments, net   | 1,350                     | 794              |
| Changes in operating assets and liabilities:                                |                           |                  |
| Accounts receivable   | 14,103                    | 22,549           |
| Prepaid expenses and other assets   | (1,796)                   | 5,379            |
| Accounts payable  | (10,846)                  | (14,812)         |
| Accrued and other liabilities   | (1,851)                   | (4,271)          |
| Deferred rent   | (3,074)                   | 1,184            |
| Deferred revenue  | (474)                     | 2,530            |
| <b>Net cash used in operating activities</b>                                | <b>(2,754)</b>            | <b>(4,197)</b>   |
| <b>Investing Activities:</b>  |                           |                  |
| Purchases of property, equipment and software                               | (1,787)                   | (5,519)          |
| Capitalized internal-use software development costs                         | (2,924)                   | (3,076)          |
| Proceeds from sale of property  | 293                       | —                |
| Changes in restricted cash  | 39                        | 636              |
| <b>Net cash used in investing activities</b>                                | <b>(4,379)</b>            | <b>(7,959)</b>   |
| <b>Financing Activities:</b>  |                           |                  |
| Proceeds from employee stock plans, net                                     | 28                        | 189              |
| Tax withholdings related to net share settlements of restricted stock units | (241)                     | —                |
| Repayment of capital lease obligations                                      | (2,092)                   | (1,090)          |
| Proceeds from debt facilities, net of issuance costs                        | 22,350                    | (242)            |
| Repayment of debt   | (24,000)                  | (1,500)          |
| <b>Net cash used in financing activities</b>                                | <b>(3,955)</b>            | <b>(2,643)</b>   |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>         | <b>(80)</b>               | <b>(202)</b>     |
| <b>Change in Cash and Cash Equivalents</b>                                  | <b>(11,168)</b>           | <b>(15,001)</b>  |
| <b>Cash and Cash Equivalents—Beginning of period</b>                        | <b>78,560</b>             | <b>107,056</b>   |
| <b>Cash and Cash Equivalents—End of period</b>                              | <b>\$ 67,392</b>          | <b>\$ 92,055</b> |



|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2016</b>               | <b>2015</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:</b>                         |                           |             |
| Cash paid for income taxes, net of refunds  | \$ 351                    | \$ 205      |
| Cash paid for interest  | 1,021                     | 914         |
| <b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>          |                           |             |
| Purchases of property, equipment and software recorded in accounts payable and accruals | \$ 563                    | \$ 623      |
| Property, equipment and software acquired under capital lease obligations               | 151                       | 325         |
| Vesting of early exercised options  | 25                        | 53          |
| Stock-based compensation capitalized in internal-use software costs                     | 711                       | 494         |

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

## ROCKET FUEL INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Rocket Fuel Inc. (the "Company") was incorporated as a Delaware corporation on March 25, 2008. The Company is a provider of artificial-intelligence digital advertising solutions headquartered in Redwood City.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in Consolidated Financial Statements prepared in accordance with GAAP have been condensed or omitted in accordance with such rules and regulations. The Condensed Consolidated Balance Sheet data as of December 31, 2015 was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial position and our results of operations and cash flows.

These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The significant accounting policies and recent accounting pronouncements were described in Note 1 to the Consolidated Financial Statements included in the 2015 Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no significant changes in or updates to the accounting policies since December 31, 2015.

#### Recently Issued and Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842 ("ASC 842"), "Leases" which replaces the existing guidance in ASC 840, Leases. The amendment is effective for the Company for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The Company is evaluating the impact of the adoption on the consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09 ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public business entities, ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company is currently evaluating the impact of this ASU and expects no material modifications to its financial statements.

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

**NOTE 2. PROPERTY, EQUIPMENT AND SOFTWARE, NET**

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

|   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|---------------------------|------------------------------|
| Capitalized internal-use software costs     | \$ 42,518                 | \$ 38,879                    |
| Computer hardware and software              | 57,973                    | 57,827                       |
| Furniture and fixtures                      | 13,108                    | 13,619                       |
| Leasehold improvements                      | 37,789                    | 39,956                       |
| Total                                       | <u>151,388</u>            | <u>150,281</u>               |
| Accumulated depreciation and amortization   | (75,673)                  | (67,500)                     |
| Total property, equipment and software, net | <u>\$ 75,715</u>          | <u>\$ 82,781</u>             |

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

The Company capitalized internal-use software development costs of \$3.6 million and \$3.3 million for the three months ended March 31, 2016 and 2015 , respectively. Amortization expense of internal-use software costs was \$2.3 million and \$1.6 million for the three months ended March 31, 2016 and 2015 , respectively.

Total depreciation and amortization expense related to property, equipment and software, exclusive of the amortization of capitalized internal-use software costs, was \$5.8 million and \$6.0 million for the three months ended March 31, 2016 and 2015 , respectively.

In addition, in the three months ended March 31, 2016 , the Company recorded an accelerated amortization of leasehold assets of \$3.5 million related to its terminated office lease in New York in connection with its restructuring activities. Refer to Note 5 for details of the Company's restructuring costs.

**NOTE 3. BUSINESS COMBINATIONS***Acquisitions in Fiscal Year 2014*

On September 5, 2014, the Company acquired X Plus Two Solutions, Inc., a Delaware corporation ("X Plus Two"), which wholly owns X Plus One Solutions, Inc. known in the industry as [x+1] ("[x+1]"). The acquisition of [x+1] significantly expanded the market opportunity and accelerated the Company's entry into the digital marketing enterprise software-as-a-service ("SaaS") market. The total purchase consideration is as follows (in thousands):

|   |                   |
|---|-------------------|
| Purchase consideration:                                   |                   |
| Cash  | \$ 98,045         |
| Fair value of 5.3 million shares common stock transferred | <u>82,421</u>     |
| Total purchase price                                      | <u>\$ 180,466</u> |

The acquisition of [x+1] was accounted for in accordance with the acquisition method of accounting for business combinations with the Company as the accounting acquiror. The Company expensed the acquisition-related transaction costs in the amount of \$4.9 million in general and administrative expenses. The total purchase price as shown in the table above was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of September 5, 2014, as set forth below. The Company finalized its estimates of fair value for certain of the acquired current assets and liabilities resulting in an adjustment of \$2.1 million which was recorded during the three months ended September 30, 2015. The total purchase price was allocated as follows (in thousands):

|                                |                   |
|--------------------------------|-------------------|
| Current assets                 | \$ 29,853         |
| Non-current assets             | 3,999             |
| Current liabilities            | (29,354)          |
| Non-current liabilities        | (16,253)          |
| Net acquired tangible assets   | (11,755)          |
| Identifiable intangible assets | 74,700            |
| Goodwill                       | 117,521           |
| Total purchase price           | <u>\$ 180,466</u> |

Due to a stock price decline during the third quarter of 2015, the Company's market capitalization declined to a value below the net book value of the Company's equity, triggering the Company to conduct a goodwill impairment test. The outcome of the goodwill impairment test resulted in a non-cash impairment of goodwill of \$117.5 million, which was recorded in the third quarter of 2015. Identifiable intangible assets acquired are as follows:

|                        | Estimated Useful Life (in years) | March 31, 2016   |                          |                | December 31, 2015 |                          |                  |
|------------------------|----------------------------------|------------------|--------------------------|----------------|-------------------|--------------------------|------------------|
|                        |                                  | Gross            | Accumulated Amortization | Net Book Value | Gross             | Accumulated Amortization | Net Book Value   |
| Developed technology   | 3-4                              | \$ 42,100        | \$ (18,192)              | \$ 23,908      | \$ 42,100         | \$ (15,295)              | \$ 26,805        |
| Customer relationships | 7-8                              | 27,700           | (5,440)                  | 22,260         | 27,700            | (4,573)                  | 23,127           |
| Trademarks             | 5                                | 2,000            | (2,000)                  | —              | 2,000             | (2,000)                  | —                |
| Non-compete agreements | 2                                | 2,900            | (2,276)                  | 624            | 2,900             | (1,913)                  | 987              |
| Total                  |                                  | <u>\$ 74,700</u> | <u>(27,908)</u>          | <u>46,792</u>  | <u>\$ 74,700</u>  | <u>\$ (23,781)</u>       | <u>\$ 50,919</u> |

Total amortization expense related to intangible assets acquired in the business combination with [x+1] was \$4.1 million and \$4.2 million for the three months ended March 31, 2016 and 2015, respectively. During the third quarter of 2015, the Company accelerated the amortization of the trademark assets recording \$1.6 million in additional amortization expense due to a change of its useful life.

#### NOTE 4. CAPITAL LEASES

Property, equipment and software includes hardware and software related to our data centers, which are acquired under capital lease agreements. The remaining future minimum lease payments under these non-cancelable capital leases as of March 31, 2016 were as follows (in thousands):

| Year ending December 31,                          | Future Payments  |
|---|------------------|
| 2016 (remaining 9 months)                         | \$ 7,217         |
| 2017  | 7,862            |
| 2018  | 4,366            |
| 2019  | 414              |
| 2020  | 13               |
| Total minimum lease payments                      | <u>\$ 19,872</u> |
| Less: amount representing interest and taxes      | (1,356)          |
| Less: current portion of minimum lease payments   | (8,723)          |
| Capital lease obligations, net of current portion | <u>\$ 9,793</u>  |

## NOTE 5. RESTRUCTURING COSTS

In April 2015, the Company announced a restructuring plan intended to improve its operational efficiency, which included a reduction of its workforce, and sublease or termination of certain excess leased office space, among other cost reduction measures.

During the three months ended March 31, 2016, the Company recorded a \$0.2 million restructuring net gain. This is comprised of \$3.5 million accelerated amortization of leasehold assets related to its terminated office lease in New York, \$0.4 million severance payouts, and an offsetting release of \$4.1 million deferred rent liabilities related to our terminated office lease in New York. During the three months ending June 30, 2016, the Company expects to amortize the leasehold assets for approximately \$3.5 million and release the deferred rent liability for approximately \$4.1 million until it has vacated the terminated New York office in June 2016. No restructuring activities occurred during the three months ended March 31, 2015.

## NOTE 6. DEBT

Loan Facility—On December 31, 2014, the Company entered into a Second Amended and Restated Revolving Credit and Term Loan Agreement with certain lenders (the "2014 Loan Facility"). The 2014 Loan Facility amended and restated the Company's then-existing Amended and Restated Revolving Credit and Term Loan Agreement, dated as of December 20, 2013. Through March 10, 2016, the 2014 Loan Facility provided for an \$80.0 million revolving credit facility which matures on December 31, 2017, with a \$12.0 million letter of credit sub-facility, a \$2.5 million swing-line sub-facility, and a \$30.0 million secured term loan that matures on December 31, 2019. Revolving loans could be advanced under the revolving credit facility in amounts up to the lesser of (i) 85% of eligible accounts receivable and (ii) \$80.0 million, less the then outstanding principal amount of the term loan. If at any time the aggregate amounts outstanding exceeded the allowable maximum advance, then the Company was required to make a repayment in an amount sufficient to eliminate the excess.

On March 10, 2016, the Company amended the 2014 Loan Facility and terminated the term loan (as so amended, the "2016 Loan Facility"). The then-remaining balance of the term loan was repaid and refinanced by an additional draw down on the revolving credit facility of \$22.5 million. In the amendment the minimum bank-defined EBITDA covenant and the liquidity ratio covenant were changed. The Company paid customary closing fees in connection with establishing and amending this facility, and pays customary commitment fees and letter of credit fees.

Under the 2016 Loan Facility, as amended, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility if the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below \$40.0 million. The Company may repay revolving loans and term loans under the 2016 Loan Facility in whole or in part at any time without premium or penalty, subject to certain conditions.

As of March 31, 2016, \$62.5 million under the revolving credit facility and letters of credit in the amount of \$7.5 million were outstanding.

Revolving loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 1.625% to 2.125%, or (ii) a LIBOR rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 2.625% to 3.125%. Term loans bear interest, at the Company's option, at (i) a base rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 2.50% to 3.00%, or (ii) a LIBOR rate determined pursuant to the terms of the 2016 Loan Facility, plus a spread of 3.50% to 4.00%. In each case, the spread is based on the cash reflected on the Company's balance sheet for the preceding fiscal quarter, plus an amount equal to the average unused portion of the revolving credit commitments during such fiscal quarter. The base rate is determined as the highest of (i) the prime rate announced by Comerica Bank, (ii) the federal funds rate plus a margin equal to 1.00% and (iii) the daily adjusted LIBOR rate plus a margin equal to 1.00%. Under certain circumstances, a default interest rate of 2.00% above the applicable interest rate will apply on all obligations during the existence of an event of default under the 2016 Loan Facility.

The Company is required to maintain a minimum of \$30.0 million of cash on deposit with the lenders and comply with certain financial covenants under the 2016 Loan Facility, including the following:

*Bank-defined EBITDA.* The Company is required to maintain specified bank-defined EBITDA, which is defined for this purpose, with respect to any trailing twelve-month period, as an amount equal to the sum of (i) consolidated net income (loss) in accordance with GAAP, after eliminating all extraordinary non-recurring items of income, plus (ii) depreciation and amortization, income tax expense, total interest expense, non-cash expenses or losses, stock-based compensation expense, costs and expenses from permitted acquisitions up to certain limits, costs and expenses

in connection with the 2016 Loan Facility up to certain limits; certain legal fees up to certain limits incurred through December 2015, integration costs related to the [x+1] acquisition up to certain limits incurred through December 31, 2014 and any other expenses agreed with Comerica and the lenders, less (iii) all extraordinary and non-recurring revenues and gains (including income tax benefits).

*Liquidity ratio.* Under the 2016 Loan Facility, the ratio of (i) the sum of all cash and accounts receivable to (ii) the sum of all accounts payable and all indebtedness owing to the lenders under the 2016 Loan Facility must be at least 1.00 to 1.00.

The terms of the 2016 Loan Facility also require the Company to comply with certain other financial and non-financial covenants. As of March 31, 2016, the Company was in compliance with all financial and non-financial covenants.

As of March 31, 2016, the \$62.5 million balance outstanding under the 2016 Loan Facility had a maturity date of December 31, 2017, and because the Company has the option to draw upon the facility or repay borrowed funds at any time, the balance is shown as a current liability in the accompanying condensed consolidated balance sheets. The debt on the condensed consolidated balance sheets is shown net of \$0.5 million in debt issuance costs.

## NOTE 7. STOCKHOLDERS' EQUITY

The following table summarizes information pertaining to our stock-based compensation expense from stock options and stock awards, which are comprised of restricted stock awards and restricted stock units (in thousands, except grant-date fair value and recognition period):

|  | Three Months Ended March<br>31,<br>2016 | Three Months Ended March<br>31,<br>2015 |
|--|---|---|
| <b>Stock options:</b>  |   |   |
| Outstanding at the beginning of the period                             | 5,387                                   | 6,291                                   |
| Options granted  | 1,631                                   | 208                                     |
| Options exercised  | (41)                                    | (116)                                   |
| Options forfeited  | (1,544)                                 | (75)                                    |
| Outstanding at the end of the period                                   | 5,433                                   | 6,308                                   |
| Total intrinsic value of options exercised                             | \$ 113                                  | \$ 858                                  |
| Total unrecognized compensation expense at period-end                  | \$ 8,399                                | \$ 23,190                               |
| Weighted-average remaining recognition period at period-end (in years) | 3.0                                     | 2.2                                     |
| <b>Stock awards:</b>   |   |   |
| Outstanding at the beginning of the period                             | 3,612                                   | 2,515                                   |
| Stock awards granted   | 490                                     | 348                                     |
| Stock awards vested  | (179)                                   | (48)                                    |
| Stock awards canceled  | (268)                                   | (136)                                   |
| Outstanding at the end of the period                                   | 3,655                                   | 2,680                                   |
| Weighted-average grant-date fair value                                 | \$ 10.39                                | \$ 16.74                                |
| Total unrecognized compensation expense at period-end                  | \$ 25,712                               | \$ 41,131                               |
| Weighted-average remaining recognition period at period-end (in years) | 2.6                                     | 3.4                                     |

**2016 Inducement Equity Incentive Plan**—Effective March 4, 2016, the Company's board of directors adopted the 2016 Inducement Equity Incentive Plan (the "2016 Plan") pursuant to Nasdaq Listing Rule 5635(c)(4) (the "Listing Rule"). The Listing Rule permits a company to adopt a plan without stockholder approval if each grant is made to a new employee of the Company, or an employee returning to the Company after a bona fide period of non-employment, and in each case was offered the grant as a material inducement for the employee to join the Company. The 2016 Plan permits the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to eligible participants.

A total of 2,200,000 shares of common stock were reserved for issuance upon initial adoption of the 2016 Plan. The 2016 Plan has a term of one year from its effective date. The compensation committee of the board of directors has the authority to approve the employees to whom equity awards are granted and to determine the terms of each award, subject to the terms of the 2016 Plan. The compensation committee may determine the number of shares subject to an award. Options and stock appreciation rights granted under the 2016 Plan must have a per share exercise price equal to at least 100% of the fair market value of a shares of the Company's common stock as of the date of grant and may not expire later than 10 years from the date of grant.

As of the three months ended March 31, 2016, 0.4 million shares have been granted under the 2016 Plan.

**Employee Stock Purchase Plan**—In August 2013, the Company's board of directors adopted and the stockholders approved the Company's 2013 Employee Stock Purchase Plan (the "ESPP"), which became effective upon adoption by the Company's board of directors. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The offering periods generally start on the first trading day on or after June 1 and December 1 of each year and end on the first trading day on or before November 30 and May 31 approximately six months later. The administrator may, in its discretion, modify the terms of future offering periods. At the end of each offering period, employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period. As of

March 31, 2016, total compensation costs, representing the fair value related to outstanding rights to purchase shares of common stock under the ESPP offering period ending on the first trading day on or before May 31, 2016, were approximately \$0.7 million, which will be recognized over the offering period.

Effective January 15, 2016, the compensation committee of the Company's board of directors adopted an amendment and restatement of the ESPP that will apply to offering periods beginning on and after June 1, 2016. Pursuant to the amendment, future offering periods will start on the first trading day on or after June 1 and December 1 of each year and terminate on the first trading day or before the May 31 and November 30 that occurs approximately 24 months later. Each twenty-four month offering period will generally have four purchase periods of approximately six months in length, with the first purchase period of an offering period commencing on the date the offering period commences. At the end of each purchase period, employees are able to purchase shares, subject to any plan limitations, at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the purchase period. Offering periods may overlap. However, if the fair market value of the Company's stock has declined between the first date of an offering period and the end of a purchase period, the offering period will terminate on the purchase date that is at the end of that purchase period immediately after the purchase and participants in that offering period will automatically be re-enrolled in the immediately following offering period.

**Stock-based Compensation**—The fair value of options on the date of grant is estimated based on the Black-Scholes option-pricing model using the single-option award approach with the weighted-average assumptions set forth below. Expected term represents the period that the Company's stock-based awards are expected to be outstanding and is determined based on the simplified method. Due to the lack of historical exercise activity for the Company, the simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award. Volatility is estimated using comparable public company volatility for similar option terms until a sufficient amount of historical information regarding the volatility of the Company's share price becomes available. The risk-free interest rate is determined using a U.S. Treasury rate for the period that coincides with the expected term. As the Company has never paid cash dividends, and at present, has no intention to pay cash dividends in the future, expected dividends are zero. Expected forfeitures are based on the Company's historical experience. The fair value of restricted stock unit awards is the grant date closing price of the Company's common stock.

The Company uses the straight-line method for expense recognition over the vesting period of the award or option.

The assumptions used to value options granted to employees were as follows:

|                         | <b>Three Months Ended</b> |             |
|-------------------------|---------------------------|-------------|
|                         | <b>March 31,</b>          |             |
|                         | <b>2016</b>               | <b>2015</b> |
| Expected term (years)   | 6.3                       | 6.3         |
| Volatility              | 55.0%                     | 58.0%       |
| Risk-free interest rate | 1.57% - 1.93%             | 1.57%       |
| Dividend yield          | —                         | —           |

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

|                         | <b>Three Months Ended</b> |             |
|-------------------------|---------------------------|-------------|
|                         | <b>March 31,</b>          |             |
|                         | <b>2016</b>               | <b>2015</b> |
| Expected term (years)   | 0.5                       | 0.5         |
| Volatility              | 65.0%                     | 77.2%       |
| Risk-free interest rate | 0.42%                     | 0.08%       |
| Dividend yield          | —                         | —           |



### Stock-based compensation allocation

The following table summarizes the allocation of stock-based compensation, net of amounts capitalized for internal-use software development, in the accompanying condensed consolidated statements of operations (in thousands):

|                            | Three Months Ended |          |
|----------------------------|--------------------|----------|
|                            | March 31,          |          |
|                            | 2016               | 2015     |
| Other cost of revenue      | \$ 530             | \$ 625   |
| Research and development   | 1,365              | 2,247    |
| Sales and marketing        | 1,489              | 2,831    |
| General and administrative | 1,426              | 1,744    |
| Total                      | \$ 4,810           | \$ 7,447 |

### **NOTE 8. NET LOSS PER SHARE**

Basic net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee stock-based awards. Because the Company had net losses for the three months ended March 31, 2016 and 2015, all these potentially dilutive shares of common stock were determined to be anti-dilutive and accordingly were not included in the calculation of diluted net loss per share.

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

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | March 31,          |             |
|  | 2016               | 2015        |
| Net loss   | \$ (20,773)        | \$ (36,863) |
| Weighted-average shares used to compute basic and diluted net loss per share   | 43,601             | 41,981      |
| Basic and diluted net loss per share   | \$ (0.48)          | \$ (0.88)   |
| Common stock equivalents excluded from net loss per diluted share because their effect would have been anti-dilutive | 9,521              | 9,387       |

### **NOTE 9. INCOME TAXES**

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

The Company recorded income tax provisions of \$0.2 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively. The tax provision for the three months ended March 31, 2016 and March 31, 2015 are primarily due to foreign and state income taxes.

Due to uncertainty as to the realization of benefits from deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, the Company has provided valuation allowances against such assets as of March 31, 2016 and December 31, 2015.

## NOTE 10. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company has operating lease agreements for office space for administrative, research and development and sales and marketing activities in the United States that expire at various dates through 2026.

The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. Rent expense was \$4.3 million and \$4.0 million for the three months ended March 31, 2016 and 2015, respectively.

The approximate remaining future minimum cash lease payments under these non-cancelable operating leases as of March 31, 2016 were as follows (in thousands):

| <b>Year ending December 31,</b> | <b>Future Payments</b> |        |
|---------------------------------|------------------------|--------|
| 2016 (remaining 9 months)       | \$                     | 12,786 |
| 2017                            |                        | 16,324 |
| 2018                            |                        | 15,128 |
| 2019                            |                        | 16,473 |
| 2020                            |                        | 7,247  |
| Thereafter                      |                        | 21,301 |
|                                 | \$                     | 89,259 |

Please refer to Note 4 for details of the Company's capital lease commitments as of March 31, 2016.

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

As of March 31, 2016 and December 31, 2015, the Company had \$2.0 million and \$2.1 million, respectively, in cash reserved to support bank guarantees for certain office lease agreements. These amounts are classified as restricted cash on the Company's condensed consolidated balance sheets.

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

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

On September 3, 2014 and September 10, 2014, respectively, two purported class actions were filed in the Northern District of California against the Company and certain of its officers and directors at the time. The actions are *Shah v. Rocket Fuel Inc., et al.*, Case No. 4:14-cv-03998, and *Mehrotra v. Rocket Fuel Inc., et al.*, Case No. 4:14-cv-04114. The underwriters in the initial public offering on September 19, 2013 (the "IPO") and the secondary offering on February 5, 2014 (the "Secondary Offering") were also named as defendants. These actions were consolidated and a consolidated complaint, *In re Rocket Fuel Securities Litigation*, was filed on February 27, 2015. The consolidated complaint alleged that the defendants made false and misleading statements about the ability of the Company's technology to detect and eliminate fraudulent web traffic, and about Rocket Fuel's future prospects. The consolidated complaint also alleged that the Company's registration statements and prospectuses for the IPO and the Secondary Offering contained false and misleading statements on these topics. The consolidated complaint purported to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5.

(the "Exchange Act" claims), and for violations of Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act" claims), on behalf of those who purchased the Company's common stock between September 20, 2013 and August 5, 2014, inclusive, as well as those who purchased stock in the IPO, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint sought monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the court granted in part and denied in part the defendants' motions to dismiss. The court dismissed the Securities Act claims and all but one of the statements on which the Exchange Act claims were based. The court also dismissed all claims against the outside directors and the underwriters of the Company's public offerings.

On March 23, 2015, a purported shareholder derivative complaint for breach of fiduciary duty, waste of corporate assets, and unjust enrichment was filed in San Mateo, California Superior Court against certain of the then-current and former officers and the Company's board of directors at that time. The action is *Davydov v. George H. John*, et.al, Case No. CIV 53304. This state court action has been stayed pending the resolution of the *Victor Veloso v. George H. John et al.* action described below.

On October 6, 2015, a purported verified shareholder derivative complaint was filed in the Northern District of California. The action is *Victor Veloso v. George H. John et al.*, Case No. 4:15-cv-04625-PJH. Beginning in January 2016, three substantially similar related cases, *Gervat v. Wootton et al.*, 4:16-cv-00332-PJH, *Pack v. John et al.*, 4:16-cv-00608-EDL, and *McCawley v. Wootton et al.*, Case No. 4:16-cv-00812, also were filed in the Northern District of California on January 21, 2016, February 4, 2016 and February 18, 2016, respectively. The complaints in these related actions are based on substantially the same facts as the *In re Rocket Fuel Securities Litigation*, and name as defendants the Company's board of directors at the time of filing and certain then-current and former executives. The *Veloso* action has been related to the *In re Rocket Fuel Securities Litigation* and motions to relate the other actions are pending. The four purported verified shareholder derivative complaints were consolidated by the Court in March 2016, and a compliant in the consolidated action, titled *In re Rocket Fuel, Inc. Derivative Litigation*, Case No. 4:15-cv-4625-PJH, was filed on April 14, 2016.

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

On March 29, 2016, a purported shareholder derivative complaint for breach of fiduciary duty and violation of California corporations code section 25402 was filed in San Francisco, California Superior Court against certain of the Company's current and former officers and certain of the Company's current and former directors. The action is *Lunam v. William Ericson, et. al.*, Case No. CGC-16-551209.

The Company intends to vigorously defend itself against these actions. The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to the Company's operating results and cash flows for a particular period.

Legal fees are expensed in the period in which they are incurred.

#### **NOTE 11. SEGMENTS**

The Company considers operating segments to be components of the Company's business for which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reportable segment.

The following table summarizes total revenue generated through sales personnel located in the respective locations (in thousands):

|                                    | <b>Three Months Ended</b> |                   |
|------------------------------------|---------------------------|-------------------|
|                                    | <b>March 31,</b>          |                   |
|                                    | <b>2016</b>               | <b>2015</b>       |
| United States                      | \$ 81,397                 | \$ 86,151         |
| All Other Countries <sup>(1)</sup> | 23,348                    | 18,183            |
| <b>Total revenue</b>               | <b>\$ 104,745</b>         | <b>\$ 104,334</b> |

(1) No individual country, other than disclosed above, exceeded 10% of our total revenue for any period presented.

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

|                                | <b>March 31,</b> | <b>December 31,</b> |
|--------------------------------|------------------|---------------------|
|                                | <b>2016</b>      | <b>2015</b>         |
| North America                  | \$ 70,601        | \$ 77,038           |
| All Other Countries            | 5,114            | 5,743               |
| <b>Total long-lived assets</b> | <b>\$ 75,715</b> | <b>\$ 82,781</b>    |

#### **NOTE 12. GOODWILL**

Due to a stock price decline during fiscal year 2015, the Company's market capitalization declined to a value below the net book value of the Company's equity, triggering the Company to test its goodwill for impairment.

The Company first tested its intangible assets (other than goodwill) and determined that these assets were not impaired.

Goodwill is tested for impairment in a two-step process. The first step is to determine if there is an indication of impairment by comparing the estimated fair value of the reporting unit to its carrying value including goodwill. Goodwill is considered impaired if the reporting unit's carrying value exceeds its estimated fair value. Upon indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit's goodwill with the carrying value of the goodwill. Since the Company operates its business in one reporting unit, goodwill is tested for impairment at the enterprise level.

In the first step of the goodwill impairment test, the Company estimated the fair value of its reporting unit using the market approach. Under the market approach, the Company utilized the market capitalization of its publicly-traded shares and comparable company information to determine revenue multiples which were used to determine the fair value of the reporting unit. Based on this approach, the Company determined that there is an indication of impairment as the carrying value including goodwill exceeded the estimated fair value of the reporting unit.

In the second step of the goodwill impairment test the Company estimated the fair value of its assets and liabilities to determine the implied fair value of goodwill, and then compared the implied fair value of the goodwill to its carrying value. The outcome of this second step resulted in a non-cash impairment of goodwill of \$117.5 million, which was recorded during the third quarter of fiscal year 2015.

The inputs used to measure the estimated fair value of goodwill are classified as a Level 3 fair value measurement due to the significance of unobservable inputs based on company specific information.

### **NOTE 13. RELATED PARTY TRANSACTIONS**

John J. Lewis, Global President of Nielsen Holding Plc ("Nielsen"), joined the Board of Directors of Rocket Fuel Inc. on January 19, 2016. Mr. Lewis was also appointed to the Audit Committee of the Board.

Nielsen is one of the Company's data vendors. Total expense recognized for services delivered by Nielsen and its affiliates during the three months ended March 31, 2016 was \$0.4 million . Total accounts payable as of March 31, 2016 were \$1.2 million .

### **NOTE 14. SUBSEQUENT EVENTS**

On May 10, 2016, we filed a shelf registration statement on Form S-3 with the SEC (the "Registration Statement"). The Registration Statement contains a base prospectus that covers (i) the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$50.0 million of the Company's common stock, preferred stock, warrants, debt securities, subscription rights and/or units and (ii) a sales agreement prospectus supplement along with an accompanying base prospectus covering the offering, issuance and sale by the Company up to a maximum aggregate offering price of \$30.0 million of the Company's common stock that may be issued and sold from time to time under a sales agreement with Cantor Fitzgerald & Co. The up to \$30.0 million of common stock that may be issued and sold under the sales agreement prospectus supplement is included in the \$50.0 million of securities that may be offered and sold under the base prospectus. The Registration Statement has not yet been declared effective by the SEC.

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

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

- expectations for financial performance in 2016, including revenue and the levels of operating expenses in the areas of research and development, sales and marketing and general and administrative;
- expected restructuring costs in 2016;
- the usefulness of non-GAAP financial measures for understanding and evaluating our operating results;
- the anticipated impact of the growth rates in the real-time advertising exchange market and digital advertising on our future performance;
- our belief that our programmatic marketing platform can enhance digital media buying across any programmatic inventory;
- our goal of gaining a larger share of current customers' budgets and attracting new high-value customers;
- the expected impact on our growth and profitability of focusing on our top 50 and top 250 customers;
- the expected increase in demand for programmatic brand advertising;
- our plans to reduce capital expenditures for property and equipment in 2016 compared to 2015, including our intention to finance data center hardware through capital leasing facilities;
- the impact that our sales strategies and our product mix between our Media Services and Platform Solutions will have on media and other costs of revenue;
- the impact of working capital requirements on our goal of growing our business;

- the expected impact of seasonality on our operating results;
- our expectation that, as our foreign revenues and expenses increase, our operating results may be more affected by fluctuations in the exchange rates of the currencies in which we do business;
- our expectation that, subject to achieving our operating plan for 2016, existing cash and cash equivalents will be sufficient to meet our business requirements for at least the next 12 months; and
- our intention to vigorously defend against pending securities lawsuits.

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

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results and circumstances described in the forward-looking statements will be achieved or will occur. Moreover, we assume no responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

The following discussion should be read in conjunction with (i) our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q, (ii) the audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and (iii) the understanding that our actual results and circumstances may be materially different from our forward-looking statements and/or expectations.

## Overview

Rocket Fuel brings the power of machine learning to the world of digital marketing, offering a technology and services designed to help advertising agencies and their clients connect with consumers through digital media at moments when that connection is most likely to be influential and most likely to achieve the advertiser’s objectives. Our platform autonomously purchases ad spots, or impressions, one at a time, on real-time advertising exchanges to create portfolios of impressions designed to optimize the goals of our advertisers, such as increased sales, heightened brand awareness and decreased cost per customer acquisition.

Our core service offerings are organized around two solutions - a Demand Side Platform (DSP) and a Data Management Platform (DMP) - which can be used independently, integrated with a customer’s other customer relationship management or marketing platforms, or used together. We refer to our DSP alone or our DSP plus DMP solutions as our programmatic marketing platform. We offer our programmatic marketing platform as a managed service, which we operate on behalf of our customers (our "Media Services"), and as a technology solution our customers acquire and operate themselves, or acquire and obtain supporting services from us (our "Platform Solutions").

Core to our ability to connect advertisers and consumers is our artificial intelligence (AI) engine, which consists of big data-driven predictive modeling and automated decision-making components. Our programmatic marketing platform uses a technology enabled by our AI that we call Moment Scoring™, which is designed to consider in a fraction of a second whether a particular advertising opportunity, or impression, is the right time to influence a consumer, based on our platform’s real-time scoring - positive or negative - of the likelihood of consumer engagement with the advertising based on relevant attributes.

Our programmatic marketing platform is designed to learn from each message it delivers and apply that learning to future decisions as the advertising campaign is being delivered - a feature we call Marketing that Learns™. The benefit of a platform that autonomously adapts and learns while solving multiple problems simultaneously is its capability of simultaneously running thousands of marketing programs with highly diverse goals simultaneously across multiple channels.

## Non-GAAP Measures

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles applicable in the United States, or GAAP, we also monitor the non-GAAP metrics set forth below to help us evaluate growth and profitability, establish budgets, and assess our operational efficiencies (in thousands, except per share amounts):

|   | Three Months Ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2016               | 2015        |
| Non-GAAP net revenue                          | \$ 62,186          | \$ 58,773   |
| Non-GAAP adjusted EBITDA                      | \$ (2,625)         | \$ (13,626) |
| Non-GAAP adjusted net income (loss)           | \$ (12,035)        | \$ (25,099) |
| Non-GAAP adjusted net income (loss) per share | \$ (0.28)          | \$ (0.60)   |
| Non-GAAP operating expenses                   | \$ 64,811          | \$ 72,399   |

### *Non-GAAP net revenue*

Non-GAAP net revenue is a non-GAAP financial measure defined by us as GAAP revenue less media costs. Media costs consist of costs for advertising impressions we purchase from real-time advertising exchanges and other third parties. We believe that non-GAAP net revenue is a meaningful measure of operating performance because it is a vital metric for internal management purposes, indicates the performance of our solutions in balancing the goals of delivering exceptional results to advertisers while meeting our margin objectives and facilitates a more complete period-to-period understanding of factors and trends affecting our underlying revenue performance.

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

|                      | Three Months Ended |            |
|----------------------|--------------------|------------|
|                      | March 31,          |            |
|                      | 2016               | 2015       |
| Revenue              | \$ 104,745         | \$ 104,334 |
| Less: Media costs    | 42,559             | 45,561     |
| Non-GAAP net revenue | \$ 62,186          | \$ 58,773  |

### *Non-GAAP Adjusted EBITDA*

Non-GAAP adjusted EBITDA is a non-GAAP financial measure we define as GAAP net loss before interest expense, other income (expense), net, income tax provision (benefit), depreciation and amortization expense (including amortization of capitalized software development costs), stock-based compensation expense and related payroll taxes, acquisition or restructuring related expense and impairment charges.

We have presented non-GAAP adjusted EBITDA because it is a key measure we use to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop operating plans. In particular, we believe that the exclusion of the expenses or charges in calculating non-GAAP adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that non-GAAP adjusted EBITDA provides useful information to understand and evaluate our operating results.

However, our use of non-GAAP adjusted EBITDA has limitations and should not be considered in isolation or as a substitute to our financial results as reported under GAAP. Some of these limitations are as follows: although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and non-GAAP adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; non-GAAP adjusted EBITDA is often considered an approximation of operating cash flow, but in our case excludes software development costs capitalized in a current period and excludes those costs as they are amortized over future periods; non-GAAP adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; non-GAAP adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation; non-GAAP adjusted EBITDA does not reflect acquisition and restructuring related expenses, the expenses capitalized for internal-use software, tax and interest expenses that may represent payments reducing the cash available to us; and other companies, including those in our industry, may calculate non-GAAP adjusted EBITDA differently, which reduces its usefulness as a comparative measure. Because of these limitations, our management considers non-GAAP adjusted EBITDA alongside other financial performance measures, including cash flow metrics, GAAP net income (loss) and our other GAAP results.

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2016</b>               | <b>2015</b> |
| Net loss  | \$ (20,773)               | \$ (36,863) |
| Adjustments:  |                           |             |
| Interest expense  | 1,237                     | 1,340       |
| Income tax provision (benefit)                          | 230                       | 357         |
| Amortization of intangibles                             | 4,127                     | 4,227       |
| Amortization of capitalized software                    | 2,290                     | 1,637       |
| Depreciation  | 5,847                     | 6,002       |
| Stock-based compensation expense                        | 4,810                     | 7,447       |
| Other (income) expense, net                             | (194)                     | 2,208       |
| Restructuring expense (credit)                          | (199)                     | —           |
| Payroll tax expense related to stock based compensation | —                         | 19          |
| Total adjustments                                       | 18,148                    | 23,237      |
| Non-GAAP adjusted EBITDA                                | \$ (2,625)                | \$ (13,626) |

#### ***Non-GAAP Adjusted Net Income (Loss)***

Non-GAAP adjusted net income (loss) and non-GAAP adjusted net income (loss) per diluted share are non-GAAP financial measures that are useful to us and investors because they present an additional measurement of our financial performance, taking into account depreciation, interest and other expense, and taxes, which we believe are ongoing costs of doing business, but excluding the impact of certain non-cash expenses such as amortization of intangible assets, impairment charges and stock-based compensation, and expenses such as acquisition and restructuring related expenses. We believe that analysts and investors use non-GAAP adjusted net income and non-GAAP adjusted diluted net income per share as supplemental measures to evaluate the overall operating performance of companies in our industry.

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



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

|   | <b>Three Months Ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>March 31,</b>          |                    |
|   | <b>2016</b>               | <b>2015</b>        |
| Net loss  | \$ (20,773)               | \$ (36,863)        |
| Adjustments:  |                           |                    |
| Stock-based compensation expense  | 4,810                     | 7,447              |
| Amortization of intangible assets   | 4,127                     | 4,227              |
| Restructuring expense (credit)  | (199)                     | —                  |
| Tax impact of the above items   | —                         | 90                 |
| Non-GAAP adjusted net income (loss)   | <u>\$ (12,035)</u>        | <u>\$ (25,099)</u> |
| Basic and diluted net loss per share attributable to common stockholders                        | <u>\$ (0.48)</u>          | <u>\$ (0.88)</u>   |
| Non-GAAP adjusted net income (loss) per diluted share   | <u>\$ (0.28)</u>          | <u>\$ (0.60)</u>   |
| Weighted average shares used in computing non-GAAP adjusted net income (loss) per diluted share | 43,601                    | 41,981             |

#### ***Non-GAAP Operating Expenses***

We define non-GAAP operating expenses as GAAP total costs and expenses (i.e., research and development, sales and marketing, general and administrative, media and other costs of revenue; we do not report a gross margin) 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.

We have presented non-GAAP operating expenses because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop operating plans. In particular, we believe that the exclusion of the aforementioned expenses and charges in calculating non-GAAP adjusted operating expenses can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that non-GAAP operating expenses provides useful information to understand and evaluate our operating results.

Non-GAAP adjusted operating expenses has a number of limitations, including the following: although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and this measure does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; non-GAAP operating expenses does not reflect changes in, or cash requirements for, our working capital needs; non-GAAP operating expenses does not consider the potentially dilutive impact of equity-based compensation; non-GAAP operating expenses does not reflect acquisition and restructuring related expenses, the expenses capitalized for internal-use software, tax and interest expenses that may represent payments reducing the cash available to us; and other companies, including those in our industry, may calculate non-GAAP operating expenses differently, which reduces its usefulness as a comparative measure. Because of these limitations, our management considers non-GAAP operating expenses alongside other financial performance measures, including total expenses, operating cash flow and our other GAAP results.

The following table presents a reconciliation of GAAP total costs and expenses to non-GAAP operating expenses for each of the periods indicated (in thousands):

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2016</b>               | <b>2015</b> |
| Total costs and expenses                                | \$ 124,245                | \$ 137,292  |
| Less media costs  | 42,559                    | 45,561      |
| Adjustments:  |                           |             |
| Amortization of intangibles                             | 4,127                     | 4,227       |
| Amortization of capitalized software                    | 2,290                     | 1,637       |
| Depreciation  | 5,847                     | 6,002       |
| Stock-based compensation expense                        | 4,810                     | 7,447       |
| Restructuring expense (credit)                          | (199)                     | —           |
| Payroll tax expense related to stock based compensation | —                         | 19          |
| Total adjustments                                       | 16,875                    | 19,332      |
| Non-GAAP operating expenses                             | \$ 64,811                 | \$ 72,399   |

### **Factors Affecting Our Performance**

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

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

Our performance is significantly affected by growth rates in both real-time advertising exchanges and the digital advertising channels we address. These markets have grown rapidly in the past several years; any acceleration, or slowing, of this growth would affect our overall performance.

A significant shift in the channel mix of digital advertising, and limitations on our ability to access inventory, could also impact our performance as we must optimize our solutions across the display (fundamentally desktop and laptop), mobile, social and video channels. We face different competitive landscapes in mobile, social and video channels. For example, at the beginning of 2015 Facebook eliminated access to the Facebook exchange platform, or "FBX," for some of their partners including us, requiring us to adapt our offering in order to continue to access some of the advertising inventory from Facebook. We adapted our technology offerings to address this change, but our sales efforts were impacted and our Facebook campaigns declined since we have shifted to buying Facebook inventory through their APIs. Facebook has continued to allow some other companies in our industry to purchase inventory through the FBX platform, which has likely put us at a competitive disadvantage. Another potential emerging trend that could impact our future performance is our ability to access inventory, particularly premium inventory through real-time bidding, or "RTB." Our DSP offering primarily relies on having access to RTB exchanges; however, some publishers have begun to remove their advertising inventory from RTB exchanges, notably the FBX restrictions noted above and changes to Google's YouTube video inventory availability beginning in 2016 that eliminated our access to that inventory from RTB exchanges.

#### ***Ability to Compete Effectively to Sell our Media Services and Platform Solutions***

We are focused on developing direct response and brand advertising solutions for agencies, advertisers and publishers, available as our Media Services and our Platform Solutions. We believe we can offer a programmatic marketing platform that combines the functionality of our DSP with features of our DMP to enhance digital media buys across any programmatic inventory.

Our programmatic marketing platform offerings compete for digital advertising budgets with a variety of companies, including other companies with DSP offerings, agency trading desks, publishers that sell their inventory directly to agencies and advertisers, and companies that offer self-service platforms that allow advertisers to purchase inventory directly from advertising

exchanges or other third parties and manage, and analyze their own and third-party data. Furthermore, agencies have been effective at promoting the use of agency trading desks and are increasingly involved in helping to select self-service platform providers for the advertisers they represent. In July 2014, we announced an expansion of our Platform Solutions to the United States and Europe, which allows us to compete more directly with companies that offer self-service platform solutions to agencies (as their trading desk solution) and to advertisers. To succeed, we must attract customers to our programmatic marketing platform, and establish relationships with systems integrators and other partners to integrate our functionality into their customers' marketing technology platforms.

In addition to challenges created by the emergence of agency trading desks and competing self-service platforms, our insertion order, or "IO," Media Services business has faced increased challenges within some of the major agency holding companies. These challenges include overcoming questions and objections regarding our pricing and related media cost margins, impression placements and the transparency of our results, and how our technology achieved them. To directly address these concerns, we established a strategic agency selling team to market our services to the major agency holding companies, their agencies and trading desks, and launched an initiative focused on improving transparency.

To expand our reach with advertisers we have a number of sales representatives dedicated to enterprise sales. We are also partnering with marketing software companies, system integrators and direct response agency partners to enhance our ability to gain access to senior level marketing decision makers.

Our customers have many DSP and DMP solutions and technology partners to choose from. In order to increase the adoption of our programmatic marketing platform, we are enhancing its ease of use and working on proving the value of our solutions to agency holding companies, their affiliated operating agencies and advertisers.

### ***Expanding our Business with Higher Value Customers***

In order to achieve sustainable revenue growth, we must retain spend and gain a larger amount of our current customers' advertising budgets, and attract new, high-value customers. Over the long term, we aim to improve in each of these dimensions, but the relative focus on developing existing customers or onboarding new customers will vary over time with our product offerings, sales and service capabilities, and efficiencies.

Our active customer count was 1,530 as of March 31, 2016, slightly higher than 1,487 as of March 31, 2015. We define an active customer as an account with recognized revenue in the last three months. Thus, active customers in a given quarter include both new customers and existing customers returning to spend with us again. An active customer can either be an advertiser who uses our solution from us directly or an advertiser who purchases our solution through an advertising agency or other third party. We count all advertisers within a single corporate structure as one active customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with us.

We define our revenue retention rate with respect to a given twelve-month period as (i) the revenue recognized during such period from customers that contributed to revenue recognized in the prior twelve-month period divided by (ii) total revenue recognized in the prior twelve-month period. The revenue retention rate for retained customers was 92% for the twelve months ended March 31, 2016 and 98%, 115%, 121%, and 128% for each of the twelve months ended December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015, respectively.

Our new customers generally spend less than customers that have used our solution for longer periods of time. We also experienced decreased spending in recent periods by some of our larger customers, as measured by the amount of spend, when compared to the same period in prior fiscal years. In our experience, some of these customers reduced or eliminated spend with us in favor of self-service platforms, agency trading desks, or other media strategies. Adding new customers that tend to spend less and declining spend from some larger customers, along with customer turnover, has contributed to the declining rate of year-over-year revenue growth on a percentage basis since the third quarter of 2013.

Moving forward, our strategy is to focus on expanding our business with a smaller set of larger, higher value customers rather than expanding our customer count. Accordingly, a key measure for us will be revenue from our top 50 and 250 customers, rather than the number of "active customers" and "revenue retention" rate. During the three months ended March 31, 2016, revenue from our top 50 customers was 49% of total revenue, compared to 47% in the first quarter of fiscal year 2015. During the three months ended March 31, 2016, revenue from our top 250 customers was 80% of total revenue, compared to 79% in the first quarter of fiscal year 2015.

We believe that expanding our business with higher value customers, rather than our ability to increase the number of total active customers will be an important indicator of our ability to grow our business and achieve profitability through scale. Our goal

is to increase our revenue period-over-period, and to increase the percentage of that revenue represented by these two customer sets.

#### ***Ability to Grow Programmatic Advertising for Video Brand Campaigns***

Our DSP solutions are designed to optimize campaigns for direct response and brand advertisers by generating specific consumer responses, generally defined as cost-per-action goals, and to drive brand awareness, generally defined as cost-per-click or brand survey goals. Historically, we have defined campaigns with cost-per-click, survey based optimization, and video completion goals as brand campaigns, which contributed approximately a quarter of our revenue in fiscal year 2015. In the first quarter of fiscal year 2016, the revenue split between cost-per-action, or direct response campaigns, and campaigns with brand objectives was approximately 80 percent to 20 percent.

The digital advertising industry is rapidly adopting programmatic buying for video advertising and programmatic TV, or "pTV," which is dominated by brand campaigns. To measure our success in brand, going forward, we will categorize and report video and pTV campaigns as brand, and report all non-video or non-pTV campaigns as direct-response. We expect the demand for programmatic brand advertising to expand quickly, and thus to continue our strategic focus on this opportunity. Under this categorization in the first quarter of fiscal year 2016, the revenue split between direct-response and video brand was approximately 92% to 8%, compared to 95% to 5% in the first quarter of fiscal year 2015.

#### ***Ability to Improve the Productivity and Efficiency of our Resources and Infrastructure***

We have invested for long-term growth through the expansion of our offerings and infrastructure to address the needs of our target markets, including offering our DMP and DSP as Media Services or Platform Solutions.

As part of this growth strategy, during 2014, we added sales, marketing, operations and customer support personnel. Our growth strategy also included continuing to invest in research and development to enhance our solutions, integrate our and [x+1]'s technology platforms and create additional offerings. As a result in part of these investments in resources and growth, we saw operating expenses increase significantly in absolute dollars and increase as a percent of revenue. In 2015, we focused on streamlining our customer service, operations, account management, IT, and general and administrative areas with a goal of reducing the cost of those functions as a percentage of revenue in future periods, while maintaining our ability to service customers. As part of this effort, we reduced our workforce approximately 11% and implemented other cost reduction measures, recording \$7.4 million in restructuring charges in fiscal year 2015. Since then, employee attrition, including attrition in engineering talent supporting both our DMP and DSP solutions, and the resulting influx of new leaders and other employees in 2015 and 2016 has impacted our efficiency across the company as we expend the time and resources necessary to recruit and retain our talent, restructure our organizations, and train new employees.

We have experienced a continuing decline in our revenue growth rate in North America since the third quarter of 2013. In the short term, we expect our revenue to continue to be impacted as we refine our agency and enterprise sales capabilities. Looking ahead, we will focus on achieving revenue growth by focusing our sales efforts on fewer, higher value customers, and by increasing the adoption of our Platform Solutions by agencies and direct customers.

Our capital expenditures for property and equipment were \$11.5 million during fiscal year 2015 as we completed the majority of our facilities. We expect these expenditures to decline in fiscal year 2016. To minimize the upfront cash investment required to scale our data centers, we intend to utilize capital leasing facilities, if available, to finance our data center hardware needs throughout 2016.

#### ***Mix***

Our strategy to offer our programmatic marketing platform has had, and we expect will continue to have, an impact on our revenue mix, margins and profitability. Media Services agreements, in the form of insertion order ("IOs"), typically have a term of a few weeks to months, and are most often priced on a cost-per-thousand impressions basis with the media spend optimized through our AI technology and big data management systems. Platform Solutions agreements, on the other hand, have longer terms to use the technology at a predetermined percentage of media spend, which may vary based on volume. The media margin in these arrangements is typically materially lower than for Media Services. Our customers can acquire and operate the technology themselves or obtain supporting services from us. Our operating costs are typically higher up front as we train and assist our customers adopting our programmatic marketing platform and as they increase the number of campaigns run on it, but we expect such costs to decline over time as our customers learn to self-serve or agree to pay us additional services fees for assistance we provide on a longer term

basis. Our success in our Platform Solutions strategy depends upon our ability to train our platform customers quickly and efficiently, to charge for services required over time, and to drive the volume of campaigns these customers run through our systems.

### ***Working Capital***

In all of our Media Services business and substantially all of our Platform Solutions business, we make media purchases to run our customers' advertising campaigns. In our industry, agencies and advertisers typically pay more slowly than we are required to make payments to media providers, resulting in payment terms that are approximately one-half of collection times. Our goal is to grow our business, but to do so will require either that we better align our collection and payment terms, or obtain additional capital to support this working capital requirement.

### ***Seasonality***

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Historically, the fourth quarter of the year reflects our highest level of advertising activity, and the first quarter reflects the lowest level of such activity. We expect our revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole. Despite the seasonal nature of our revenue, many of our costs, such as headcount-related expenses, depreciation and amortization, and facilities costs, are relatively fixed in the short term and do not follow these same seasonal trends.

## **Components of Our Results of Operations**

### ***Revenue***

We generate revenue primarily by delivering digital advertisements to consumers through the display channel and other channels such as mobile devices and through video and social channels. We predominantly contract with advertising agencies who purchase our solution on behalf of advertisers. When we contract with an agency, it acts as an agent for a disclosed principal, which is the advertiser. Our contracts typically provide that if the advertiser does not pay the agency, the agency is not liable to us, and we must seek payment solely from the advertiser. Our contracts with advertisers, including advertising agencies representing advertisers, are generally in the form of an insertion order that outlines the terms and conditions of an advertising campaign and its objectives. Our contracts typically have a term of less than a year, and we recognize revenue as we deliver advertising impressions, subject to satisfying all other revenue recognition criteria. To a lesser extent we generate revenue from license fees to access our DMP and DSP offerings and related professional services, which are generally recognized over the term of the performance period.

### ***Costs and Expenses***

We classify our expenses into these categories: media costs, other cost of revenue, research and development, sales and marketing, and general and administrative. Personnel costs for each category of expense generally include salaries, bonuses and sales commissions (for sales and marketing only), stock-based compensation expense and employee benefit costs. Allocated costs include charges for facilities, office expenses, utilities, telephones and other miscellaneous expenses.

- *Media costs.* These costs consist primarily of costs for advertising impressions we purchase from advertising exchanges, publishers and other third parties, which are expensed when incurred. We typically pay for these media costs on a per impression basis. We anticipate that our media costs will continue to vary with the related seasonal changes in revenue and overall growth in revenue. In the first, second and third quarters of fiscal year 2015, we reported a sequential decline in media costs as a percentage of revenue as we continued to see the benefits of improvements in our AI-based targeting overall and migrated some former [x+1] DSP customers to the Rocket Fuel DSP with its higher performance targeting. Over the longer term, if we are successful with our efforts to sell Platform Solutions offerings, including our DMP and DSP, and also are successful in structuring large agency trading desk deals, we expect the resulting changes in revenue mix to impact our media costs as a percentage of total revenue.
- *Other cost of revenue.* These costs include personnel costs, depreciation and amortization expense, amortization of internal-use software development costs, third-party inventory validation and data vendor costs, data center hosting costs and allocated costs. The personnel costs are primarily attributable to individuals maintaining our servers and members of our operations and analytics groups, which initiates, sets up, launches and monitors our advertising campaigns or implements and supports our platform. We capitalize costs associated with software that is developed or obtained for internal-use and amortize these costs in other cost of revenue over the internal-use software's useful life. Third-party inventory validation and data vendor costs consist primarily of costs to augment campaign performance

and monitor our brand safety efforts. Other cost of revenue also includes third-party data center costs and depreciation of data center equipment. We anticipate that our other cost of revenue will remain at a similar percentage to total revenue as in fiscal year 2015.

- *Research and development.* Our research and development expenses consist primarily of personnel costs and professional services associated with the ongoing development and maintenance of our technology. We believe that continued investment in technology is critical to pursuing our strategic objectives and we will prioritize resources on the most critical projects. Consistent with GAAP mandates, we capitalize a portion of our software development costs, and amortize such costs to Other Costs of Revenue over the useful periods of the projects' lives. In fiscal 2016, we expect research and development expenses (net of amounts capitalized in software development costs) to decrease as a percentage of total revenue from fiscal year 2015 levels.
- *Sales and marketing.* Our sales and marketing expenses consist primarily of personnel costs (including sales commissions) and allocated costs, professional services, brand marketing, travel, trade shows and marketing materials. Our sales and marketing organization focuses on (i) marketing our solutions to generate awareness; (ii) increasing the adoption of our solutions by existing and new advertisers and agencies. In fiscal year 2016, we expect overall sales and marketing expenses to remain relatively unchanged from fiscal year 2015 levels while we invest in selling efforts to enterprise customers and other strategic initiatives.
- *General and administrative.* Our general and administrative expenses consist primarily of personnel costs associated with our executive, IT, finance, legal, human resources, compliance and other administrative functions, as well as accounting, audit and legal professional services fees, allocated costs and other corporate expenses. Other miscellaneous expenses primarily include local taxes and fees. In fiscal year 2016, we expect general and administrative expenses to remain relatively unchanged from fiscal year 2015 levels.
- *Restructuring expense.* Restructuring expense is related to severance payments to employees, exit costs for excess facilities, depreciation or impairments of lease-related assets and the release of deferred rent liabilities related to terminated leases. We expect to incur additional restructuring related expenses (net of gains) in 2016.

#### ***Other Expense, Net***

*Interest expense.* Interest expense is primarily related to our credit facility and capital leases.

*Other (income) expense, net.* Other (income) expense—net consists primarily of gains and losses on foreign currency transactions. We have foreign currency exposure related to our cash and accounts receivable that are denominated in currencies other than the U.S. dollar, primarily the Canadian dollar, British pound and the Euro. As our foreign sales and expenses increase, our operating results may be more affected by fluctuations in the exchange rates of the currencies in which we do business.

#### ***Income Tax Provision (Benefit)***

Income tax provision (benefit) consists primarily of income taxes in foreign jurisdictions in which we conduct business. Due to uncertainty as to the realization of benefits from our deferred tax assets, including net operating loss carry-forwards, research and development and other tax credits, we maintain a full valuation allowance against most of our deferred tax assets. We expect to maintain this valuation allowance at least in the near term.

## Results of Operations

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2016</b>                             | <b>2015</b> |
| <b>Consolidated Statements of Operations Data:</b> |   |             |
| Revenue  | \$ 104,745                              | \$ 104,334  |
| Costs and expenses:                                |   |             |
| Media cost   | 42,559                                  | 45,561      |
| Other cost of revenue (1)                          | 20,085                                  | 19,956      |
| Research and development (1)                       | 10,639                                  | 11,323      |
| Sales and marketing (1)                            | 36,840                                  | 42,878      |
| General and administrative (1)                     | 14,321                                  | 17,574      |
| Restructuring                                      | (199)                                   | —           |
| Total costs and expenses                           | 124,245                                 | 137,292     |
| Operating loss                                     | (19,500)                                | (32,958)    |
| Interest expense                                   | 1,237                                   | 1,340       |
| Other (income) expense, net                        | (194)                                   | 2,208       |
| Loss before income taxes                           | (20,543)                                | (36,506)    |
| Income tax (benefit) provision                     | 230                                     | 357         |
| Net loss   | \$ (20,773)                             | \$ (36,863) |
| Net loss per share, basic and diluted              | \$ (0.48)                               | \$ (0.88)   |

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

|                            | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------|---|-------------|
|                            | <b>2016</b>                             | <b>2015</b> |
| Other cost of revenue      | \$ 530                                  | \$ 625      |
| Research and development   | 1,365                                   | 2,247       |
| Sales and marketing        | 1,489                                   | 2,831       |
| General and administrative | 1,426                                   | 1,744       |
| Total                      | \$ 4,810                                | \$ 7,447    |

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2016</b>                             | <b>2015</b> |
| <b>Consolidated Statements of Operations Data Percentage of Revenue: *</b> |   |             |
| Revenue  | 100 %                                   | 100 %       |
| Costs and expenses:  |   |             |
| Media cost   | 41                                      | 44          |
| Other cost of revenue  | 19                                      | 19          |
| Research and development   | 10                                      | 11          |
| Sales and marketing  | 35                                      | 41          |
| General and administrative   | 14                                      | 17          |
| Restructuring  | —                                       | —           |
| Total costs and expenses   | 119                                     | 132         |
| Operating loss   | (19)                                    | (32)        |
| Interest expense   | 1                                       | 1           |
| Other (income) expense, net  | —                                       | 2           |
| Loss before income taxes   | (20)                                    | (35)        |
| Income tax (benefit) provision   | —                                       | —           |
| Net loss   | (20)%                                   | (35)%       |

\* Certain figures may not sum due to rounding.

#### **Comparison of the Three Months Ended March 31, 2016 and 2015**

##### **Revenue**

|         | <b>Three Months Ended March 31,</b>       |             |                 |
|---------|---|-------------|-----------------|
|         | <b>2016</b>                               | <b>2015</b> | <b>% Change</b> |
|         | <b>(in thousands, except percentages)</b> |             |                 |
| Revenue | \$ 104,745                                | \$ 104,334  | —%              |

Revenue slightly increased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Adding new customers that tend to spend less, and declining spend from some larger customers, along with some customer turnover, have contributed to the declining rate of year-over-year revenue growth on a percentage basis since the third quarter of 2013. Media Services represented 84% and 94% of revenue and Platform Solutions was 16% and 6% of revenue for the three months ended March 31, 2016 and 2015, respectively. Revenue derived from agencies and other channel partners was 71% and 76% of revenue and revenue from Platform Solutions was 29% and 24% of revenue for the three months ended March 31, 2016 and 2015, respectively. Revenue from display channel was 62% and 60% of revenue and revenue from other channels was 38% and 40% of revenue for the three months ended March 31, 2016 and 2015, respectively. This decrease is due in part to the Company's transition from the Facebook exchange (FBX) to Facebook's API for the purchase of Facebook inventory in the first half of 2015. The mobile channel was 26% of revenue for the three months ended March 31, 2016, followed by the video channel and then the social channel.

The slight increase in revenue was partially attributable to an increase in the number of active customers. Our active customer count was 1,530 (1,266 with channel partners and 264 with direct advertisers) as of March 31, 2016, slightly higher than 1,487 as of March 31, 2015 (1,149 with channel partners and 338 with direct advertisers). This increase was partially offset by, among other factors, a decline in revenue from customers migrating their business to competitors or adopting third-party self-service platforms. The number of campaigns that ran across our platforms increased by 11% during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The volume of impressions delivered increased by 13% during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The average cost per mille (or cost per thousand impressions), or "CPM," decreased by 11%. Revenue from outside of North America increased by 23% for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Revenue from outside of North America, as a percentage of revenue, increased to 19% from 15% between the three months ended March 31, 2016 and 2015, respectively.



### *Media Cost and Other Cost of Revenue*

|                           | Three Months Ended March 31,       |           |          |
|---------------------------|------------------------------------|-----------|----------|
|                           | 2016                               | 2015      | % Change |
|                           | (in thousands, except percentages) |           |          |
| Media cost                | \$ 42,559                          | \$ 45,561 | (7)%     |
| Other cost of revenue     | \$ 20,085                          | \$ 19,956 | 1 %      |
| Headcount (at period end) | 166                                | 181       | (8)%     |

Media costs decreased by \$3.0 million , or 7% , during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 to approximately 41% of revenue from 44% of revenue for the three months ended March 31, 2016 and 2015 , respectively, primarily due to the transition of former X+1 customer campaigns to the Rocket Fuel DSP.

Other cost of revenue increased slightly by \$0.1 million or 1% , during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 . Amortization of capitalized internal-use software was \$2.3 million and \$1.6 million for the three months ended March 31, 2016 and 2015 , respectively. This increase was partially offset by a decrease in personnel expense resulting from lower average headcount.

### *Research and Development*

|                           | Three Months Ended March 31,       |           |          |
|---------------------------|------------------------------------|-----------|----------|
|                           | 2016                               | 2015      | % Change |
|                           | (in thousands, except percentages) |           |          |
| Research and development  | \$ 10,639                          | \$ 11,323 | (6)%     |
| Percent of revenue        | 10%                                | 11%       |          |
| Headcount (at period end) | 152                                | 193       | (21)%    |

Research and development expense decreased by \$0.7 million , or 6% , during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 . This decrease was primarily due to a decrease in personnel expense from a reduction in average headcount, coupled with an increase in capitalization of internal-use software development.

We capitalized internal-use software development costs of \$3.6 million and \$3.3 million for the three months ended March 31, 2016 and 2015 , respectively. The increase was due to increased use of contractors devoted to internal-use software development.

### *Sales and Marketing*

|                           | Three Months Ended March 31,       |           |          |
|---------------------------|------------------------------------|-----------|----------|
|                           | 2016                               | 2015      | % Change |
|                           | (in thousands, except percentages) |           |          |
| Sales and marketing       | \$ 36,840                          | \$ 42,878 | (14)%    |
| Percent of revenue        | 35%                                | 41%       |          |
| Headcount (at period end) | 461                                | 641       | (28)%    |

Sales and marketing expense decreased by \$6.0 million , or 14% , during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 . This decrease was primarily due to a decline in average headcount, which decreased personnel expense by \$4.0 million and travel and related expense by \$1.0 million .

## General and Administrative

|                            | Three Months Ended March 31,       |           |          |
|----------------------------|------------------------------------|-----------|----------|
|                            | 2016                               | 2015      | % Change |
|                            | (in thousands, except percentages) |           |          |
| General and administrative | \$ 14,321                          | \$ 17,574 | (19)%    |
| Percent of revenue         | 14%                                | 17%       |          |
| Headcount (at period end)  | 138                                | 168       | (18)%    |

General and administrative expense decreased by \$3.3 million , or 19% , during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 . This decrease was primarily due to the decline in average headcount, which decreased personnel and facility related allocated expenses by \$3.2 million .

## Restructuring

|                       | Three Months Ended March 31,       |      |          |
|-----------------------|------------------------------------|------|----------|
|                       | 2016                               | 2015 | % Change |
|                       | (in thousands, except percentages) |      |          |
| Restructuring charges | \$ (199)                           | \$ — | n/a      |
| Percent of revenue    | — %                                | — %  |          |

During the three months ended March 31, 2016 , the Company recorded a \$0.2 million restructuring net gain as the accelerated amortization of leasehold assets of \$3.5 million related to terminating our office lease in New York and severance costs of \$0.4 million were more than offset by the release of deferred rent liabilities of \$4.1 million.

Total workforce declined from 1,183 at March 31, 2015 to 917 at March 31, 2016 , due to our reduction in workforce in the second quarter of 2015 and attrition.

## Interest and Other Expense

|  | Three Months Ended March 31,       |          |          |
|--|------------------------------------|----------|----------|
|  | 2016                               | 2015     | % Change |
|  | (in thousands, except percentages) |          |          |
| Interest expense                             | \$ 1,237                           | \$ 1,340 | (8)%     |
| (Gain) loss on foreign currency transactions | (196)                              | 2,196    | (109)%   |
| Other (income) expense, net                  | 2                                  | 12       | (83)%    |
| Total  | \$ 1,043                           | \$ 3,548 | (71)%    |

The decrease in interest and other expense during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 , was primarily due to slight foreign currency gains from favorable exchange rate fluctuations during the three months ended March 31, 2016 versus a significant loss in the same period in 2015.

## Income Tax (Benefit) Provision

We recorded an income tax expense of \$0.2 million and \$0.4 million for the three months ended March 31, 2016 and 2015 , respectively, primarily due to foreign income taxes.

## Liquidity and Capital Resources

As of March 31, 2016 , we had cash and cash equivalents of \$67.4 million , of which \$1.7 million was held by our foreign subsidiaries, \$62.0 million in debt obligations (net of \$0.5 million in debt issuance costs, under the 2016 Loan Facility) and \$18.5

million in capital lease obligations. Cash and cash equivalents consist of cash and money market funds. We did not have any short-term or long-term investments as of March 31, 2016 .

On December 31, 2014, we entered into the Second Amended and Restated Revolving Credit and Term Loan Agreement with certain lenders, including Comerica Bank, or "Comerica", as administrative agent for the lenders (the "2014 Loan Facility"). The 2014 Loan Facility amended and restated our then-existing Amended and Restated Revolving Credit and Term Loan Agreement, dated December 20, 2013, between us, certain lenders, and Comerica as administrative agent for the lenders. The 2014 Loan Facility provided for a secured \$80.0 million three year revolving credit facility, and a secured \$30.0 million five-year term loan. Revolving loans may be advanced under the 2014 Loan Facility in amounts up to the lesser of (i) 85% of eligible accounts receivable and (ii) \$80.0 million . If the borrowing base falls below our outstanding balance under the revolving credit facility, we may not have access to additional borrowing capacity and may have to repay some of the outstanding balance.

In March 2016, we amended the 2014 Loan Facility (the "2016 Loan Facility") and terminated the term loan. On March 11, 2016, the then remaining balance of the term loan was repaid and refinanced by an additional draw down on the revolving credit facility.

The 2016 Loan Facility contains customary affirmative and negative covenants, that limit our ability to, among other things, incur additional debt, make acquisitions, make certain restricted payments, make investments or make capital expenditures. If the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below \$40.0 million, the lenders have the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility. We must comply with a minimum bank-defined EBITDA covenant (Refer to Note 6 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for details), maintain at least \$30.0 million of cash on deposit with the lenders and maintain a minimum liquidity ratio. As of March 31, 2016 , we were in compliance with all covenants under the 2016 Loan Facility. However, if future operating results are less favorable than currently anticipated, we may need to seek waivers or amendments to modify our debt covenants.

As of March 31, 2016 , we had \$62.5 million of outstanding revolving loans and letters of credit had been issued amounting to \$7.5 million under the 2016 Loan Facility.

We believe that, subject to achieving our operating plan for 2016, our existing cash and cash equivalents balance and 2016 Loan Facility will enable us to meet our business requirements for at least the next twelve months. Concurrently with this filing, we have filed an S-3 registration statement covering up to \$50.0 million of our common stock and other securities, including a sales agreement for an at-the-market offering enabling us to sell shares of common stock into the market over time. This sales agreement gives us the flexibility to raise up to \$30.0 million. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased debt service obligations and could also be subject to more restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional funds, we may be forced to take additional measures to reduce expenses to offset any shortfall.

There can be no assurances that we will be able to raise additional capital through sales of equity, or through debt financing arrangements, or obtain any desired waivers or amendments of the 2016 Loan Facility on acceptable terms or at all, and the failure to do so would adversely affect our ability to achieve our business objectives. In addition, if our future operating performance is below our expectations, our liquidity and ability to operate our business could be adversely affected. See "Risk Factors - *Our credit agreement contains operating and financial covenants that restrict our business and financing activities and, in some cases, could result in an immediate requirement to repay our outstanding loans.* "

## Cash Flows

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

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | March 31,          |             |
|  | 2016               | 2015        |
| <b>Consolidated Statements of Cash Flows Data:</b> |                    |             |
| Cash flows used in operating activities            | \$ (2,754)         | \$ (4,197)  |
| Cash flows used in investing activities            | (4,379)            | (7,959)     |
| Cash flows used in financing activities            | (3,955)            | (2,643)     |
| Effects of exchange rate changes on cash           | (80)               | (202)       |
| Decrease in cash and cash equivalents              | \$ (11,168)        | \$ (15,001) |

### Operating Activities

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

Our collection cycles can vary from period to period based on common payment practices employed by advertising agencies. Our days sales outstanding were 95 and 97 days as of March 31, 2016 and March 31, 2015, respectively. Our contracts with advertising inventory suppliers and exchanges typically are based on industry standard payment terms which are typically shorter than our corresponding payment terms with customers. Typically, we expect that during the second and the fourth quarter of each year, our working capital needs may increase due to the seasonality of our business. This increase is driven by the fact that we have to make timely payments to publishers and exchanges, while our customer payments may be delayed beyond the contractual terms of the customers' invoices. As a result, the timing of cash receipts and vendor payments can significantly impact our cash used in operations for any period presented.

For the three months ended March 31, 2016, cash used in operating activities was \$2.8 million, resulting from a net loss of \$20.8 million, offset by the other non-cash expenses of \$22.0 million, which mainly included depreciation, amortization, stock-based compensation expense and accelerated amortization charges related to our terminated office lease in New York. These other non-cash expenses increased due to additional depreciation generated by our capital expenditures and amortization from intangible assets acquired in the [x+1] acquisition. Cash used in operating activities was further affected by the \$3.9 million increase in net working capital items, most notably a decrease in accounts receivable of \$14.1 million due to the seasonality of advertising campaigns as well as timing of payments from customers and agencies which was more than offset by a decrease in accounts payable of \$10.8 million, due to the seasonality of advertising campaigns as well as the timing of our payments to our vendors, a decrease in deferred rent of \$3.1 million, and other items.

For the three months ended March 31, 2015, cash used in operating activities was \$4.2 million, resulting from a net loss of \$36.9 million, offset by non-cash expenses of \$20.1 million, which mainly included depreciation, amortization and stock-based compensation expense. These non-cash expenses increased due to additional depreciation generated by our capital expenditures, amortization from intangible assets acquired in the [x+1] acquisition and headcount growth, primarily related to continued investment in our business. These were offset by \$12.6 million from a reduction in net working capital items, most notably a decrease in accounts receivable of \$22.5 million due to the seasonality of advertising campaigns as well as timing of payments from customers and agencies, a decrease in prepaid and other assets of \$5.4 million due to the collection of certain leasehold reimbursements from landlords, and an increase in deferred revenue of \$2.5 million, partially offset by a decrease in accounts payable of \$14.8 million, due to the seasonality of advertising campaigns as well as the timing of our payments to our vendors and a decrease in accrued and other liabilities of \$4.3 million related to the timing of payments.

### **Investing Activities**

During the three months ended March 31, 2016 , investing activities primarily consisted of \$1.8 million of capital expenditures for facilities, equipment and software and \$2.9 million of capitalized internal-use software. We expect some facilities-related capital expenditures for the remainder of the year mainly to outfit our new office space in New York city.

During the three months ended March 31, 2015 , investing activities primarily consisted of \$5.5 million of capital expenditures in the form of purchases of facilities, equipment and software and \$3.1 million of capitalized internal-use software.

### **Financing Activities**

During the three months ended March 31, 2016 , cash used in financing activities was \$4.0 million , consisting primarily of \$2.1 million in payments, inclusive of debt issuance costs, towards our capital lease obligations as well as the net payments towards the term loan under our 2016 Loan Facility of \$1.7 million.

During the three months ended March 31, 2015 , cash used in financing activities was \$2.6 million , consisting primarily of \$1.5 million in payments towards our 2016 Loan Facility, as well as \$1.1 million in payments towards our capital lease obligations.

### **Off Balance Sheet Arrangements**

We did not have any off balance sheet arrangements as of March 31, 2016 or December 31, 2015 as defined in Item 303(a)(4) of Regulation S-K.

### **Contractual Obligations and Known Future Cash Requirements**

#### **Commitments**

As of March 31, 2016 , our principal commitments consisted of obligations under the 2016 Loan Facility, our operating leases for our offices, as well as capital lease agreements for computer hardware and software.

The following table summarizes our future minimum payments under these arrangements as of March 31, 2016 (in thousands):

|                               | Payments Due by Period |                     |            |           |                      |
|-------------------------------|------------------------|---------------------|------------|-----------|----------------------|
|                               | Total                  | Less Than<br>1 Year | 1–3 Years  | 3–5 Years | More Than<br>5 Years |
| Operating lease obligations   | \$ 89,259              | \$ 17,205           | \$ 31,213  | \$ 21,341 | \$ 19,500            |
| Capital lease obligations     | 18,516                 | 8,723               | 9,539      | 254       | —                    |
| Revolving credit facility (1) | 62,500                 | —                   | 62,500     | —         | —                    |
| Total minimum payments        | \$ 170,275             | \$ 25,928           | \$ 103,252 | \$ 21,595 | \$ 19,500            |

(1) Accrues interest, at our option, at (i) a base rate determined in accordance with the 2016 Loan Facility, plus a spread of 1.625% to 2.125%, or (ii) a LIBOR rate determined in accordance with the credit agreement, plus a spread of 2.625% to 3.125%, which was equal to 3.31% , as of March 31, 2016 , and has a final maturity date in December 2017.

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

### **Critical Accounting Policies, Estimates and Judgments**

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or "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, estimates and judgments associated with revenue recognition, allowances for doubtful accounts and returns, internal-use software development costs, income taxes, stock-based compensation expense and impairment of goodwill and intangible assets have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see the notes to our condensed consolidated financial statements. The critical accounting policies, estimates and judgments are described in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2015 Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no changes or updates to our critical accounting policies since the end of fiscal year 2015.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

#### ***Interest Rate Fluctuation Risk***

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Our cash and cash equivalents consist of cash, deposits and money market funds which, due to their relatively short maturity, are relatively insensitive to interest rate changes.

Our borrowings under our credit facility are subject to variable interest rates and thus expose us to interest rate fluctuations depending on the extent to which we utilize the credit facility. If market interest rates materially increase, our results of operations could be adversely affected. A hypothetical increase in market interest rates of 100 basis points would result in an increase in our interest expense of \$0.1 million per year for every \$10.0 million of outstanding debt under the credit facility.

Our borrowings under capital lease obligations are at fixed interest rates, and therefore do not expose us to additional interest rate fluctuation risk.

#### ***Foreign Currency Exchange Risk***

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Canadian dollar, the British Pound and the Euro. While a portion of our sales are denominated in these foreign currencies and then translated into the U.S. dollar, the vast majority of our media costs are billed in the U.S. dollar, causing both our revenue and, disproportionately, our operating loss and net loss to be impacted by fluctuations in the exchange rates.

In addition, gains or losses from the translation of certain cash balances, trade accounts receivable balances and intercompany balances that are denominated in these currencies impact our net income (loss). A hypothetical decrease in the foreign currency exchange rates of 10 percent, would result in a foreign currency loss of approximately \$3.0 million on foreign-denominated balances, excluding our intercompany loans with our subsidiaries, at March 31, 2016. As our foreign operations expand, our results may be more impacted 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 financial instruments to hedge our foreign currency exchange risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The phrase "disclosure controls and procedures" (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act) refers to controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, or the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate to allow timely decision regarding required disclosure.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of March 31, 2016, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the first quarter of 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Limitations on Effectiveness of Controls and Procedures

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

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

We are involved from time to time in claims, proceedings, and litigation, including the following:

On September 3, 2014 and September 10, 2014, respectively, two purported class actions were filed in the Northern District of California against us and certain of our officers and directors at the time. The actions are *Shah v. Rocket Fuel Inc., et al.*, Case No. 4:14-cv-03998, and *Mehrotra v. Rocket Fuel Inc., et al.*, Case No. 4:14-cv-04114. The underwriters in the initial public offering on September 19, 2013, or the "IPO," and the secondary offering on February 5, 2014, or the "Secondary Offering," were also named as defendants. These actions were consolidated and a consolidated complaint, *In re Rocket Fuel Securities Litigation*, was filed on February 27, 2015. The consolidated complaint alleged that the defendants made false and misleading statements about the ability of our technology to detect and eliminate fraudulent web traffic, and about our future prospects. The consolidated complaint also alleged that our registration statements and prospectuses for the IPO and the Secondary Offering contained false and misleading statements on these topics. The consolidated complaint purported to assert claims for violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 (the "Exchange Act claims"), and for violations of Sections 11 and 15 of the Securities Act (the "Securities Act claims"), on behalf of those who purchased the our common stock between September 20, 2013 and August 5, 2014, inclusive, as well as those who purchased common stock in the IPO, and a claim for violation of Section 12(a)(2) of the Securities Act in connection with the Secondary Offering. The consolidated complaint sought monetary damages in an unspecified amount. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the court granted in part and denied in part the defendants' motions to dismiss. The court dismissed the Securities Act claims and all but one of the statements on which the Exchange Act claims were based. The court also dismissed all claims against the outside directors and the underwriters of the public offerings.

On March 23, 2015, a purported shareholder derivative complaint for breach of fiduciary duty, waste of corporate assets, and unjust enrichment was filed in San Mateo, California Superior Court against certain of our then-current and former officers and our board of directors at that time. The action is *Davydov v. George H. John*, et.al, Case No. CIV 53304. This state court action has been stayed pending the resolution of the *Victor Veloso v. George H. John et al.* action described below.

On October 6, 2015, a purported verified shareholder derivative complaint was filed in the Northern District of California. The action is *Victor Veloso v. George H. John et al.*, Case No. 4:15-cv-04625-PJH. Beginning in January 2016, three substantially similar related cases, *Gervat v. Wootton et al.*, 4:16-cv-00332-PJH, *Pack v. John et al.*, 4:16-cv-00608-EDL, and *McCawley v. Wootton et al.*, Case No. 4:16-cv-00812, also were filed in the Northern District of California on January 21, 2016, February 4, 2016 and February 18, 2016, respectively. The complaints in these related actions are based on substantially the same facts as the *In re Rocket Fuel Securities Litigation*, and name as defendants our board of directors at the time of filings and certain then-current and former executives. The *Veloso* action has been related to the *In re Rocket Fuel Securities Litigation* and motions to relate the

other actions are pending. The four purported verified shareholder derivative complaints were consolidated by the court in March 2016, and a complaint in the consolidated action, titled *In re Rocket Fuel, Inc. Derivative Litigation*, Case No. 4:15-cv-4625-PJH, was filed on April 14, 2016.

On March 29, 2016, a purported shareholder derivative complaint for breach of fiduciary duty and violation of California corporations code section 25402 was filed in San Francisco, California Superior Court against certain of the Company's current and former officers and certain of the Company's current and former directors. The action is *Lunam v. William Ericson, et. al.*, Case No. CGC-16-551209.

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

We intend to vigorously defend ourselves against these actions. The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period.

Legal fees are expensed in the period in which they are incurred.

## ITEM 1A. RISK FACTORS

*The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see the first two pages in Part I, Item 2 of this Quarterly Report on Form 10-Q for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results and financial condition could be materially adversely affected.*

### Risks Related to Our Business and Our Industry

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

We were incorporated in 2008 and, as a result, have only a limited operating history upon which our business and future prospects may be evaluated. Although we have experienced substantial revenue growth in our limited history, our rate of revenue growth has been declining since the third quarter of 2013. We may not be able to slow or reverse this decline in revenue growth rate, and we may not be able to maintain our current revenue levels. We have encountered and will continue to encounter risks and difficulties frequently experienced by companies in rapidly developing and changing industries, including challenges related to recruiting, integrating and retaining qualified employees; making effective use of our limited resources; achieving market acceptance of our existing and future offerings; competing against companies with greater financial and technical resources; acquiring and retaining advertisers and advertising agency customers; and developing new offerings, either internally or through acquisitions.

As a company in a rapidly evolving industry, our business prospects depend in large part on our ability to:

- develop, offer, sell and provide effective service and support for competitive technology platforms and offerings that meet our advertisers' and their agencies' needs as they change;
- build a reputation for superior solutions and create trust and long-term relationships with advertisers and advertising agencies;
- partner with advertising agencies to offer solutions to their customers;
- attract, hire, integrate and retain qualified and motivated employees;
- expand our expertise in technologies required for our offerings, such as our self-service DSP and DMP enterprise solutions, that involve developing solutions for use directly by customers, including user interface development, user documentation and ongoing customer support and maintenance;



- effectively execute on cost-cutting and other operating efficiency initiatives in order to create more leverage in our business;
- distinguish ourselves from competitors in our industry while at the same time working with those competitors that also offer advertising inventory for our acquisition and placement;
- maintain and expand our relationships with the sources of quality inventory through which we execute our customers' advertising campaigns, including but not limited to Facebook inventory;
- respond to evolving industry standards, government regulations and customer requirements that impact our business, particularly in the areas of data collection and consumer privacy;
- prevent or otherwise mitigate failures or breaches of security or privacy; and
- expand our business internationally

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

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

Our quarterly and annual operating results have fluctuated in the past. Similarly, we expect our future operating results to fluctuate for the foreseeable future due to a variety of factors, many of which are beyond our control. We have only a few longer term contracts, and we book, bill and recognize a substantial portion of our revenue on a month-to-month basis; both factors make our business less predictable. Our fluctuating results have in the past and could in the future cause our performance to fall below the expectations of investors and securities analysts, and adversely affect the price of our common stock. Because our business is changing and evolving rapidly, our historical operating results may not be useful for predicting our future operating results. Factors that may increase the volatility of our operating results include the following:

- the addition or loss of customers;
- changes in demand and pricing for our solutions;
- the seasonal nature of our customers' spending on digital advertising campaigns;
- changes in our pricing policies or the pricing policies of our competitors;
- the pricing of advertising inventory or of other third-party services that we require;
- the introduction of new technologies, product or service offerings by our competitors;
- changes in our customers' advertising budget allocations, agency affiliations, or marketing strategies, which could affect their interest in our solutions;
- changes and uncertainty in the regulatory environment for us or our customers;
- changes in the economic prospects of our customers or the economy generally, which could alter current or prospective customers' spending priorities, or could increase the time or costs required to complete sales to customers;
- changes in the availability of advertising inventory through real-time advertising exchanges, or in the cost to reach end consumers through digital advertising;
- fluctuations in our non-GAAP net revenue, which varies based on our pricing and on our costs for the purchase of advertising (non-GAAP net revenue is a non-GAAP measure; please see Part I, Item 2 of this Quarterly Report on Form 10-Q, "Non-GAAP Measures," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);

- the rate of our investment in people and related infrastructure;
- the extent to which we expand operations outside of North America;
- changes in our capital expenditures and/or lease obligations as we acquire the computer hardware, equipment, facilities and other assets required to support our business; and
- the cost and potential outcomes of existing and future litigation, including, without limitation, the purported stockholder class action and stockholder derivative lawsuits described below under “Risks Related to the Securities Markets and Ownership of our Common Stock— *The price of our common stock has been volatile and the value of our common stock has declined substantially since our IPO.*”

Based upon all of the factors described above and others that we may not anticipate, including those beyond our control, we have a limited ability to forecast our future revenue, costs and expenses and the resulting profit or loss and cash flows. As a result, our actual operating results may from time to time fall below our own estimates or the expectations of investors and analysts. Furthermore, our projected results may from time to time fall below our initial estimates or the expectations of investors and analysts. These situations have occurred several times since we became a public company and resulted in substantial declines in our stock price. See “Risks Related to the Securities Markets and Ownership of our Common Stock— *We have failed in the past, and may fail in the future, to meet our publicly announced guidance or other expectations about our business and future operating results. Such past failures have caused, and future failures would likely cause, our stock price to decline,*” below.

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

We incurred net losses of \$210.5 million, \$64.3 million and \$20.9 million for the years ended December 31, 2015, 2014 and 2013, respectively and a net loss of \$20.8 million for the three months ended March 31, 2016. As of March 31, 2016, we had an accumulated deficit of \$340.1 million. We may not achieve profitability in the foreseeable future, if at all. For example, in 2015 our operating expenses increased more rapidly than our revenue primarily due to non-cash goodwill impairment and amortization and depreciation charges, as well as restructuring expenses related to our reduction in force in April 2015 and corresponding adjustments to physical facilities. Our operating expenses are largely based on personnel and facilities, and are relatively fixed in the short term. Hence, our operating expenses increased more rapidly than our revenue in 2014, primarily due to a shortfall in our revenue compared to our forecasts combined with substantial continued investments we were making in our business, including an 81% increase in our headcount during 2014, and due to leases and tenant improvements at our growing number of office locations.

We now sell Platform Solutions in addition to Media Services. Some of these sales may result in the deferral of platform revenues over the term of the subscription. However, our sales costs, including commissions on such sales, will generally be incurred up front, which could result in additional losses as we ramp this business, even though the aggregate revenues from such activities exceed the associated aggregate costs of acquiring and providing such services over the full course of the term.

In order to achieve sustained profitability and positive cash flow, we must change our operational infrastructure and practices. For example, we must manage our expenses to create operating leverage and manage our financial and capital resources more effectively. If we fail to implement the necessary changes to our operations on a timely basis, or if we are unable to implement them effectively or at all, our business may suffer. Our bank covenants require us to improve our bank-defined EBITDA (as defined in Note 6 of our unaudited Condensed Consolidated Financial Statements in Part I, Section 1 of this Quarterly Report on Form 10-Q) results materially over the course of fiscal year 2016. If we fail to achieve such improvements, the banks could revoke our loans. Any future losses will continue to impair our liquidity, which could ultimately cause us to become insolvent. Furthermore, our goal to grow our business will require either that we improve our working capital management, by better aligning the time it takes to collect on customer invoices with our vendor payment terms, which are typically shorter, or obtain additional capital to support this working capital requirement. We cannot provide assurance that we will be successful in addressing these and other challenges we may face in the future.

***We have experienced a slowing rate of revenue growth since the third quarter of 2013. During the third quarter of 2015, revenue declined compared to the second quarter of 2015; during the fourth quarter of 2015, revenue declined compared to the fourth quarter of 2014; and during the first quarter of 2016, revenue was essentially flat compared to the first quarter of 2015. Our revenue growth will continue to suffer if we do not improve our capabilities to attract key former and potential customers, retain our customers and sell more solutions to these customers.***

In the short term, we expect our revenue growth to continue to be impacted as we continue building our enterprise sales capabilities and as we continue to hire new sales personnel, including senior sales leaders, who require time to become productive.

To sustain or increase our revenue longer-term, we must add and retain new customers and encourage longer-term customers to purchase additional offerings from us, including our newer enterprise solutions. As the digital advertising industry matures and as competitors introduce lower cost or differentiated products or services that compete with or are perceived to compete with ours, our ability to sell our solutions to new and existing advertisers based on our offerings, pricing, technology platform and functionality has been and could continue to be challenged. Some advertisers that are repeat users of our Media Services have increased their spending over time. Conversely, some advertisers that are newer to our solution tend to spend less than, and may not return at all, or as frequently as, advertisers that have used our solution for longer periods of time. With long-time advertisers, we may reach a point of saturation at which it is challenging to continue to grow our revenue from those advertisers because of their unfamiliarity with the breadth of our product suite, as well as factors beyond our control such as internal limits that advertisers or their agencies may place on the allocation of their advertising budgets to digital media, to particular campaigns, to a particular provider, or for other reasons not known to us. Since 2014, we have been experiencing fluctuations in average customer spend, as well as the loss of, or decline in spend by, some of our larger customers. If we are unable to reverse this trend, continue to attract more new customers and obtain additional business from existing customers, our revenue and operating results will continue to be adversely affected.

Our ability to slow or reverse this declining rate of revenue growth will depend in part upon the successful introduction of new offerings (including our ability to cross-sell our full suite of offerings). We operate in a highly competitive market, and there can be no assurance that these new offerings will gain significant levels of market acceptance. In particular, the market for our enterprise solutions is relatively new. Advertisers may be reluctant to make significant investments in these solutions. The sales cycle for enterprise solutions can be long and unpredictable and require considerable time and expense. Even if we generate a sale, we incur upfront costs associated with onboarding advertisers to our enterprise platforms, which can be a complex process as we must support a wide range of customer data formats and capabilities, and integrate with a wide range of applications and technology and process infrastructures. We may not recoup our investment if we do not maintain the advertiser relationship over time.

***We compete for allocation of advertising budgets with agencies that may prefer to allocate their clients' advertising spend to their own internal agency trading desks or other solutions, reducing our ability to grow or retain revenue from customers represented by agencies even if our solutions are more effective.***

Among our principal competitors for our solutions are advertising agencies that operate agency trading desks, either directly or through affiliates. Customers often rely on agencies to direct and allocate their advertising spend for advertising in digital media among various providers. We rely predominately on advertising agencies to purchase our solution on behalf of advertisers, and certain of those agencies or agency holding companies have, or are creating competitive solutions, referred to as agency trading desks. If these agency trading desks are successful in leveraging their relationships with the advertisers, we may be unable to compete for advertisers' budgets even if our solution is more effective. Many agencies that we work with are also owned by large agency holding companies. For various reasons related to the agencies' own priorities or those of their holding companies, they may not recommend our solution, even though it may be more effective, and we may not have the opportunity to demonstrate our value to advertisers. Furthermore, agencies are increasingly involved in helping to select self-service platform providers for the advertisers they represent. This trend has impacted, and may continue to impact, our ability to grow revenue from those advertisers. Since 2014, we have been experiencing declines in revenue from some customers that directed more spend through agency trading desks that did not use our Media Services. Our ability to compete successfully and return to consistent revenue growth will depend in part on our ability to identify opportunities to work collaboratively with agencies and agency trading desks.

***We may not be able to compete successfully against current and future competitors because competition in our industry is intense, and our competitors may offer solutions that are perceived by our customers to be more attractive than ours or leverage captive inventory or data to their advantage. These factors could result in declining revenue or the inability to grow our business.***

Competition for our advertisers' advertising budgets is intense, as is competition for broader advertising solutions such as data management platforms. We operate in a market that is subject to rapid development and introduction of product and service offerings, changing branding objectives and evolving customer demands, all of which affect our ability to remain competitive. For example, in the past, we experienced a decline in revenue from some customers that adopted competitors' DSP and/or DMP solutions rather than our own similar solutions. We expect competition to increase as the barriers to enter our market are low and consolidation is increasing. Increased competition may force us to charge less for our solutions, or offer pricing models that are less attractive to us and decrease our margins. Our principal competitors for our media buying solutions include traditional advertising networks, and advertising agencies that operate an agency trading desk, either directly or through an affiliate. Competitors for our self-service solutions include other companies that offer self-service DSP and/or DMP solutions, such as Salesforce, Adobe and Oracle (BlueKai), that allow advertisers to purchase inventory directly from advertising exchanges or other third parties and manage and analyze their own consumer data and third party data. Other competitors for our solutions include

in-house tools and custom solutions currently used by brand advertisers to manage their customer data and advertising and marketing activities. As our platforms evolve and we introduce new technologies, features and functionality, we may face competition from new sources.

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

***Any expense reduction initiatives that we have undertaken or may undertake may not deliver the expected results and these initiatives may adversely affect our business.***

In early 2015, we announced that we intended to take measures to move toward profitability and improve our operating leverage, including slowing our headcount growth considerably, managing our expenses more effectively, and minimizing our capital spending requirements. In April 2015 we committed to a plan intended to improve our operational efficiency. This plan included a reduction of approximately 11% of our workforce that was completed during the second quarter of 2015, and other cost reduction measures that extended throughout 2015. As we have taken and continue to take actions to better align our operating expenses with our revenue, manage our costs better, and more efficiently manage our business, such actions have resulted and could result in disruptions to our operations and our workforce, and adversely affect our business. In particular, higher voluntary attrition, and the resulting influx of new leaders and other employees, has impacted our efficiency across the company as we expend the time and resources necessary to recruit and retain talent, restructure our organizations, and train new employees.

Expense reduction and greater operational efficiency continue to be priorities in 2016. To effectively manage our business and operations with fewer employees, we have spent and may need to continue spending significant resources to further automate our business processes, improve our technology infrastructure, our operational, financial and management controls, and our reporting systems and procedures by, among other things:

- monitoring and updating our technology infrastructure to maintain high performance and the security of our data centers and network;
- enhancing and automating work processes of our customer service and operations teams to ensure that our service professionals can efficiently and effectively support our customers; and
- enhancing our internal controls to ensure timely, accurate and highly efficient billing processes.

These enhancements and improvements have required and will continue to require capital expenditures and allocation of valuable management and employee resources. We expect to continue to actively monitor our operating expenses; however, if we do not fully realize the anticipated benefits of any expense reduction initiatives, including reductions in headcount, our business could be adversely affected. In addition, we cannot be sure that our efforts to manage expenses and improve our operating leverage will be successful. If our operating expenses are higher than we expect or if we do not maintain adequate control of our costs and expenses, our operating results will suffer.

***If we fail to make the right investment decisions in our offerings and technology platforms, we may not attract and retain advertisers and advertising agencies and our revenue and results of operations may decline.***

We compete for advertisers, which are often represented by advertising agencies, who want to purchase digital media for advertising campaigns and/or invest in enterprise solutions for the purchase of digital media, data management and/or personalization of web properties. Our industry is subject to rapid changes in standards, technologies, products and service offerings, as well as in advertiser demands and expectations. We continuously need to make decisions regarding which offerings and technology to invest in to meet advertiser demand and evolving industry standards and regulatory requirements. We may make

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

***Our entry into the market for our Platform Solutions is relatively new, and if we are not recognized as a technology company that can deliver effective, reliable and secure platform solutions to enterprise clients and agencies, then our prospects and clients may be unwilling to use our solutions and our business will suffer.***

As we expand our offerings to include our Platform Solutions for enterprise clients and agencies, we must develop new skills that are critical to delivering such offerings, and invest significantly in training employees to support the business model and the long term enterprise client relationships that we want to maintain and further develop. We must expand our expertise in technologies required for those offerings, and develop a reputation for regularly developing and delivering software updates and new features to enterprise clients. We must continue to develop and provide an easy to use, intuitive user interface for our solutions and provide robust client training programs and professional services to support our clients' use of our platform. In addition, we must have skilled sales and customer service employees that are capable of working with clients to assess their use of our platform. We must be able to develop and execute product roadmaps for clients to facilitate ongoing software feature development and ensure continued client use of our platform offerings, including the use of our technology for purchasing digital media for advertising and implementing marketing campaigns. We must also provide a secure infrastructure that clients trust to house their customer data, devote significant resources to cyber and physical security, and regularly test, audit, and augment our security protocols and practices.

Because the sales cycle for enterprise solutions can be long and unpredictable and requires considerable time and expense, and client relationships may take a long time to grow and mature, it may be many quarters or years before we know whether our investment in these solutions will be a profitable business for us. If we do not develop and maintain a good reputation as an enterprise solutions provider, and we are not successful in generating revenue from these solutions and the resulting enterprise client relationships, then we may not recoup our investments in these solutions, and our results of operations will be harmed.

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

We intend to continue to make investments to support business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our platform, improve our operating infrastructure or acquire complementary businesses and technologies. In implementing our business strategy, we may decide to, or need to, engage in public or private equity, equity-linked or debt financings to secure additional funds to strengthen our balance sheet, and support our business plans through the end of this year and into 2017. Concurrently with this filing, we have filed an S-3 registration statement, supplemental prospectus, and entered into a sales agreement for an at-the-market offering enabling us to sell common shares into the market over time. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, including the ability to pay dividends. This may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to complete equity offerings or obtain additional financing on terms favorable to us, if at all. If we are unable to obtain capital on terms satisfactory to us when we require it, our ability to support business growth and respond to business challenges could be significantly impaired, and our business could be adversely affected.

***Our credit agreement contains operating and financial covenants that restrict our business and financing activities and, in some cases, could result in an immediate requirement to repay our outstanding loans.***

Borrowings under our credit agreement with certain lenders and Comerica Bank, or "Comerica," as agent for the lenders, are secured by substantially all of our assets, including our intellectual property. (See Note 6 of the unaudited Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a detailed description of this agreement.) Our credit agreement also restricts our ability to, among other things:

- dispose of or sell our assets;
- make material changes in our business or management;

- consolidate or merge with other entities;
- incur additional indebtedness;
- create liens on our assets;
- pay dividends;
- make investments, including capital expenditures;
- enter into transactions with affiliates; and
- pay off or redeem subordinated indebtedness.

These restrictions are subject to certain exceptions. In addition, our credit agreement requires us to comply with minimum bank-defined EBITDA (as defined in Note 6 of our unaudited Condensed Consolidated Financial Statements in Part I, Section 1 of this Quarterly Report on Form 10-Q) covenants, maintain minimum cash balances with the lenders and maintain minimum liquidity ratios, among other requirements, and gives the lenders the right to use future cash collections from accounts receivable directly to reduce the outstanding balance of the revolving credit facility, if the aggregated cash balances on deposit with the lenders and certain other domestic financial institutions fall below \$40.0 million.

If the lenders were to exercise this right, our ability to pay the costs of our operations, including payroll and vendor costs, would be adversely impacted, and could lead to insolvency or bankruptcy.

The operating and financial restrictions and covenants in the credit agreement, as well as any future financing agreements that we may enter into, could restrict our ability to finance our operations and to engage in, expand or otherwise pursue business activities and strategies that we or our stockholders may consider beneficial. We have failed to comply with similar covenants in the past. For example, as of December 31, 2012, September 30, 2013, and September 30, 2014, we were not in compliance with certain financial and non-financial covenants in applicable secured loan and security agreements, including covenants related to permitted indebtedness for a corporate credit card account balance and limitations on our capital expenditures. Although we have been able to obtain a waiver for each such covenant violation in the past, there is no guarantee that our lender will waive such violations in the future. Our ability to comply with these covenants may be affected by events beyond our control, and future breaches of any of these covenants could result in a default under the credit agreement. Future defaults, if not waived, could cause all of the outstanding indebtedness under our credit agreement to become immediately due and payable and would permit the lenders to terminate all commitments to extend further credit and permit Comerica, on behalf of the lenders, to proceed against the collateral in which we granted Comerica a security interest.

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

***We must continue to invest significant time and resources to develop successful strategies for marketing and selling our programmatic marketing platform, and to train our marketing and sales personnel on these strategies.***

Our programmatic marketing platform, which combines our DSP and DMP solutions into a single platform, is a new offering for us that we have developed since we acquired [x+1] and its DMP in September 2014. Our ability to achieve success with this combined platform depends to a great extent on our ability to develop appropriate marketing and sales strategies, which are different from the strategies that our marketing and sales personnel rely on for our other offerings. Although we made progress on these strategies in 2015, we must continue to invest time and resources to further refine them and to provide additional training to marketing and sales personnel. If we fail to develop and implement successful marketing and sales strategies for our programmatic marketing platform, our revenue will be adversely impacted.

***If we do not manage our information technology systems and infrastructure effectively, (i) the quality of our solutions and services and our relationships with our customers may suffer, and/or (ii) our ability to perform essential administrative functions may be impaired. Either or both of these results could have an adverse impact on our business, financial condition and results of operations.***

We rely heavily on information technology, or "IT," systems to manage critical customer-related functions such as advertising campaign management and operations, data center operations and data management platform hosting. We must expand, improve and automate these systems to maintain the quality of our solutions going forward and, in particular, to avoid service interruptions, security breaches and slower system performance for our enterprise solutions. We also depend on IT systems to help us manage essential functions such as revenue recognition, budgeting, forecasting, financial reporting, invoicing, collections and other administrative functions, and we must continue to expand and improve these IT systems as well. Despite the use of IT systems, many of our processes remain manual in nature, and thus we must also continue to manage our employees, operations, finances, research and development and capital investments efficiently. Our productivity and the quality of our solutions may be adversely affected if we do not quickly and effectively integrate and train our new employees on our systems, processes and security protocols, and if we fail to appropriately coordinate across our functional groups and offices. If we do not adapt to meet the evolving challenges of our business, and if we do not effectively and efficiently scale our operations to support our business, then the quality of our solutions may suffer, our IT systems and infrastructure may be more prone to security breaches and service interruptions, and relationships with our customers may be harmed, which, in turn, could have an adverse impact on our financial condition and results of operations.

***Our future success depends on the continuing efforts of our executive team, senior managers and other key employees, and on our ability to recruit, hire, train, motivate and retain additional employees at all levels of our workforce.***

We promoted E. Randolph Wootton III from chief revenue officer for North America to chief executive officer, or "CEO," in November 2015. In March 2016, Rex S. Jackson joined the Company as chief financial officer, or "CFO". We also hired additional senior leaders in 2015 and early 2016 including a new chief marketing officer and a chief customer officer and other sales and business development roles. Our future success depends upon us successfully integrating Mr. Wootton and Mr. Jackson and our other leaders into their new roles, as well as our ability to attract and retain additional management team members and other highly skilled employees, including software engineers, analytics and operations employees and sales professionals.

Over the past year we have experienced significant turnover within our executive team. George John, co-founder and former CEO and chairman of our board of directors, David Sankaran, CFO, and Abhinav Gupta, our former vice president of engineering, left the company in the fourth quarter of 2015. Dominic Trigg, our senior vice president and general manager, EMEA, resigned as an employee in March 2016 (although he continues to provide services to the Company as a consultant). Manu Thapar, our senior vice president of research and development, left the Company in April 2016. Since November 2014, we have hired several senior executives as well as others in senior leadership roles. We have open positions on our executive and senior leadership teams and throughout the Company for which we are seeking qualified applicants, and we have made organizational changes in many functions, including sales and engineering. Our future success depends on the swift and effective integration of all new executives and other employees into our business operations and company culture. None of our executives or other key employees has an employment agreement for a specific term, and any of our employees may terminate their employment with us at any time.

The market for talent in our key areas of operations, including California, New York, Chicago and London, is intensely competitive. Our engineering group is primarily based in Redwood City, California, where we face significant competition for talent from large technology companies such as Google, Facebook, LinkedIn, Twitter and Yahoo! These companies may provide more generous compensation and benefits, more diverse opportunities and better chances for career advancement than we do. Some of these advantages may be more appealing to high-quality candidates and employees than those we have to offer. In addition, the decline in our stock price has created additional challenges related to our ability to compete effectively with respect to equity compensation.

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

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

***Our marketing and sales efforts have required significant investments, which may not yield returns in the foreseeable future, if at all.***

We have invested significant resources in our marketing and sales teams to educate the marketplace about the value of our solutions and to sell the solutions to prospective advertisers and advertising agencies. We evolved our marketing strategy in 2015 to place more emphasis on our comprehensive programmatic marketing platform and our Moment-Scoring technology. On the sales side, we often spend substantial time and resources explaining how our solutions can optimize advertising campaigns, and responding to requests for proposals from potential advertisers and their advertising agencies, including developing material specific to the needs of such potential advertisers. Our business depends in part upon the market perception of our solutions and on advertisers' confidence, and the confidence of the advertising agencies that represent those advertisers, that our solutions are superior to other methods of purchasing digital advertising. In order to support our sales teams more effectively in an extremely competitive environment, our marketing efforts must continue to keep pace with the evolution of our business and educate the market about our technology advantages and capabilities. We may not be successful in attracting new advertisers despite our investment in our marketing and sales organizations.

***If we do not effectively train and provide tools and technology to support our sales, customer service and operations teams, we may be unable to maintain or increase sales to our existing customers or maintain customer satisfaction, and our business would be adversely affected.***

We are substantially dependent on our sales, customer service and operations teams to maintain and increase sales from our existing customers and on our customer service and operations teams to maintain customer satisfaction. Our ability to achieve significant revenue growth will depend, in part, on our success in recruiting, training, integrating and retaining sufficient numbers of sales and customer service and operations personnel to support growth and maintain customer satisfaction, and providing them the tools and technology that they need to efficiently do their jobs and satisfy customer demands. As we expand our direct response and brand offerings and our self-service platforms, our sales teams are also required to spend time learning new offerings and become more effective at cross-selling. Our customer service and operations teams are required to spend time learning to support the new offerings and troubleshooting customer issues. If we cannot provide the tools and training to our teams to support new and repeat customer growth, we will continue to see declines in our revenue retention rate that we have experienced since the beginning of 2014, and fail to maintain satisfactory customer relationships. We require sales and customer service and operations teams to meet the demands of two distinctly different types of customers with different types of offerings; those that purchase managed services from us, and those that invest in our technology as an enterprise solution. Our sales and customer service and operations teams have been primarily trained and experienced in selling and supporting our managed service solutions to and servicing advertising agencies, which often control advertisers' budgets. Our enterprise solutions are marketed and sold to agencies, enterprise customers and other channel partners directly. We are expanding our capabilities in enterprise sales and customer service and operations, and we have invested in existing personnel to sell solutions to advertising agencies, large brand advertisers and channel partners and provide customer support.

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

As of March 31, 2016, we had \$67.4 million in cash and cash equivalents. Of this balance, \$30.0 million is required to be on deposit with our loan facility lenders as of the 15th and the last days of each month. At any point in time, we have funds in our operating accounts that are with third party financial institutions that exceed the Federal Deposit Insurance Corporation, or FDIC, insurance limits. These cash balances could be impacted if the underlying financial institutions fail or become subject to other adverse conditions in the financial markets.

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

Our revenue, operating results, and other key operating and performance metrics vary from quarter to quarter due to the seasonal nature of our advertisers' spending on digital advertising campaigns. For example, advertisers tend to devote more of their advertising budgets to the fourth calendar quarter to coincide with consumer holiday spending. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand for advertising inventory. Our historical high revenue growth



through the first half of 2013 partially masked the impact of seasonality, but as our growth rate has declined since the third quarter of 2013, and to the extent seasonal spending becomes more pronounced, seasonality could cause material fluctuations on our revenue, cash flow, operating results and other key operating and performance metrics from period to period.

***If the use of 'third party cookies' is rejected by Internet users, or potentially unfavorable "Do Not Track" standards or government regulations are created, our performance could decline and we could lose advertisers and revenue.***

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

Cookies may easily be deleted or blocked by Internet users. All of the most commonly used Internet browsers (including Chrome, Firefox, Internet Explorer, and Safari) allow Internet users to prevent cookies from being accepted by their browsers. Internet users can also delete cookies from their devices at any time. In addition, the Safari browser blocks third party cookies by default, and other publishers of other browsers may choose to modify their software defaults in this way in the future. Unless such default settings in browsers are altered by Internet users, we will be able to set fewer of our cookies on users' devices, which could adversely affect our business. In addition, companies such as Google have publicly disclosed their intention to move away from cookies to other forms of persistent, unique identifiers, or IDs, to indicate Internet users in the bidding process on advertising exchanges. This could have a negative impact on our ability to locate the same anonymous user across different web properties, and reduce the effectiveness of our solution.

As the use of cookies has received ongoing media attention over the past several years, some government regulators and privacy advocates have suggested creating a "Do Not Track" standard that would allow Internet users to express a preference, independent of cookie settings in their web browser, not to have their website browsing history recorded. All the major Internet browsers have implemented some version of a "Do Not Track" setting. In the past, Microsoft's Internet Explorer 10 included a "Do Not Track" setting that was selected "on" by default. However, there is no definition of "tracking," no consensus regarding what message is conveyed by a "Do Not Track" setting and no industry standards regarding how to respond to a "Do Not Track" preference. It is possible that we could face competing policy standards, or standards that put our business model at a competitive disadvantage to other companies that collect data from Internet users and may not be required to adhere to the same Do Not Track policy standard that we must adhere to, standards that reduce the effectiveness of our solution, or standards that require us to make costly changes to our solution. The Federal Trade Commission, or FTC, has stated that it will pursue a legislative solution if the industry cannot agree upon a standard. The "Do-Not-Track Online Act of 2015" was introduced in the United States Senate in December 2015. If a "Do Not Track" web browser setting is adopted by many Internet users, and the standard either imposed by state or federal legislation, or agreed upon by standard setting groups, requires us to recognize a "Do Not Track" signal and prohibits us from using non-personal data as we currently do, then that could hinder growth of advertising and content production on the web generally, and limit the quality and amount of data we are able to store and use, which would cause us to change our business practices and adversely affect our business.

In the European Union, or EU, Directive 2009/136/EC, commonly referred to as the "Cookie Directive," directs EU member states to ensure that accessing information on an Internet user's computer, such as through a cookie, is allowed only if the Internet user has given his or her consent. We may not be able to develop or implement additional tools that compensate for the lack of data associated with cookies. Moreover, even if we are able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than our current use of cookies. The General Data Protection Regulation, which was ratified in December 2015 and adopted by the Council of Europe and the European Parliament in April 2016, is being readied for implementation in the European Union. The General Data Protection Regulation is an EU-wide regulation, which would be enforced in all member states, that could restrict how data is collected in the EU, what type of user consent must be obtained prior to data collection, and other rules related to the collection, storage and usage of data gathered from EU citizens. If enacted into law, possible new rules regarding data collection could limit or change the way we collect information, and could have a negative impact on our ability to optimize our clients' advertising campaigns.

***Ad blocking technology can limit our access to advertising inventory and our ability to reach the intended recipients of the ads we serve. If the use of ad-blocking technology becomes more prevalent, the performance of our campaigns could decline, we could lose advertisers, and our revenue, costs and other results of operations could be negatively impacted.***

In order to serve advertisements to consumers on behalf of our customers, we require access to digital inventory. Some consumers download and use "ad-blocking" software, which can prevent web browsers (for example, Firefox, Google Chrome and others) from interacting with or downloading advertising, or that can prevent ads from being displayed once the advertising is served. If the use of ad blocking software and technology becomes more prevalent, it could hamper our ability to optimally serve advertisements for marketing campaigns, and our business could be harmed. In addition, it could limit the amount of free, advertising-supported content available to consumers online, or otherwise restrict our access to available inventory and could drive up the price of available inventory, which could increase the media costs we pay. Also, some companies that distribute ad blocking software make money by charging companies like ours a fee to serve advertising to consumers that have installed their "ad blocking" software. We currently do not pay fees to such companies because we do not consider those consumers receptive to advertising; however, if we did pay such fees, our costs would increase. An increase in media costs would affect our total operating cost and margins and ultimately our results of operations. Finally, the mere existence of ad blockers, regardless of their effectiveness, may generate concern regarding the health of the digital advertising industry, which could impact the value of companies in the industry generally.

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

Our significant investment in international expansion subjects us to many challenges associated with supporting a growing business across a multitude of cultures, customs, monetary, legal and regulatory systems and commercial infrastructures. We have a limited operating history outside of the United States, and our ability to manage our business and conduct our operations internationally requires considerable attention and resources. We began operations in the United Kingdom in 2011. Our UK subsidiary has employees in the United Kingdom, France, Italy, Spain, Sweden and Australia. We established subsidiaries in Germany and Canada in 2013 and in Brazil in 2014 (although we moved to a reseller model in Brazil in 2016). In addition, in 2012, we licensed a third party to make our solution available in Japan. We expect to significantly expand our international operations in the future.

Our international expansion and the integration of international operations present challenges and risks to our business and require significant attention from our management, finance, analytics, operations, sales and engineering teams to support advertising campaigns abroad. For example, as a direct result of our relationship with our Japan licensee, we have undertaken engineering and other work to support campaigns for Japanese advertisers and localize our technology platform for language, currency and time zone, and have made substantial investments to train our Japan licensee's sales team to sell our solution in Japan. Moreover, our Japan licensee is a wholly-owned subsidiary of a large advertising agency holding company, which has other subsidiaries that may offer services that compete with us. As a result, there is a risk that conflicts of interest may arise that could reduce our ability to gain market share in the Japanese market. Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business abroad, could interfere with our ability to offer our solutions competitively to advertisers and advertising agencies in one or more countries and expose us or our employees to fines and penalties. In some cases, our advertisers might impose additional requirements on our business in efforts to comply with their interpretation of their own or our legal obligations. These requirements might differ significantly from the requirements applicable to our business in the United States and could require engineering and other costly resources to accommodate. Laws and regulations that could impact us include but are not limited to tax laws, employment laws, data privacy regulations, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials and private entities, such as the U.K. Bribery Act. Violations of these laws and regulations could result in monetary damages, criminal sanctions against us, our officers, or our employees, and prohibitions on the conduct of our business. We will likely incur significant operating expenses as a result of our international expansion, and it may not be as successful as we anticipate. Our international business also subjects us to the impact of global and regional recessions and economic and political instability, differing regulatory requirements, costs and difficulties in managing a distributed workforce, potentially adverse tax consequences in the United States and abroad, fluctuations in foreign currency exchange rates and restrictions on the repatriation of funds to the United States. Our failure to manage these risks and challenges successfully could materially and adversely affect our business, financial condition and results of operations.

***Our solutions are primarily dependent on advertisers purchasing display advertising. A decrease in the use of display advertising, would harm our business, growth prospects, financial condition and results of operations.***

Historically, our customers have predominantly purchased our solution for display advertising. We expect that display advertising will continue to be a significant channel used by our customers. Should our customers lose confidence in the value or effectiveness of display advertising, the demand for our display solution could decline.

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

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

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

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

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

The sales cycle for our enterprise business from initial contact with a sales prospect to contract execution and technology implementation, typically takes a significant amount of time and is difficult to predict. The sales cycle in some cases can take up

to twelve months or more. Our sales efforts involve educating our customers about the use, technical capabilities and benefits of our platform. Some of our customers undertake a significant evaluation process that frequently involves not only our platform but also the offerings of our competitors. This process is costly and time-consuming. As a result, it is difficult to predict if and when we will obtain new customers and begin generating revenue from these new customers. Because of the long sales cycle, we may incur significant expenses before we have an opportunity to win the sale and execute a definitive agreement with a prospective customer and even more time before we are able to generate any revenue from any agreement. We have no assurance that the substantial time and money spent on our sales efforts will generate significant revenue, or that the customer engagement will ultimately be profitable. If conditions in the marketplace generally or with a specific prospective customer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any of these expenses.

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

Our business depends in part on providing our advertisers with a service that they trust. We have contractual commitments to take commercially reasonable measures to prevent advertisers' advertisements from appearing on undesirable websites or on certain websites that they identify, and we use a combination of proprietary technology and third-party services to help us meet those commitments. We use third party technology, and our own proprietary technology, to detect suspected bot traffic, as well as click fraud, which is an automated computer-generated click on an advertisement rather than a click by a human. In 2014 there was a significant amount of negative publicity about fraud and bot traffic within our industry, including negative publicity directed at us. As a result, our abilities to both combat bot traffic and to communicate proactively about our capabilities in this area have become increasingly important. In addition, we use proprietary technology to block inventory that we suspect to be fraudulent, including "tool bar" inventory, which is inventory that appears within an application, often called a "tool bar," and that overlays a website and displaces any advertising that would otherwise be displayed on that website. Preventing and combating fraud, which is an industry-wide issue, requires constant vigilance, and we may not always be successful in our efforts to do so or in our efforts to address negative press on the topic.

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

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

We must maintain a consistent supply of attractive advertising inventory, meaning the digital space on which we place advertising impressions, including websites, proprietary social networks, such as Facebook, and mobile applications. Our success depends on our ability to secure quality inventory through real-time advertising exchanges on reasonable terms across a broad range of advertising networks and exchanges and premium publishers, including real-time advertising exchanges, such as Google's DoubleClick Ad Exchange or AppNexus; suppliers of video and mobile inventory, including premium publishers with which we may seek direct relationships; and inventory available on social media platforms through application program interfaces, or APIs, including Facebook.

The amount, quality and cost of inventory available to us can change at any time. Our suppliers are not bound by long-term contracts. As a result, we cannot provide any assurance that we will have access to a consistent supply of quality inventory through real-time advertising exchanges. Moreover, the number of competing intermediaries that purchase advertising inventory from real-time advertising exchanges continues to increase, while the number of suppliers may decline due to consolidation trends in the industry; both of these factors could put upward pressure on inventory costs. If we are unable to compete favorably for advertising inventory available on real-time advertising exchanges, or if real-time advertising exchanges decide not to make their advertising inventory available to us, we may not be able to place advertisements at competitive rates or find alternative sources of inventory with comparable traffic patterns and consumer demographics in a timely manner. Furthermore, the inventory that we access through real-time advertising exchanges may be of low quality or misrepresented to us, despite attempts by us and our suppliers to prevent fraud and conduct quality assurance checks. We may also seek to acquire access to premium inventory directly from publishers for display, mobile and video impressions. Other companies, including large integrated companies that own or have exclusive relationships with publishers, ad exchanges and ad networks, may compete with us and restrict our access to media inventory from their wholly-owned properties or other publishers.

Suppliers control the bidding process for the inventory they supply, and their processes may not always work in our favor. For example, suppliers may place restrictions on our use of their inventory, including restrictions that prohibit the placement of advertisements on behalf of certain advertisers. In 2015 Facebook eliminated our access to the Facebook exchange platform, or FBX. This required us to adapt our offering in order to continue to access advertising inventory from Facebook but our access does not appear to be as effective as direct access to FBX. Google also announced changes to YouTube video inventory availability beginning in 2016 that eliminated our access to video inventory on YouTube through real-time bidding exchanges.

We may not win the right to deliver advertising from the inventory that we select and may not be able to replace inventory that is no longer made available to us.

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

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

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

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

There is rapid growth in content consumption on mobile devices. Our success in the mobile channel depends on our ability to access mobile inventory from suppliers, which may also be competitors, on reasonable terms. These suppliers may decide to offer their own solutions and exclude us from reaching quality inventory that they control. Our success also depends upon the ability of our technology platform to integrate with mobile inventory suppliers and provide advertising for most mobile connected devices, as well as the major operating systems that run on them and the thousands of applications that are downloaded onto them. The design of mobile devices and operating systems is controlled by third parties with whom we do not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers may also impact the ability to access specified content on mobile devices. If our solution was unable to work on these devices or operating systems, either because of technological constraints or because an operating system or application developer, device maker or carrier wished to impair, or inadvertently impaired, our ability to purchase inventory and provide advertisements, our ability to generate revenue could be significantly harmed. Precise location data, gathered from mobile devices, is one important factor in running successful mobile advertising campaigns for our advertisers. If the rules for how precise location is gathered and used change, it could adversely affect our ability to optimize mobile advertising campaigns for our advertisers.

Certain self-regulatory organizations of which we are a part released mobile-specific privacy principles that became effective in September 2015. If we fail to comply with these principles, or if we must modify our business practices in a way that reduces our ability to provide quality service to clients, it could affect our ability to generate new mobile channel business.

***Errors or failures in our software and systems could adversely affect our operating results and growth prospects.***

We depend upon the sustained and uninterrupted performance of our technology platforms to operate and execute over 2,500 campaigns at any given time; manage our inventory supply (including inventory quality controls); bid on inventory for each campaign; serve or direct a third party to serve advertising; collect, process and interpret data to optimize campaign performance in real time; and provide billing information to our financial systems. If our technology platforms cannot scale to meet demand, or if there are errors in our execution of any of these functions on our platforms, then our business could be harmed. Because our software is complex, undetected errors and failures may occur, especially when new versions or updates are made. We do not have the capability to test new releases or updates to our code on a small subset of campaigns, which means that bugs or errors in code could impact all campaigns on our platforms. Despite testing by us, errors or bugs in our software have in the past, and may in the future, not be found until the software is in our live operating environment. For example, we have experienced failures in our bidding system to recognize or respond to budget restrictions for campaigns, resulting in overspending on media, and we may in the future have failures in our systems that cause us to buy more media than our advertisers are contractually obligated to pay for, which could be costly and harm our operating results. Errors or failures in our software could also result in negative publicity, damage to our brand and reputation, loss of or delay in market acceptance of our solution, increased costs or loss of revenue, loss of competitive position or claims by advertisers for losses sustained by them. In such an event, we may be required or choose to expend additional resources to help mitigate any problems resulting from errors in our software. We may make errors in the measurement of our campaigns causing discrepancies with our advertisers' measurements leading to a lack of confidence in us or, on occasion, the need for advertiser "make-goods," the standard credits given to advertisers for campaigns that have not been delivered properly. Material defects or errors in our enterprise platform, including our DMP solution, could also result in unanticipated costs and harm to our reputation. The software systems underlying the enterprise solutions, including the DMP, are inherently complex and may contain errors that could cause disruption in availability and other performance issues. Such performance issues could result in customers making warranty or other claims against us. Alleviating problems resulting from errors in our software could require significant expenditures of capital and other resources and could cause interruptions, delays or the cessation of our business, any of which would adversely impact our reputation as well as our financial position, results of operations and growth prospects.

***As customers increase usage of our enterprise solutions, we will need to continually improve our hosting infrastructure.***

We expect our enterprise solutions to continue to add customers, transactions and data that our hosting infrastructure will be required to support. We seek to maintain sufficient excess capacity in the hosting infrastructure to meet the needs of all of our enterprise customers. We also seek to maintain excess capacity to facilitate the increase in new customers and transactions. For example, if we secure a large customer or a group of enterprise customers that require significant amounts of bandwidth or storage, we may need to increase bandwidth, storage, power or other elements of our application architecture and our infrastructure, and our existing systems may not be able to scale in a manner satisfactory to our existing or prospective customers. As use of the platforms grows, we will need to devote additional resources to improving our application architecture and our infrastructure in order to maintain the performance of our enterprise solutions. We may need to incur additional costs to upgrade or expand our computer systems and architecture in order to accommodate increased or expected increases in demand. These costs could impact our results of operations.

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

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. We continue to pursue additional relationships with third parties, such as technology and content providers, real-time advertising exchanges, social media companies, data and market research companies, publishers, co-location facilities and other strategic partners. Identifying, negotiating and documenting relationships with third parties requires significant time and resources as does integrating third-party data and services. Our agreements with channel partners and providers of technology, computer hardware, co-location facilities, content and consulting services and real-time advertising exchanges are typically non-exclusive, do not prohibit them from working with our competitors or from offering competing services and do not typically have minimum purchase commitments. Our competitors may be effective in providing incentives to third parties to favor their products or services over ours or to otherwise prevent or reduce purchases of our solutions. In addition, these third parties may not perform as expected under our agreements with them, and we may have disagreements or disputes with such third parties, which could negatively affect our brand and reputation.

In particular, our business depends on our ability to source computer hardware, including servers built to our specifications, and the ability to locate those servers and related hardware in co-location facilities in the most desirable locations to facilitate the timely delivery of our services. Disruptions in the services provided at co-location facilities that we rely upon can degrade the level of services that we can provide, which could harm our business. We also rely on our integration with many third-party

technology providers to execute our business on a daily basis. We must efficiently direct a large amount of network traffic to and from our servers to consider tens of billions of bid requests per day, and each bid typically must take place in approximately 100 milliseconds. We rely on a third-party domain name service, or DNS, to direct traffic to our closest data center for efficient processing. If our DNS provider experiences disruptions or performance problems, this could result in inefficient balancing of traffic across our servers as well as impairment or prevention of web browser connectivity to our site, which could harm our business.

***Our solutions rely on third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our solutions.***

Our technology platforms, including our computational infrastructure, rely on software licensed to us by third-party authors under “open source” licenses. The use of open source software may entail greater risks than the use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar solutions with less development effort and time and ultimately put us at a competitive disadvantage.

Although we monitor our use of open source software to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our services. Moreover, we cannot guarantee that our processes for controlling our use of open source software will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue operating our platforms on terms that are not economically feasible, to re-engineer our platforms or the supporting computational infrastructure to discontinue use of certain code, or to make generally available, in source code form, portions of our proprietary code, any of which could adversely affect our business, financial condition and results of operations.

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

We have committed to complying with the Network Advertising Initiative’s Code of Conduct and the Digital Advertising Alliance’s Self-Regulatory Principles for Online Behavioral Advertising in the United States, as well as similar self-regulatory principles in Europe adopted by the Interactive Advertising Bureau—Europe and the European Digital Advertising Alliance. Our efforts to comply with these principles include offering Internet users notice and transparency when advertising is served to them based, in part, on web browsing data recorded by cookies. We also offer Internet users the ability to opt out of receiving interest-based advertisements based on a cookie we place. However, we have made mistakes in our implementation of these guidelines in the past, and if we make mistakes in the future, or our opt out mechanisms fail to work as designed, or if Internet users misunderstand our technology or our commitments with respect to these principles, we could be subject to negative publicity, government investigation, government or private litigation, or investigation by self-regulatory bodies or other accountability groups. Any such action against us could be costly and time consuming, require us to change our business practices, cause us to divert management’s attention and our resources and be damaging to our reputation and our business.

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

Through the first quarter of 2015, we had undergone rapid, continuous growth in our employee base. However, in April 2015 we announced a reduction in force affecting approximately 11% of our employee base. We had 917 employees ( 728 in the United States and 189 employees overseas) as of March 31, 2016 , compared with 1,183 employees ( 1,009 and 174 employees in the United States and overseas, respectively), as of March 31, 2015 . Both rapid growth and layoffs can make it difficult to effectively maintain our corporate culture. We believe our corporate culture has been a critical component of our success as we believe it fosters innovation, teamwork, and focus on customers and execution, while facilitating knowledge sharing across our organization. As we change, we may find it difficult to preserve our corporate culture, which could reduce our ability to innovate and operate effectively. In turn, the failure to preserve our culture could negatively affect our ability to attract, recruit, integrate and retain employees and effectively execute our business strategy.

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

We must consider the effect of credit risk in transactions with agencies or other third parties and advertisers. A substantial portion of our business is sourced through advertising agencies, and we contract with these agencies as an agent for a disclosed principal, which is the advertiser. Typically, the advertising agency pays for our services once it has received payment from the advertiser for our services. Our contracts typically provide that if the advertiser does not pay the agency, the agency is not liable to us, and we must seek payment solely from the advertiser. Contracting with these agencies, which in certain cases have or may develop high-risk credit profiles, subjects us to greater credit risk than where we contract with advertisers directly. This credit risk may vary depending on the nature of an advertising agency's aggregated advertiser base. As of March 31, 2016, two agency holding companies, accounted for 10% of more of accounts receivable. There can be no assurances that we will not experience additional bad debt expense in the future. Any such write-offs for bad debt could have a materially negative effect on our results of operations for the periods in which the write-offs occur. Even if we are not paid, we are still obligated to pay for the media we have purchased for the advertising campaign, and as a consequence, our results of operations and financial condition could be adversely impacted.

***Fluctuations in the exchange rates of foreign currencies have resulted in, and could in the future result in currency transaction losses that negatively impact our financial results.***

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

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

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

Evolving and changing definitions of personal data, within the EU, the United States and elsewhere, especially relating to classification of IP addresses, machine or device identifiers, location data and other information, have in the past and could in the future, cause us to change our business practices, or limit or inhibit our ability to operate or expand our business. Data protection and privacy-related laws and regulations are evolving and could result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. We use anonymous and pseudonymous data to buy media for, target and effectively optimize our clients' marketing campaigns. We do not knowingly collect personally identifiable information (PII), allow our clients to send us PII or store PII in our platform. It is possible that the definition of PII that government regulatory bodies operate under may be modified or expanded in markets where we does business. If this occurs, and if we can no longer collect or use specific types of data in markets where we previously had access to it, the performance of our clients' marketing campaigns may suffer



and our ability to efficiently and cost-effectively purchase media may be adversely affected. These possible changes could impact revenue and other results of operations.

While we take measures to protect the security of information that we collect, use and disclose in the operation of our business, and to offer certain privacy protections with respect to that information, our measures may not always be effective. In addition, while we take steps to avoid collecting personally identifiable information about consumers, we may inadvertently receive this information from advertisers or advertising agencies or through the process of delivering advertising. Our failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement action against us, including fines, imprisonment of our officers and public censure, claims for damages by consumers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse impact on our business, financial condition and results of operations. Even the perception of privacy concerns, whether or not valid, could harm our reputation and inhibit adoption of our solutions by current and future advertisers and advertising agencies.

The Safe Harbor Framework, which is an agreement negotiated by the United States Department of Commerce with the European Union, allows US-based companies to transfer personal data about European citizens from the EU to the United States, after the US-based company has certified compliance with the Safe Harbor with the US Department of Commerce. When companies certify that they are compliant with the Safe Harbor, they are reporting that they comply with specific obligations and practices detailed in the Framework. We are a Safe Harbor certified company in good standing. However, in 2016, the United States Department of Commerce and the European Union released an update to the Safe Harbor Framework, which is called Privacy Shield. Some of the requirements in the new Privacy Shield Framework are new obligations for companies that wish to certify. The steps that will allow US companies to certify compliance with the Privacy Shield Framework are not yet finalized. It is possible that the indeterminate status of the previous Safe Harbor Framework and new Privacy Shield Framework may result in the reluctance of EU clients to do business with us.

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

Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop under the intellectual property laws of the United States, so that we can prevent others from using our inventions and proprietary information. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business could be adversely affected. We rely on trademark, copyright, trade secret and patent laws, confidentiality procedures and contractual provisions to protect our proprietary methods and technologies. Our patent strategy is still in its early stages and while we have a small number of pending patent applications, valid patents may not be issued from our pending applications, and the claims eventually allowed on any patents may not be sufficiently broad to protect our technology or offerings and services. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages to us. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Additional uncertainty may result from changes to intellectual property legislation enacted in the United States, including the recent America Invents Act, and other national governments and from interpretations of the intellectual property laws of the United States and other countries by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to obtain adequate patent protection, or to prevent third parties from infringing upon or misappropriating our intellectual property.

Unauthorized parties may attempt to copy aspects of our technology or obtain and use information that we regard as proprietary. We generally enter into confidentiality and/or license agreements with our employees, consultants, vendors and advertisers, and generally limit access to and distribution of our proprietary information. However, we cannot provide assurance that any steps taken by us will prevent misappropriation of our technology and proprietary information. Policing unauthorized use of our technology is difficult. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those of the United States, and mechanisms for enforcement of our proprietary rights in such countries may be inadequate. From time to time, legal action by us may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Such litigation could result in substantial costs and the diversion of limited resources and could negatively affect our business, financial condition and results of operations. If we are unable to protect our proprietary rights (including aspects of our technology platform), we may find ourselves at a competitive disadvantage to others who have not incurred the same level of expense, time and effort to create and protect their intellectual property.

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

Third parties may assert claims of infringement of intellectual property rights in proprietary technology against us or against our advertisers for which we may be liable or have an indemnification obligation. We may be more at risk of infringement claims when we offer enterprise solutions used directly by our clients because our technology is more accessible to potential claimants, and also because through the [x+1] acquisition we acquired a substantial amount of additional technology and intellectual property. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from operating our business.

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

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

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

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

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

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

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

In connection with the audit of our financial statements for the year ended December 31, 2010, we identified certain material weaknesses in our internal controls resulting from a lack of qualified personnel within our accounting function that possessed an appropriate level of expertise to perform certain functions. We have since remediated these material weaknesses. We are continuing to develop our internal controls, processes and reporting systems by, among other things, hiring qualified personnel with expertise to perform specific functions, and implementing software systems to manage our revenue and expenses and to allow

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

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

Our business depends on the overall demand for advertising and on the economic health of our current and prospective advertisers. Economic downturns or instability in political or market conditions may cause current or new advertisers to reduce their advertising budgets. Adverse economic conditions and general uncertainty about economic recovery in the U.S. or abroad are likely to affect our business prospects. In addition, concerns over the sovereign debt situation in certain countries in the EU as well as continued geopolitical turmoil in many parts of the world have, and may continue to, put pressure on global economic conditions, which could lead to reduced spending on advertising.

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

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

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

We may be limited in the portion of net operating loss carry-forwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes. At December 31, 2015, we had U.S. federal net operating loss carry-forwards, or NOLs, of \$219.5 million and state NOLs of \$76.9 million. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We believe that we experienced an ownership change under Section 382 of the Code in prior years that may limit our ability to utilize a portion of the NOLs and future changes in our stock ownership could result in additional ownership changes under Section 382 of the Code. Our NOLs may also be impaired under similar provisions of state law. We have recorded a valuation allowance related to our NOLs and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets. Our NOLs may expire unutilized or underutilized, which would prevent us from offsetting future taxable income.

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

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

***We may invest in or acquire other businesses in the future. These activities require significant management attention and resources to integrate new businesses into our existing operations. These activities could disrupt our business, dilute stockholder value and adversely affect our financial condition and results of operations.***

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

Anticipated and unanticipated charges to earnings resulting from acquisitions may adversely affect our results of operations. Under business combination accounting standards, we recognize the identifiable assets acquired and the liabilities assumed, generally at their acquisition date fair values and separately from goodwill. Our estimates of fair value are based upon assumptions we believe to be reasonable but which are inherently uncertain. After we complete an acquisition, a number of factors could result in material charges, which could adversely affect our financial condition, results of operations and cash flows, including but not limited to costs incurred to integrate employees such as employee retention, redeployment or relocation expenses; amortization, impairment or reduction in the useful lives of intangible assets; amortization or impairment of goodwill; costs to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated; and charges to our operating results due to the expensing of certain stock awards assumed in an acquisition. In third quarter of 2015, for example, we recognized an impairment of goodwill, as described in Note 12 to our Condensed Consolidated Financial Statements. Substantially all of these costs will be accounted for as expenses that will decrease our net income and earnings per share for the periods in which those costs are incurred.

Additional risks related to investments and acquisitions include but are not limited to the following:

- The need to integrate the technology underlying an acquired company's products and services with our technology;
- The need to integrate an acquired company's sales organization with ours in a manner that will optimize sales of the combined company's offerings;
- The need to integrate an acquired company's accounting, management information, human resources and other administrative systems to permit effective management and timely reporting and to reduce administrative costs;
- The possibility that the combined company will not achieve the expected benefits of the acquisition, including any anticipated operating and product synergies, as quickly as anticipated, if at all;
- The need to implement or remediate controls, procedures and policies appropriate for a public company in an acquired company that, prior to the acquisition, lacked these controls, procedures and policies;

- The need to address unfavorable revenue recognition or other accounting or tax treatment as a result of an acquired company's practices;
- The possibility of higher than anticipated costs in continuing support and development of acquired products; in general and administrative functions that support new or multiple business models; or in compliance with associated regulations that are more complicated than we had anticipated;
- Cultural challenges associated with integrating employees from an acquired company or business into our organization, and the risk of attrition if integration is not successful;
- The possibility that we will be unable to retain key employees and maintain the key business and customer relationships of any business we acquire;
- The possibility that we will not discover important facts during due diligence for an acquisition that could have a material adverse impact on the value of any business we acquire and subject us to unexpected claims and liabilities, regulatory exposure and/or other expenses;
- Litigation or other claims in connection with, or inheritance of claims or litigation risks as a result of, an acquisition, including claims from terminated employees, customers or other third parties;
- Significant accounting charges resulting from the completion and integration of a sizable acquisition and related capital expenditures;
- Significant acquisition-related accounting adjustments that may cause reported revenue and profits of the combined company to be lower than the sum of their stand-alone revenue and profits;
- The possibility that the costs of, or operational difficulties arising from, an acquisition would be greater than anticipated;
- Additional country-specific risks, to the extent that we engage in strategic transactions outside of the United States, including risks related to integration of operations across different cultures and languages; currency risks; the particular economic, political and regulatory risks associated with specific countries; and the possibility that data privacy regulations in new markets may be applied differently to an acquired company's technology and practices than they are to our technology and practices; and
- The possibility that a change of control of a company we acquire triggers a termination of contractual or intellectual property rights important to the operation of its business.

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

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

We maintain servers at co-location facilities in California, Illinois, New Jersey, Nevada, Virginia, Germany, the Netherlands and Hong Kong that we use to deliver advertising campaigns for our advertisers, and expect to add other data centers at co-location facilities in the future. Any of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, fires, floods, nuclear disasters, war, acts of terrorism, vandalism or other criminal activities, infectious disease outbreaks and power outages, any of which could render it difficult or impossible for us to operate our business for some period of time. For example, in October 2012, Hurricane Sandy caused our former data center in New York to cease operations because of storm damage, which caused us to divert online traffic to other facilities. Our corporate headquarters and the co-location facility where we maintain data used in our business operations are both located in the San Francisco Bay Area, a region known for seismic activity. If we were to lose the data stored in our California co-location facility, it could take at least a full day to recreate this data in our Nevada co-location facility, which could result in a material negative impact on our business operations, and potential damage to our advertiser and advertising agency relationships. If one of our facilities were to suffer damage, it would likely be costly to repair or replace, and any such efforts would likely require substantial time. Any disruptions in our operations could negatively impact our business and results of operations, and harm our reputation. In addition,

we may not carry sufficient business interruption insurance to compensate for the losses that may occur. Any of these losses or damages could have a material adverse effect on our business, financial condition and results of operations.

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

*The price of our common stock has been volatile and the value of our common stock has declined substantially since our IPO.*

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock has, and is likely going to continue to fluctuate substantially. Since our initial public offering in September 2013 through March 31, 2016, our common stock has ranged in price from a low of \$2.61 to a high of \$71.89. These fluctuations have caused many stockholders to suffer declines in the value of their investment in our common stock. Factors that could cause further fluctuations in the trading price of our common stock include the following:

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

In addition, if the market for technology stocks or the stock market, in general, experience a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry whether or not these events directly affect us.

Our stock price has been volatile and has declined since our initial public offering in September 2013. On September 3, 2014, a stockholder class action lawsuit was filed against us, certain of our officers and certain underwriters of our initial public offering in September 2013 and our follow-on offering in January 2014. On September 10, 2014, a substantively similar lawsuit was filed, adding our board of directors and additional underwriters as defendants. The complaints allege violations of the federal securities laws on behalf of a purported class consisting of purchasers of our common stock pursuant or traceable to the registration statements and prospectuses for our initial and follow-on public offerings, and seek unspecified compensatory damages and other relief. A consolidated complaint was filed on February 27, 2015. All defendants moved to dismiss the consolidated complaint and on December 23, 2015, the Court granted in part and denied in part the defendants' motions to dismiss. For more information, see Part II, Item 1, "*Legal Proceedings.*" Securities litigation, regardless of the outcome, can ultimately result in substantial costs and

divert our management's attention and resources from our business. This could have a material adverse effect on our business, financial condition and results of operations.

***We have failed in the past, and may fail in the future, to meet our publicly announced guidance or other expectations about our business and future operating results. Such past failures have caused, and future failures would likely cause, our stock price to decline.***

We have provided and may continue to provide guidance about our business and future operating results. In developing this guidance, our management must make certain assumptions and judgments about our future performance. We use a variety of models to forecast revenue in our business, including but not limited to models based on our bookings, estimates from our sales personnel, and projected productivity of our sales representatives. Each of our models has limitations. For example, revenue anticipated by a sales representative for a particular quarter might be delayed, reduced in amount or not materialize at all for a variety of reasons, including many that are out of our control. As another example, sales personnel productivity may change significantly from historical patterns when we hire new, less experienced sales personnel, when we introduce new products and services and if we are required to integrate sales personnel and new products as part of an acquired business. In addition, expanding competitive alternatives available to our customers in the market, an unexpected slowdown in general economic conditions, unexpected customer turnover and a variety of other factors could lead to unanticipated reductions in spending by our customers. Our industry is rapidly changing, and as we adopt new business models to address customer requirements, our historical methods of forecasting may prove inadequate. Our increasing focus on enterprise solutions, which have long sales cycles, exacerbates our difficulty in developing accurate forecasts. It may take a number of quarters selling enterprise solutions for us to understand enough about the dynamics impacting our revenue mix to be able to accurately forecast revenue for our business.

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

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

Our directors, executive officers and all of our stockholders who own greater than 5% of our outstanding common stock, in the aggregate, owned approximately 45.2% of the outstanding shares of our common stock based on the number of shares outstanding as of March 31, 2016. As a result, these stockholders will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a manner that is adverse to your interests. This concentration of ownership may have the effect of deterring, delaying or preventing a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

***The requirements of being a public company may strain our resources, and divert our management's attention.***

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

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

For so long as we remain an emerging growth company as defined in the JOBS Act, we expect to take advantage of certain exemptions from various requirements that are applicable to public companies that are not emerging growth companies,

including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions for so long as we are an emerging growth company, which could be as long as five years following the completion of our IPO in September 2013. Investors may find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

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

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

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

We have never declared or paid any dividends on our common stock. We have an accumulated deficit in our stockholders' equity and have not generated net income through March 31, 2016. In addition, our credit facility contains restrictions on our ability to pay dividends. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

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

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

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;



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

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

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

### *(a) Recent Sale of Unregistered Securities*

Not applicable.

### *(b) Use of Proceeds*

Not applicable.

### *(c) Purchases of Equity Securities by the Issuer and Affiliated Purchaser*

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

| Period                         | Total Number of Shares Purchased <sup>(1)</sup> | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|---|---------------------------------------|--|--|
| January 1 - January 31, 2016   | 167   | \$ 6.58                               | —  | —  |
| February 1 - February 29, 2016 | —   | —                                     | —  | —  |
| March 1 - March 31, 2016       | —   | —                                     | —  | —  |
| Total                          | 167   | \$ 6.58                               | —  | —  |

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## **ITEM 5. OTHER INFORMATION**

### **Entry into a Material Definitive Agreement**

On May 10, 2016, the Company entered into a Controlled Equity Offering <sup>SM</sup> sales agreement (the "Sales Agreement") with Cantor Fitzgerald & Co., as sales agent ("Cantor Fitzgerald"), pursuant to which the Company may offer and sell, from time to time, through Cantor Fitzgerald shares of the Company's common stock, par value \$0.001 per share, having an aggregate offering price of up to \$30.0 million. The Company currently expects to use the net proceeds from the at-the-market offering, if any, for general corporate purposes, including working capital, capital expenditures and other corporate expenses.

The Company is not obligated to sell any shares under the Sales Agreement. Subject to the terms and conditions of the Sales Agreement, Cantor Fitzgerald will use commercially reasonable efforts consistent with its normal trading and sales practices, applicable state and federal law, rules and regulations and the rules of the NASDAQ Global Select Market to sell shares from time to time based upon the Company's instructions, including any price, time or size limits specified by the Company. Under the Sales Agreement, Cantor Fitzgerald may sell shares by any method deemed to be an "at the market offering" as defined in Rule 415 under the U.S. Securities Act of 1933, as amended, or any other method permitted by law, including in privately negotiated transactions with the Company's prior consent. Cantor Fitzgerald's obligations to sell shares under the Sales Agreement are subject to satisfaction of certain conditions, including the effectiveness of the registration statement on Form S-3 filed by the Company with the U.S. Securities and Exchange Commission on May 10, 2016. The Company will pay Cantor Fitzgerald a commission of 3.0% of the aggregate gross proceeds from each sale of shares and has agreed to provide Cantor Fitzgerald with customary indemnification and contribution rights. The Company has also agreed to reimburse Cantor Fitzgerald for legal fees and disbursements, not to exceed \$50,000 in the aggregate, in connection with entering into the Sales Agreement.

The Sales Agreement may be terminated by Cantor Fitzgerald or the Company at any time upon notice to the other party, or by Cantor Fitzgerald at any time in certain circumstances.

The foregoing summary of the Sales Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Sales Agreement, a copy of which the Company filed with its registration statement on Form S-3 on May 10, 2016.

Shares sold under the Sales Agreement will be issued pursuant to the Company's registration statement on Form S-3 and the sales agreement prospectus that forms a part of such registration statement, following such time as the registration statement is declared effective by the SEC. This disclosure shall not constitute an offer to sell or the solicitation of an offer to buy any shares under the Sales Agreement, nor shall there be any sale of such shares in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

## **ITEM 6. EXHIBITS**

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

**SIGNATURE**

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

Dated: May 10, 2016

ROCKET FUEL INC.

By:

/s/ Rex S. Jackson

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**Rex S. Jackson**

*Chief Financial Officer (Duly Authorized Officer and Principal Accounting and Financial Officer)*

**EXHIBIT INDEX**

**Incorporated by Reference Herein**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>  | <b>Form</b> | <b>File No.</b> | <b>Exhibit</b> | <b>Filing Date</b> | <b>Filed or Furnished Herewith</b> |
|--------------------|---|-------------|-----------------|----------------|--------------------|------------------------------------|
| 2.1(1)             | Agreement and Plan of Merger, dated as of August 4, 2014, by and among Rocket Fuel Inc., Denali Acquisition Sub, Inc., Denali Acquisition Sub II, LLC, X Plus Two Solutions, Inc., and Shareholder Representative Services LLC                                    | S-3         | 333-199901      | 2.1            | 11/6/2014          |                                    |
| 3.1                | Amended and Restated Certificate of Incorporation of the Registrant   | 10-Q        | 001-36071       | 3.1            | 11/13/2013         |                                    |
| 3.2                | Amended and Restated Bylaws of the Registrant   | 10-Q        | 001-36071       | 3.2            | 11/13/2013         |                                    |
| 4.1                | Form of the Registrant's common stock certificate   | S-1/A       | 333-190695      | 4.1            | 9/9/2013           |                                    |
| 10.1*              | Rocket Fuel Inc. Outside Director Compensation Policy   | 8-K         | 001-36071       | 10.1           | 1/21/2016          |                                    |
| 10.2*              | The Registrant's Outside Director Compensation Policy, as amended through March 10, 2016  | 10-K        | 001-36071       | 10.35          | 3/14/2016          |                                    |
| 10.3*              | The Registrant's 2013 Employee Stock Purchase Plan, as amended through March 9, 2016  | 10-K        | 001-36071       | 10.36          | 3/14/2016          |                                    |
| 10.4*              | The Registrant's 2016 Inducement Equity Incentive Plan, as adopted effective March 4, 2016  | 10-K        | 001-36071       | 10.37          | 3/14/2016          |                                    |
| 10.5               | Second Amendment dated March 10, 2016 to Second Amended and Restated Revolving Credit and Term Loan Agreement dated December 31, 2014, by and among the Registrant, the lenders that are party thereto and Comerica Bank, as administrative agent for the lenders | 10-K        | 001-36071       | 10.38          | 3/14/2016          |                                    |
| 10.6*              | Amendment No. One, dated January 25, 2016, to the Management Retention Agreement between the Registrant and Richard Frankel dated May 6, 2015   | 10-K        | 001-36071       | 10.39          | 3/14/2016          |                                    |
| 10.7*              | Offer Letter between the Registrant and Rex Jackson dated February 12, 2016   | 10-K        | 001-36071       | 10.40          | 3/14/2016          |                                    |
| 10.8*              | Service Agreement between Dominic Trigg and the Registrant dated August 1, 2011   |             |                 |                |                    | X                                  |
| 10.9*              | Management Retention Agreement between the Registrant and Dominic Trigg dated April 24, 2015  |             |                 |                |                    | X                                  |
| 10.10*             | Management Retention Agreement between the Registrant and Manu Thapar dated April 8, 2015   |             |                 |                |                    | X                                  |

|         |   |   |
|---------|---|---|
| 10.11*  | Separation Agreement between the Registrant and Manu Thapar dated April 7, 2016   | X |
| 31.1    | Certification of the Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X |
| 31.2    | Certification of the Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X |
| 32.1(2) | Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                     | X |
| 32.2(2) | Certification of the Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                     | X |
| 101.INS | XBRL Instance Document  | X |
| 101.SCH | XBRL Taxonomy Schema Linkbase Document  | X |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document   | X |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document  | X |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document  | X |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document  | X |

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\* Indicates a management contract or compensatory plan or arrangement.

- (1) The schedules and other attachments to this exhibit have been omitted. The Company agrees to furnish a copy of any omitted schedules or attachments to the SEC upon request.
- (2) The information in this exhibit is furnished and deemed not filed with the Securities and Exchange Commission for purposes of section 18 of the Exchange Act of 1934, as amended (the "Exchange Act"), and is not to be incorporated by reference into any filing of Rocket Fuel Inc. under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## **Service Agreement**

(1) **Rocket Fuel, Inc**

(2) **Dominic Trigg**

Dated 8/1/2011

### **Osborne Clarke**

2 Temple Back East Temple Quay  
**Bristol**  
BS1 6EG  
**Telephone** +44 (0) 117 917 3000  
**Fax** +44 (0) 117 917 3005

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## Contents

|    |   |    |
|----|---|----|
| 1  | Definitions and interpretation            | 1  |
| 2  | Appointment                               | 3  |
| 3  | Term                                      | 3  |
| 4  | Duties                                    | 3  |
| 5  | Hours of work                             | 4  |
| 6  | Place of work                             | 4  |
| 7  | Expenses                                  | 4  |
| 8  | Salary                                    | 5  |
| 9  | Bonus                                     | 5  |
| 10 | Pension                                   | 5  |
| 11 | Share Option and Long Term Incentive Plan | 5  |
| 12 | Other Benefits                            | 6  |
| 13 | Holidays                                  | 6  |
| 14 | Sickness Absence                          | 6  |
| 15 | Sick Pay                                  | 7  |
| 16 | Obligations during Employment             | 7  |
| 17 | Confidential Information                  | 8  |
| 18 | Intellectual Property                     | 8  |
| 19 | Garden Leave                              | 9  |
| 20 | Payment in lieu of notice                 | 10 |
| 21 | Summary Termination                       | 10 |
| 22 | Retirement                                | 11 |
| 23 | Reconstruction and Amalgamation           | 11 |
| 24 | Obligations after Employment              | 11 |
| 25 | Property                                  | 11 |
| 26 | Resignation from Appointments             | 12 |
| 27 | Suspension                                | 12 |
| 28 | Disciplinary and Dismissal Rules          | 12 |
| 29 | Grievance                                 | 12 |
| 30 | Data Protection                           | 12 |
| 31 | Warranty                                  | 13 |
| 32 | Deductions                                | 13 |
| 33 | Power of Attorney                         | 13 |
| 34 | Collective Agreements                     | 13 |
| 35 | Entire Agreement                          | 13 |
| 36 | Third Parties                             | 13 |
| 37 | Release and waivers                       | 14 |
| 38 | Notices                                   | 14 |
| 39 | Governing law and jurisdiction            | 14 |
|    | Schedule 1                                | 15 |
|    | (Post termination restrictions)           | 15 |

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This Agreement is made on 8/1/11 2011

Between:

(1) **Rocket Fuel , Inc.**, a private company whose principal office is at 350 Marine Parkway, Marina Park Center, Suite 220, Redwood City, CA 94065, USA (the "**Company**"); and

(2) **Dominic Trigg** of Evergreen House, Cherkley Hill, Givens Grove, Leatherhead, Surrey KT22 8LA ("**You**").

It is agreed as follows:

## 1. Definitions and interpretation

1.1 In this Agreement, unless the context otherwise requires:

**"Agreement"** means this Agreement (including any schedule or annexure to it).

**"Businesses"** means the development, management running and evaluation of online advertising campaigns and any trade or other commercial activity which is carried on by the Company and/or any Group Company, or which the Company and/or any Group Company shall have determined to carry on with a view to profit in the immediate or foreseeable future.

**"CEO"** means any person holding office as Chief Executive Officer of the Company from time to time, including any person exercising substantially the functions of a managing director or chief executive officer of the Company.

**"Commencement Date"** means 24 January 2011 .

**"Company Financial Quarters"** means any period of 3 consecutive calendar months ending 31 March, 30 June, 30 September and 31 December in any year.

**"Confidential Information"** means any trade secrets or other information which is confidential , commercially sensitive and is not in the public domain relating or belonging to the Company and/or any Group Company including but not limited to:

(a) information relating to the business methods, corporate plans, management systems, finances, new business opportunities, research and development projects, marketing or sales of any past, present or future product or service;

(b) secret formulae, processes, inventions, designs, know-how discoveries, technical specifications and other technical information relating to the creation, production or supply of any past, present or future product or service of the Company and/or any Group Company;

(c) lists or details of customers, potential customers or suppliers or the arrangements made with any customer or supplier; and

(d) any information in respect of which the Company and/or any Group Company owes an obligation of confidentiality to any third party.

**"Duties"** means your duties as referred to in clause 4.

**"Employment"** means your period of employment under this Agreement which shall be deemed to include any period of garden leave served under clause 19.

**"Group Companies" or "Group"** means the Company and any holding company or any parent company or any subsidiary or subsidiary undertaking of the Company or such companies, as such terms are defined in s 1159, s 1162 (together with Schedule 7 and

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the definition of "parent company" in s 1173), s 1161 and Schedule 6 of the Companies Act 2006, and "Group Company" means any of them.

**"HMRC"** means Her Majesty's *Revenue* and Customs.

**"Holiday Year"** means the period 1 January to 31 December or such other period of one year as the Company may notify to you in writing from time to time.

**"Invention"** means any know how, technique, process, improvement, invention or discovery (whether patentable or not) which you (whether alone or with any other person) make, conceive, create, develop, write, devise or acquire at any time during your Employment and which relates or could relate directly or indirectly to the Businesses.

**"Material Interest"** means:

(a) the holding of any position (whether employed or engaged) or the provision of services as director, officer, employee, consultant, adviser, partner, principal, agent or volunteer;

(b) the direct or indirect control or ownership (whether jointly or alone) of any shares (or any voting rights attached to them) or debentures save for the ownership for investment purposes only of not more than 5 per cent of the issued ordinary shares of any company whose shares are listed on any Recognised Exchange; or

(c) the direct or indirect provision of any financial assistance.

**"Pension Scheme"** means the scheme referred to in clause 10.

**"President"** means any person holding office as President of the Company from time to time, including any person exercising substantially the functions of a president of the Company.

**"Recognised Exchange"** means any of a recognised investment exchange (as defined in s 285 Financial Services and Markets Act 2000 ("FSMA")), an overseas investment exchange (as defined in s 313 FSMA), or a relevant market (as defined in article 37 FSMA 2000 (Financial Promotion) Order 2001).

**"Termination Date"** means the date on which the Employment terminates.

**"Works"** means all works including without limitation all copyright works or designs originated, conceived, developed or written by you alone or with others during the Employment which relate to or could relate to the Businesses.

1.2 In this Agreement, unless the context otherwise requires:

(a) words in the singular include the plural and vice versa and words in one gender include any other gender;

(b) a reference to a statute or statutory provision includes:

(i) any subordinate legislation (as defined in Section 21(1), Interpretation Act 1978) made under it; and

(ii) any statute or statutory provision which modifies, consolidates, re-enacts or supersedes it;

(c) a reference to:

(i) a **"person"** includes any individual, firm, body corporate, association or partnership, government or state (whether or not having a separate legal personality);

(ii) clauses and schedules are to clauses and schedules of this Agreement and references to sub-clauses and paragraphs are references to sub-clauses and paragraphs of the clause or schedule in which they appear; and

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(iii) "indemnify" and "indemnifying" any person against any circumstance include indemnifying and keeping him harmless from all actions, claims and proceedings from time to time made against him and all loss or damage and all payments (including fines, penalties and interest costs or expenses) made or incurred by that person as a consequence of or which would not have arisen but for that circumstance;

(d) Except where otherwise stated, words and phrases defined in the City Code on Take overs and Mergers or in the Companies Act 2006 have the same meaning in this Agreement

## 2. Appointment

The Company appoints you and you agree to serve as VP & Managing Director of the Company or *such other* position as the Company may require from time to time on the terms of this Agreement.

## 3. Term

3.1 Your Employment with the Company shall commence on the Commencement Date. No previous employment shall count as part of your continuous period of employment

3.2 Your continued employment is conditional upon satisfactory completion of an initial probationary period during which the Company will assess and review your work performance. It is intended that your probationary period will be 3 months, although this may be extended by the Company for up to a further 3 months as the Company considers necessary. You will receive confirmation of the satisfactory completion of your probationary period.

3.3 Your employment may be terminated on one week's notice given in writing by you or by the Company at any time during or at the end of your probationary period. The Company reserves the right to make a payment in lieu of notice at its discretion.

3.4 After completion of your probationary period and subject to the terms of this Agreement your Employment shall continue until terminated by either party giving to the other not less than 3 months' prior written notice.

## 4. Duties

4.1 You shall carry out such duties as attach to your office of VP & Managing Director and any other duties for the Company and/or any Group Company (whether or not commensurate with your position) which the CEO and/or the President assigns to you from time to time.

4.2 Without additional remuneration, you shall accept and hold for such period(s) as specified by the CEO and/or the President, any office(s) including any post(s) as director, company secretary, trustee, nominee and/or representative of the Company and/or any Group Company.

4.3 Subject to the terms of this Agreement, you shall:

(a) save with the prior written permission of the CEO and/or the President, devote the whole of your working time and attention to the Employment;

(b) perform the Duties faithfully and diligently and exercise such powers consistent with those Duties as are assigned to or vested in you by the Company and/or any Group Company;

(c) comply with all common law, fiduciary and statutory duties to the Company and any Group Company;

(d) obey all lawful and reasonable *directions* of the CEO and/or the President;

(e) observe in form and spirit such restrictions or limitations as may from time to time be imposed by the CEO and/or the President;

(f) implement and observe in form and spirit any relevant Company and/or Group Company policy, procedures, rules and regulations (whether formal or informal);

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(g) use your best endeavours to foster the Company's interests and save where this causes a conflict with the Company's interests, those of its other Group Companies;

(h) report to the CEO and/or the President any relevant wrongdoing (including any misconduct or dishonesty) whether committed, contemplated or discussed by any director, employee or worker of the Company and/or any Group Company of which you are aware and irrespective of whether this may involve any degree of self incrimination; and

(i) keep the CEO and/or the President properly and fully informed in such manner prescribed (with explanations where requested) of your compliance with the Duties and the affairs of the Company and/or any Group Company.

#### **5. Hours of work**

You shall work such hours as may be necessary for the proper discharge of your Duties. You agree that your employment falls within Regulation 20 of the Working Time Regulations 1998.

#### **6. Place of Work**

6.1 Your principal place of work shall be [your residential address] until otherwise notified by the Company. The Company reserves the right to change your principal place of work within a reasonable commutable distance from your home on giving reasonable prior notice to you.

6.2 You shall travel to and work on a temporary basis from such locations within and outside of the United Kingdom as the CEO and/or the President may reasonably require. There is no current requirement for you to work outside the United Kingdom for any consecutive period of one month or more.

#### **7 Expenses**

7.1 The Company will reimburse to you (or as the case may be procure the reimbursement of) all expenses wholly, properly and necessarily incurred by you in the performance of the Duties in accordance with the Company's policy on expenses in force from time to time.

7.2 If you are provided with any credit or charge card by the Company, you must take good care of it and use it solely for expenses incurred by you in carrying out the Duties and in accordance with any applicable Company policy. The loss of any such card must be reported immediately to the Company and it must be returned to the Company immediately upon request.

#### **8 Salary**

8.1 You will be paid a salary of £155,000 per annum, subject to deduction of such tax and national insurance as the Company is required by law to deduct which is inclusive of any fees you may be entitled to as a director of the Company and/or any Group Company.

8.2 Your salary will accrue from day to day and is payable in equal monthly instalments in arrears on or about the last working day of each month, directly into a bank or building society account nominated by you.

8.3 Your salary will be reviewed by the CEO and/or the President each year, save where you are working under notice of termination. There is no obligation on the CEO and/or the President to increase your salary. Any increase awarded will be effective from the date specified by the CEO and/or the President.

8.4 The Company may, in its absolute discretion, pay additional remuneration to you, whether by way of bonus or otherwise. Any such payment shall not form part of your salary for the purposes of this clause 8.

#### **9. Bonus**

9.1 The Company may award you a bonus of up to £77,500 per annum, subject to such conditions (including, but not limited to, conditions for and timing of payment) as the CEO and/or the President may in

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their absolute discretion determine from time to time. The CEO and/or the President reserve the right to award a nil bonus .

9.2 Any bonus awarded to you shall be purely discretionary, shall not form part of your contractual remuneration under this Agreement and shall not be pensionable. The making of an award shall not oblige the Company to make any subsequent bonus awards.

9.3 Notwithstanding clause 9.1, you shall have no right to be awarded or where an award has been made, paid a bonus (pro rata or otherwise) if:

- (a) you have not been employed throughout the whole of the financial year to which the bonus relates; or
- (b) you are subject to any capability and/or disciplinary procedures; and/or
- (c) your employment has terminated (whether lawfully or unlawfully) or you are under notice of termination (whether given by you or the Company).

9.4 If you have been notified that you are under investigation in accordance with our disciplinary or capability procedure then your eligibility to be considered for a discretionary bonus will be postponed pending the conclusion of any such investigation and any subsequent disciplinary hearing or capability meeting.

## **10. Pension**

10.1 The Company will provide you with access to a stakeholder pension scheme as required by law. The Company does not make any contributions to such scheme.

10.2 A contracting out certificate is not in force in respect of the Employment.

## **11. Share Option and Long Term Incentive Plan**

11.1 The terms of the Employment shall not be affected in anyway by your participation or entitlement to participate in any long term incentive plan or share option scheme. Such schemes and/or plans shall not form part of the terms of the Employment (express or implied).

11.2 In calculating any payment, compensation or damages on the termination of the Employment for whatever reason (whether lawful or unlawful) which might otherwise be payable to you, no account shall be taken of your participation in any such schemes and/or plans referred to in clause 11.1 or any impact upon participation such termination may have.

## **12. Other Benefits**

12.1 Subject to clause 12.3 below, the Company shall meet the reasonable costs of private medical expenses insurance for you of up to £370 per month.

12.2 Any other benefit provided to you shall, unless otherwise agreed in writing, be at the absolute discretion of the Company who may, at any time, withdraw or vary the terms of any such benefit as it sees fit.

12.3 You agree that the Company shall be under no obligation to continue this Agreement and the Employment so that you continue to receive benefits under this Agreement. You agree that you shall have no entitlement to compensation or otherwise from the Company and/or any Group Company for the loss of any such entitlements and/or benefits.

## **13. Holidays**

13.1 In addition to the usual public or bank holidays in England and Wales, you are entitled to 27 working days' paid holiday in each Holiday Year (pro rated to the nearest half day for the Holiday Year in which the Employment commences and terminates).

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13.2 Holiday must be taken at such times as are agreed with the CEO and/or the President and may not be taken in the final month of any Company Financial Quarter. On giving at least 5 days notice, the Company may require you to take any accrued but untaken holiday where you are under notice of termination (including where you are on garden leave pursuant to clause 19).

13.3 Save with the prior consent of the CEO and/or the President you may not carry forward any part of your holiday entitlement to a subsequent Holiday Year. Save as provided for in clause 13.4 no payment in lieu will be made of any unused holiday entitlement in any Holiday Year.

13.4 On termination of the Employment:

(a) you will be entitled to pay in lieu of any accrued but untaken holiday entitlement; and/or

(b) you will be required to repay to the Company any salary received for holiday taken in excess of your accrued entitlement (which you agree may be deducted from any payments, including salary, due to you from the Company).

Any payment or repayment pursuant to this clause will be calculated on the basis of 1/260 of your salary payable pursuant to clause 8 for each day of holiday. It will not be calculated on any entitlement to bonus, commission, allowance or other payment.

#### **14. Sickness Absence**

14.1 If you are unable to perform the Duties due to sickness or injury, you must report this on the first working day of such sickness or injury to the President of the Company, indicating so far as practicable the date on which you expect to return to work. You shall keep the Company informed and provide it with such certification of your condition as it may require in accordance with the Company's sickness policy from time to time in force.

14.2 If at any time in the reasonable opinion of the CEO and/or the President you are unable to perform all or part of the Duties due to sickness or injury, you will at the request and expense of the Company:

(a) consent to an examination by a doctor nominated by the Company; and

(b) authorise the doctor to disclose to and discuss with the Company, his or her report (including copies) of the examination and your fitness for work.

14.3 The Company is entitled to rely on the reasonable opinion of any doctor engaged to examine you under clause 14.2 as to your fitness for work. Where such doctor considers you to be unfit for work, you are not entitled to receive any payment in excess of any sick pay entitlement pursuant to clause 15.

14.4 If you are incapable of performing your Duties due to sickness or injury for a period or periods aggregating at least 90 days in any period of 12 months, the Company may by not less than 1 months' prior written notice given at any time while such sickness or injury continues terminate the Employment, even where, as result of such termination, you would or might forfeit your entitlement to benefit from sick pay under clause 15 below or any other benefit and you agree that you shall have no entitlement to compensation or otherwise from the Company and/or any Group Company for the loss of any such entitlements and/or benefits.

#### **15. Sick Pay**

15.1 If you are absent from work due to sickness, injury or other incapacity you may be entitled to receive statutory sick pay ("SSP") from the Company provided that you are eligible for payment and have complied with all the statutory rules (including the statutory requirements for notification of absence).

15.2 For the purposes of SSP your qualifying days are Monday to Friday inclusive.

15.3 You will not be entitled to receive any remuneration other than SSP during periods of absence due to illness.

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## 16. Obligations during Employment

16.1 Save with the prior written permission of the CEO and/or the President, you shall not during your employment (whether during or outside normal working hours):

(a) hold any Material Interest in any person which:

(i) is or shall be wholly or partly in competition with any of the Businesses;

(ii) impairs or might reasonably be thought by the Company to impair your ability to act at all times in the best interests of the Company and/or any Group Company ; and/or

(iii) requires or might reasonably be thought by the Company to require you to make use of or disclose any Confidential Information to further your interests in that person;

(b) take any preparatory steps to become engaged or interested in any capacity whatsoever in any business or venture which is in or is intended to enter into competition with any of the Businesses;

(c) carry out any public or private work other than the Duties (whether for profit or otherwise);

(d) directly or indirectly receive in respect of any goods or services sold or purchased or any other business transacted (whether or not by you) by or on behalf of the Company and/or any Group Company any discount, rebate, commission or other inducement (whether in cash or in kind) which is not authorised by the relevant Company and/or Group Company rules or guidelines. You will account to the Company for the value of any such inducement.

16.2 You shall observe relevant rules of law and the Company guidelines/codes relating to dealings in shares, debentures or other securities of the Company and/or any Group Company. In relation to overseas dealing you shall observe all laws and all regulations of the stock exchange, market or dealing system in which country or state such dealings take place.

## 17. Confidential Information

17.1 You shall not either during the Employment or at any time after its termination (howsoever arising), directly or indirectly, use, disclose or communicate to any person whatsoever and, shall use your best endeavours to prevent the publication or disclosure of, any Confidential Information.

17.2 Clause 17 . 1 does not apply to:

(a) any use or disclosure in the proper performance of the Duties, as authorised by the CEO and/or the President and/or as required by law;

(b) any information which is already in or comes into the public domain other than through your unauthorised disclosure; and/or

(c) any protected disclosure within the meaning of s43A Employment Rights Act 1996.

## 18. Intellectual Property

18.1 You shall promptly disclose to the Company full details of any Invention and/or Works (including, without limitation, any and all computer programs, photographs, plans, records, drawings and models) which you (whether alone or with any other person) make, conceive, create, develop, write , devise or acquire at any time during the Employment and which relates or could relate directly or indirectly to the Businesses. You shall treat all Inventions and Works as Confidential Information of the Company and/or any Group Company.

18.2 To the extent not already vested in the Company and/or any Group Company by operation of law, you:

(a) shall hold any Invention and/or Work on trust for the Company and/or any Group Company until any

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rights to such Invention and/or Work have been fully and absolutely vested in the Company in accordance with the remaining provisions of this clause 18;

(b) shall subject to clauses 39-43 of the Patents Act 1977 assign to the Company all patents and rights to apply for patents or other appropriate forms of protection in each Invention throughout the world;

(c) hereby assign by way of present and future assignment all copyright, design rights and other proprietary intellectual property rights (if any) for their full terms throughout the world in respect of the Works.

(d) shall execute any document necessary to assign to the Company any rights referred to under this clause 18 and at the request and expense of the Company, do all things necessary or desirable (including entering into any agreement that the Company reasonably *requires*) to vest such rights in the Company including without limitation applying and joining in with the Company in applying for any protection for or registration of any such rights to enable the Company and/or any Group Company and/or its or their nominee to obtain the full benefit and/or substantiate the rights of the Company and/or any Group Company under paragraphs (a), (b) and (c).

18.3 You acknowledge and agree that the patenting and exploitation of any Invention shall be at the sole discretion of the Company.

18.4 You irrevocably and unconditionally waive in favour of the Company and/or any Group Company any and all moral rights conferred on you by Chapter IV, Part I, Copyright Designs and Patents Act 1988 and any other moral rights provided for under the laws now or in future in force in any part of the world for any Work the rights in which are vested in the Company whether by clause 18.2 or otherwise.

## 19. Garden Leave

19.1 During any period of notice to terminate the Employment (whether given by you or the Company), or if you purport to terminate the Employment in breach of this Agreement the CEO and/or the President may for all or part of that period, in its absolute discretion (and notwithstanding any other provisions of this Agreement) require you:

(a) to perform only such of the Duties as it may allocate to you or such other projects or duties as may be required (whether or not they fall within clause 4);

(b) not to perform any of the Duties;

(c) not to have any contact (other than purely social contact) or deal with (or attempt to contact or deal with) any officer, employee, consultant, client, customer, supplier, agent, distributor, shareholder, adviser or other business contact of the Company and/or any Group Company save as determined by the CEO and/or the President;

(d) to disclose to the CEO and/or the President any attempted contact (other than purely social contact) with any person with whom you have been required not to have any contact pursuant to this clause;

(e) to take any accrued holiday entitlement in accordance with clause 13.2);

(f) not to enter any premises of the Company and/or any Group Company nor to visit the premises of any suppliers and/or customers of the Company and/or any Group Company;

(g) to return as requested by the CEO and/or the President any mobile telephone handset, SIM card, laptop computer and/or any other Company and/or Group Company property, including Confidential Information, the CEO and/or the President may require; and/or

(h) to resign immediately from any offices you hold in the Company and/or any Group Company.

19.2 You agree that any action taken on the part of the Company and/or any Group Company pursuant to clause 19.1 shall not constitute a breach of this Agreement of any kind whatsoever nor will you have any claim against the Company and/or any Group Company in respect of such action.

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19.3 Without prejudice to any other terms of this Agreement and save as expressly agreed otherwise in clause 19.1 above, during any period in which action is taken on the part of the Company and/or any Group Company pursuant to clause 19.1:

(a) you shall continue to be entitled to your salary and contractual benefits save that, should you work for any other person or on your own account and fail to be available for work at any time, your right to salary and contractual benefits in respect of such period of non-availability shall be forfeit, notwithstanding any other provision of this Agreement;

(b) you shall owe a duty of utmost good faith to the Company and/or any Group Company; and

(c) you shall remain an employee of the Company and be bound by the terms and conditions of this Agreement. In particular, you agree that you will not work for any other person or on your own account and save, during any periods of holiday taken under this *Agreement*, you shall remain readily contactable and available to work for the Company and/or any Group Company.

## 20. Payment in lieu of notice

20.1 The Company may in its absolute discretion, terminate the Employment at any time with immediate effect and pay you a sum equal to the basic salary you would have received during your notice period pursuant to clause 8.1 (or, if notice has already been given, during the remainder of the notice period) less income tax and National Insurance contributions ("**Payment in Lieu**"). The Payment in Lieu shall not include any payment in respect of:

(a) any bonus or commission payments that might otherwise have been paid to you during the period for which the Payment in Lieu is made;

(b) benefits which you would have been entitled to receive during the period for which the Payment in Lieu is made; or

(c) any holiday entitlement that would have accrued to you during the period for which the Payment in Lieu is made.

20.2 Subject to clause 20.3, the Company will make any payment pursuant to clause 20.1, at its absolute discretion, either within 30 days of the termination of your employment or in equal monthly instalments in arrears until the date on which the period of notice referred to in clause 20.1 would have expired.

20.3 If the Company chooses to make the Payment in Lieu in instalments, you undertake to seek and take up, as soon as reasonably practicable, any opportunity to earn alternative income (whether in the form of cash or benefits in kind) over the period in which the instalments are to be made. You undertake to inform the Company in writing as soon as you receive an offer of any such opportunity and to disclose to the Company the gross amount of any such income. You agree that the instalment payments will be reduced (including to zero) by the amount of such income you earn and/or are entitled to earn over the period in which such instalments are to be made.

20.4 You shall have no right to receive a Payment in Lieu unless the Company has exercised its discretion in clause 20.1. Nothing in this clause 20 shall prevent the Company from terminating your Employment in breach.

## 21. Summary Termination

21.1 The Company may terminate the Employment at any time, without notice or pay in lieu of notice, and with no liability to make any further payment to you, save for the amounts accrued due to the Termination Date, if:

(a) you commit any act of gross misconduct;

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(b) your conduct (whether or not it occurs during or in the context of the Employment) is such that it may in the reasonable opinion of the CEO and/or the President bring the Company and/or any Group Company into disrepute and/or is calculated or likely prejudicially to affect the interests of the Company and/or any Group Company;

(c) you are negligent and/or incompetent in the reasonable opinion of the CEO and/or the President in the performance of your Duties;

(d) you commit any serious or repeated breach of this Agreement;

(e) you are convicted of any criminal offence (other than an offence under the road traffic legislation in the United Kingdom or abroad for which you are not sentenced to any term of imprisonment, whether immediate or suspended);

(f) you commit any act of fraud or dishonesty relating to the Company and/or any Group Company, any of its or their employees, customers or otherwise;

(g) you become prohibited by law from being a director;

(h) you become of unsound mind or a patient for the purposes of any statute relating to mental health so that in the opinion of the CEO and/or the President you are unable to perform your Duties;

(i) a bankruptcy petition is presented against you or you become bankrupt or an interim order is made in respect of you pursuant to section 252 of the Insolvency Act 1986 or you make any arrangement or composition with your creditors generally (including an Individual Voluntary Arrangement) or have a County Court administration order made against you under the County Court Act 1984.

21.2 The rights of the Company under clause 21.1 are without prejudice to any other rights that it may have at law to terminate the Employment or accept any breach of this Agreement by you as having brought the Agreement to an end and any delay by the Company in exercising its rights under clause 21.1 shall not constitute a waiver of such rights.

## **22. Retirement**

22.1 Subject to clause 22.2 below, the Company's normal retirement age is 65.

22.2 You may request to work beyond the normal retirement date. Please refer to the CEO and/or the President for further details and the procedure and timescales for exercising this right.

## **23. Reconstruction and Amalgamation**

If the Employment is terminated by reason of any reconstruction or amalgamation of the Company and/or any Group Company whether by winding up or otherwise and you are offered employment with any concern or undertaking involved in or resulting from such reconstruction or amalgamation on terms which (considered in their entirety) are no less favourable to any material extent than the terms of this Agreement, you shall have no claim against the Company or any such undertaking arising out of or in connection with such termination.

## **24. Obligations after Employment**

Without prejudice to the other terms of this Agreement, you agree that following the termination of your Employment for any reason whatsoever, you will be bound by and you will comply with the terms and conditions set out in Schedule 1 to this Agreement.

## **25. Property**

At any time during the Employment or following its termination (for whatever reason), as requested by the Company and/or any Group Company, you agree to:

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(a) return to the Company and/or any Group Company or irretrievably destroy or delete:

(i) any documents, drawings, designs, computer files or software, visual or audio tapes or other materials containing information (including, without limitation, Confidential Information) and/or any copies or extracts of the same relating to the Businesses; and

(ii) any other property of the Company and/or any Group Company in your possession, custody and/or directly or indirectly under your control;

(b) inform the Company of all passwords, pass codes, pin numbers and any other similar information used by yourself in relation to any information technology systems, vehicles, rooms and/or any other secured property of the Company and/or any Group Company.

## **26. Resignation from Appointments**

At any time, at the request of the Company and/or any Group Company, you agree to resign from any directorships, offices, appointments and/or trusteeships which you hold with the Company and/or any Group Company without claim for compensation and your resignation shall not affect in anyway the continuance of this Agreement.

## **27. Suspension**

In order to investigate a complaint against you of misconduct and/or poor performance, the Company may suspend you for so long as may be necessary to carry out a proper investigation and complete any appropriate disciplinary and/or capability process. During any period of suspension you shall continue to receive your salary and contractual benefits.

## **28. Disciplinary and Dismissal Rules**

28.1 You are subject to the Company's disciplinary rules and procedures and poor performance procedures in force from time to time, details of which are available from the CEO and/or the President and such other procedures of this nature as may from time to time be adopted. Application of any such procedure is at the Company's discretion and is not a contractual entitlement.

28.2 If you are dissatisfied with any disciplinary decision to dismiss you, you should refer such dissatisfaction in writing to the CEO who will proceed in accordance with the appeal procedure set out in the appropriate Company procedure.

## **29. Grievance**

If you have any grievance relating to your Employment (other than one relating to a disciplinary *decision* or a decision to dismiss you), you should refer such grievance in writing to the CFO. If the grievance is not resolved by discussion with you, you can refer an appeal for resolution in writing to the CEO and/or the President, who will appoint a suitable person to hear the appeal, and whose decision shall be final. Application of any such procedure is at the Company's discretion and is not a contractual entitlement.

## **30. Data Protection**

The Company and any Group Company shall process your personal data (including, where necessary, sensitive personal data, such terms being defined in the Data Protection Act 1998) in their paper-based and computerised systems. You consent to the processing of such data both inside and, where necessary, outside the European Economic Area for the purposes of:

(a) salary, benefits and pensions administration and employee management;

(b) health administration and for the purposes of health insurance/benefits;

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(c) training and appraisal , including performance records and disciplinary records;

(d) equal opportunities monitoring;

(e) any potential change of control of the Company and/or Group Company, or any potential transfer of employment under the Transfer of Undertakings (Protection of Employment) Regulations 2006. In such circumstances, disclosure may include disclosure to the potential purchaser or investor and their advisors;

(f) promoting or marketing of the Company and/or any Group Company and/or its or their products or services;

(g) compliance with applicable procedures, laws and regulations; and/or

(h) any other reasonable purposes in connection with your employment about which you shall be notified from time to time.

30.2 You acknowledge and accept that in order to fulfil the purposes set out above, it may be necessary to pass your personal data (or sensitive personal data, as appropriate) to regulatory bodies, government agencies and other third parties as required by law or for administration purposes.

30.3 You acknowledge and accept that the Company and/or any Group Company may monitor electronic correspondence (including email , voice and text messages) which you receive at work and/or on Company systems and/or property provided to you by the Company and/or any Group Company for the purposes of your work in order to ensure the integrity of its information technology or to prevent or detect criminal behaviour or behaviour which contravenes employment legislation and/or other Company and/or Group Company policies.

30.4 You agree to use all reasonable endeavours to keep the Company informed of any changes to your personal data or sensitive personal data and to comply with all relevant data protection legislation.

### **31. Warranty**

31.1 You warrant that you are not bound by nor subject to any court order, arrangement, obligation (express or implied), restriction or undertaking (contractual or otherwise) which prohibits or restricts you from entering into this Agreement or performing the Duties.

31.2 You undertake to indemnify the Company and/or any Group Company against any claims, costs, damages, liabilities and/or expenses which the Company and/or any Group Company may incur as a result of any claim that you are in breach of any order, arrangement, obligation, restriction or undertaking referred to in clause 31 . 1.

### **32. Deductions**

You agree that at any time the Company may deduct from your salary or any other sums owed to you any money you owe to the Company and/or any Group Company.

### **33. Power of Attorney**

If you fail to comply with any request(s) under clauses 18 and/or 26 you irrevocably authorise the Company and/or any Group Company to appoint a person in your name and on your behalf to sign any documents or do any things necessary or requisite for the purposes of giving the Company and/or any Group Company and its or their nominee the full benefit of clause 18 and/or 26 as applicable.

### **34. Collective Agreements**

There are no collective agreements which affect the terms and conditions of your employment.

### **35. Entire Agreement**

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This Agreement together with any documents referred to in it sets out the entire agreement and understanding between the parties and supersedes all prior agreements, understandings or arrangements (oral or written) in respect of your employment or engagement by the Company. No purported variation of this Agreement shall be effective unless it is in writing and signed by or on behalf of each of the parties.

**36. Third Parties**

Unless expressly provided in this Agreement, no term of this Agreement is enforceable pursuant to the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to it.

**37. Releases and waivers**

37.1 The Company may, in whole or in part, release, compound, compromise, waive or postpone, in its absolute discretion, any liability owed to it or right granted to it in this Agreement by you without in any way prejudicing or affecting its rights in respect of any part of that liability or any other liability or right not so released, compounded, compromised, waived or postponed.

37.2 No single or partial exercise, or failure or delay in exercising any right power or remedy by the Company shall constitute a waiver by it of, or impair or preclude any further exercise of, that or any right, power or remedy arising under this Agreement or otherwise.

**38. Notices**

38.1 Any notice to a party under this Agreement shall be in writing signed by or on behalf of the party giving it and shall, unless delivered to a party personally, be hand delivered, or sent by prepaid first class post or facsimile, with a confirmatory copy sent by prepaid first class post to, in your case, your last known residential address or, in the case of the Company, the CEO or the President at the Company's registered office.

38.2 A notice shall be deemed to have been served:

(a) at the time of delivery if delivered personally to a party or to the specified address;

(b) on the second working day after posting by first class prepaid post; or

(c) 2 hours after transmission if served by facsimile on a business day prior to 3pm or in any other case at 10 am on the business day after the date of despatch.

**39. Governing law and jurisdiction**

39.1 This Agreement shall be governed by and construed in accordance with English law.

39.2 Each of the parties irrevocably submits for all purposes in connection with this Agreement to the exclusive jurisdiction of the English courts.

**In witness** this Deed has been executed on the date appearing at the head of page 1.

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**Schedule 1**  
**(Post termination restrictions)**

**1. Definitions and interpretation**

1.1 In this Schedule, unless the context otherwise requires, the following additional definitions shall apply in addition to the definitions contained in the Agreement to which this Schedule is annexed and of which it forms a part):

**"the Business"** means the business of the Company or any part thereof and any other business or part thereof carried on by any Group Company as at the Termination Date and/or during the Protected Period and in respect of which the Duties have been materially concerned or about which you have acquired Confidential Information.

**"Customer"** means any person who at any time during the Protected Period was a customer of the Company or any Group Company and was a person with whom you had material personal dealings or in relation to whom you have acquired Confidential Information.

**"Garden Leave Period"** means any period during which the Company has exercised its rights pursuant to clause 19 of the Agreement to which this Schedule is annexed.

**"Goods and/or Services"** means any goods and/or services competitive with those supplied by the Company or any Group Company at any time during the Protected Period and in relation to which you were materially involved or concerned or for which you were responsible during that period.

**"Key Employee"** means any person who at any time during the Protected Period is or was employed or engaged **by** the Company or any Group Company in a senior, managerial, sales, marketing, technical or supervisory capacity and with whom you dealt during that period.

**"Prospective Customer"** means any person who was at any time during the Protected Period engaged in negotiations, with which you were personally involved, with the Company or any Group Company with a view to obtaining goods or services from the Company or any Group Company or in relation to whom you have acquired Confidential Information.

**"Protected Period"** means the 12 months immediately preceding the earlier of the Termination Date and the commencement of any Garden Leave Period.

**"Supplier"** means any person with whom you have had material dealings as part of the Duties during the Protected Period and who has during that period supplied goods or services to the Company or any Group Company on terms other than those available to another purchaser in the market during that period, whether by reason of exclusivity (either de facto

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or contractually obliged), price or otherwise.

## 2. Obligations after employment

2.1 You shall not for the period of 3 months after the Termination Date hold a Material Interest in a business or venture which:

(a) is or is about to be in competition with the Business or any part thereof; or

(b) is likely to result in the intentional or unintentional disclosure or use of Confidential Information by you in order for you to properly discharge your duties to or further your interest in that business or venture.

2.2 The provisions of clause 2.1 shall not operate so as to prevent you from being engaged, concerned or interested in any business or venture in so far as your work for that business or venture shall relate solely to services or activities with which the Duties were not concerned to a material extent or in relation to which *you* were not responsible and in relation to which you held no Confidential Information during the Protected Period.

2.3 You shall not for the period of 3 months after the Termination Date in respect of any Goods and/or Services:

(a) deal with or supply any Customer;

(b) deal with or supply any Prospective Customer; or

(c) offer employment or any contract for services to or employ or engage any Key Employee.

2.4 You shall not for the period of 3 months after the Termination Date in respect of any Goods and/or Services:

(a) solicit, facilitate the solicitation of or canvass the custom or business of any Customer;

(b) solicit, facilitate the solicitation of or canvass the custom or business of any Prospective Customer; or

(c) solicit or entice or endeavour to solicit or entice any Key Employee to leave his employment with or cease his directorship or consultancy with the Company or any Group Company, whether or not that person would breach any obligations owed to the Company or any relevant Group Company by so doing.

2.5 You shall not for the period of 12 months after the Termination Date less any Garden Leave Period:

(a) deal with or accept the supply of *any* goods or services from any Supplier where such supply is likely to be the detriment of any Group Company whether by causing the Supplier to reduce or alter the terms or quantity of supply to the Group Company or where the value of the Group Company's arrangement with the Supplier is diminished; or

(b) solicit, facilitate the solicitation of or canvass the supply of any goods or services from any Supplier where such supply is likely to be the detriment of any Group Company whether by causing the Supplier to reduce or alter the terms or quantity of supply to the Group Company or where the value of the Group Company's arrangement with the Supplier is diminished;

2.6 If, at any time during the Employment, two or more Key Employees leave the employment of the Company or any Group Company to provide Goods and/or Services for the same business or venture, you shall not, at any time during the 6 months following the last date on which any of those

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Key Employees was employed by the Company or any Group Company, be employed or engaged in any way with that business or venture in respect of any Goods and/or Services.

2.7 You shall not at any time after the Termination Date:

(a) induce or seek to induce by any means involving the disclosure or use of Confidential Information any Customer or Supplier to cease dealing with the Company or any Group Company or to restrict or vary the terms upon which it deals with the relevant Group Company;

(b) be held out or represented by you or any other person as being in any way connected with or interested in the Company or any Group Company; or

(c) disclose to any person or make use of any Confidential Information (except as required by law).

### 3. General

3.1 You have given the undertakings in this Schedule to the Company as trustee for itself and each Group Company in the business of which you have been concerned or involved to any material extent during the Employment or which benefits from each undertaking. You agree that each such Group Company may enforce the benefit of each such undertaking. You shall at the request and expense of the Company enter into direct undertakings with any such Group Company which correspond to the undertakings in this Schedule.

4. You agree that if the Company transfers all or any part of its business to a third party ("Transferee"), the restrictions contained in this Schedule 1 shall, with effect from the date of you becoming an employee of the transferee, apply to you as if references to the Company included the transferee and references to any Group Companies were construed accordingly and as if references to customers or suppliers were of the Company and/or the transferee and their respective Group Companies.

4.1 You agree that if you have material business dealings in other foreign jurisdictions on behalf of any Group Company, you will enter into undertakings providing the same level of protection for each such Group Company with such modifications (if any) as are necessary to render such undertakings enforceable in those jurisdictions.

4.2 You acknowledge that you have had the opportunity to take independent legal advice in relation to the undertakings contained in this Schedule.

4.3 The obligations imposed on you by this Schedule extend to you acting not only on your own account but also on behalf of any other firm, company or other person and shall apply whether you act directly or indirectly.

4.4 You warrant that you believe the covenants contained within this Schedule to be reasonable as between the parties and that you have no present intention of ever arguing that the restraints are unreasonable or otherwise unenforceable.

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**Executed as a Deed**  
by **Dominic Trigg** /s/ **Dominic Trigg** 8/1/11  
in the presence of:

**Signature of witness:** /s/ Alison Trigg 08/01/11

**Name:** Mrs. Alison Trigg

**Address:** Evergreen House, Cherkley Hill

Givons Grove, Leatherhead  
Surrey KT22 8LA

**Occupation:** N/A

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**Executed as a Deed**  
(but not delivered until the date ) appearing at the head of page 1)) by Rocket Fuel , Inc. )  
acting by , a director )  
in the presence of: )

/s/ Richard A Frankel  
Director

Signature of witness: /s/ Narayanan Iyer

Name: Narayanan Iyer

Address: 350

Occupation: Dir of Finance



## ROCKET FUEL MANAGEMENT RETENTION AGREEMENT

This Management Retention Agreement (the “*Agreement*”) is made and entered into by and between Dominic Trigg (the “*Executive*”) and Rocket Fuel Inc. (the “*Company*”), effective as of the Effective Date (defined below). The purpose of this Agreement is to provide assurances of specified benefits to Executive whose employment is subject to being involuntarily terminated under the circumstances described in this Agreement.

1. Definitions. The following words and phrases, when the initial letter of the term is capitalized, will have the meanings set forth in this Section 1, unless a different meaning is plainly required by the context:

1.1 “Board” means the Board of Directors of the Company.

1.2 “Cause” means, with respect to Executive, (i) an unauthorized use or disclosure of the Company’s (or any subsidiary’s or parent’s of the Company) confidential information or trade secrets, which use or disclosure causes material harm to the Company; (ii) a deliberate, material failure to comply with any of the written policies or rules of the Company (or any employing subsidiary or parent of the Company); (iii) conviction of, or plea of “guilty” or “no contest” to, a felony under the laws of the United States or a criminal offence under the laws of the United Kingdom (other than an offence under the road traffic legislation in the United Kingdom for which the Executive is not sentenced to any term of imprisonment, whether immediate or suspended); (iv) gross misconduct; (v) a continued failure to perform assigned duties after receiving written notification of such failure from the Board of Directors, provided that such duties are those customarily performed by a person holding the position that Executive holds immediately prior to the Change in Control Period (defined below); or (vi) failure to cooperate in good faith with a governmental or internal investigation of the Company (or any subsidiary or parent of the Company) or its directors, officers or employees, if the Company (or any subsidiary or parent of the Company) has requested the Executive’s cooperation.

1.3 “Change in Control” means the occurrence of any of the following on or after the Effective Date of this Agreement:

(a) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“*Person*”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(b) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (b), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(c) a change in the ownership of a substantial portion of the Company’s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a

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total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (c), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (c)(B)(3). For purposes of this subsection (c), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(d) For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation or other entity that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(e) Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

(f) Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

1.4 "Change in Control Period" means the time period beginning on the date that is three (3) months prior to the Change in Control and ending on the date that is twelve (12) months following the Change in Control.

1.5 "Code" means the United States Internal Revenue Code of 1986, as amended.

1.6 "Director" means a member of the Board.

1.7 "Disability" means that the Executive has been unable to perform the Executive's duties as the result of the Executive's incapacity due to physical or mental illness, and such inability, at least twenty-six (26) weeks after its commencement or 180 days in any consecutive twelve (12) month period, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be unreasonably withheld). During the term of this Agreement, termination of the Executive's employment for Disability may only be effected by the Company (or any parent or subsidiary of the Company employing the Executive) on giving at least thirty (30) days' written notice of termination to the Executive. In the event that the Executive resumes the performance of substantially all of the Executive's duties hereunder before the termination of the Executive's employment becomes effective, the notice to terminate will automatically be deemed to have been revoked.

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1.8 “Effective Date” means the later of the date upon which the Company’s Board or a committee thereof approves the Company entering into this form of Agreement, which date is March 13, 2015, or the date Executive and the Company enter into this Agreement.

1.9 “Good Reason” means, the Executive’s resignation within thirty (30) days following the end of the Cure Period (as defined below), following the occurrence of one or more of the following without the Executive’s express written consent: (a) a material reduction of Executive’s duties, position or responsibilities, or the removal of Executive from such position and responsibilities, either of which results in a material diminution of Executive’s authority, duties or responsibilities, unless Executive is provided with a comparable position (i.e., a position of equal or greater organizational level, duties, authority, compensation and status); provided, however, that a reduction in duties, position or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Executive Officer of the Company remains as such following a Change in Control but is not made the Chief Executive Officer of the acquiring corporation) will not constitute “Good Reason”; (b) a material reduction in Executive’s base salary; or (c) a material relocation of the Executive’s principal workplace, provided that a relocation of 35 miles or less, or a relocation to the Executive’s home as his or her principal workplace, will not be considered a material relocation. In addition, in order to qualify as Good Reason, the Executive must not terminate employment with the Company without first providing the Company with written notice of the acts or omissions constituting the grounds for “Good Reason” within sixty (60) days of the initial existence of the grounds for “Good Reason” and a reasonable cure period of thirty (30) days following the date of written notice (the “Cure Period”), and such grounds must not have been cured during such time.

1.10 “Involuntary Termination” means a termination of employment of Executive under the circumstances described in Section 2.

1.11 “Pre-CIC Period” means the portion of the Change in Control Period that occurs prior to the Change in Control.

1.12 “Section 409A Limit” means two (2) times the lesser of: (i) Executive’s annualized compensation based upon the annual rate of pay paid to Executive during Executive’s taxable year preceding the Executive’s taxable year of the Executive’s termination of employment as determined under, and with such adjustments as are set forth in, United States Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any United States Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive’s employment is terminated.

1.13 “Service Agreement” means the Service Agreement entered into between Executive and the Company, dated August 1, 2011.

1.14 “Severance Benefits” means the compensation and other benefits that the Executive will be provided in the circumstances described in Section 2.

1.15 “Share” means a share of the Company’s common stock.

1.16 “Target Bonus” means either (i) the Executive’s target bonus percentage or target commission percentage multiplied by the Executive’s annual base salary, or (ii) the target bonus amount or target commission amount (as applicable), in each case, as in effect for the Company’s (or its successor’s) fiscal year in which the Executive’s Involuntary Termination occurs.

## 2. Involuntary Termination.

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2.1 Termination During the Change in Control Period. If, during the Change in Control Period, (i) Executive terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (ii) the Company (or any parent or subsidiary of the Company) terminates the Executive's employment for a reason other than Cause and other than death or Disability; or (iii) solely with respect to Equity Award Vesting Acceleration, Executive's employment is terminated due to death or Disability, then, subject to the Executive's compliance with Section 4, as applicable, the Company shall cause Executive to receive the following Severance Benefits:

*2.1.1 Cash Severance Benefits*. With respect to the circumstances described in Section 2.1 (i) and (ii), a lump-sum payment of cash severance equal to the sum of: (a) twelve (12) months of the Executive's annual base salary (as in effect immediately prior to (A) a Change in Control (if Executive's employment terminates on or after the Change in Control), or (B) the Executive's termination, whichever is greater) and (b) 100% of Executive's Target Bonus for the Company fiscal year in which the Executive's employment terminated minus any bonus payments or commission payments, as applicable actually paid to Executive prior to such termination for such fiscal year's performance. Subject to Section 5, such payment shall be made on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4);

*2.1.2 Continued Medical Benefits*. With respect to the circumstances described in Section 2.1 (i) and (ii), if the Executive has private medical expenses insurance pursuant to paragraph 12 of the Service Agreement on the date of the Executive's Involuntary Termination, the Company shall cause Executive to receive reimbursement of the agreed upon cost that is in effect immediately prior to (A) a Change in Control (if Executive's employment terminates on or after the Change in Control), or (B) the Executive's termination, whichever is greater) for twelve (12) months following the Executive's employment termination. However, if the Company determines in its sole discretion that it is overly burdensome or costly to provide the reimbursement benefits or to provide such benefits without potentially violating applicable laws (including, without limitation, Section 2716 of the United States Public Health Service Act and the United States Employee Retirement Income Security Act of 1974, as amended), the Company will in lieu thereof cause Executive to be provided a taxable lump sum payment equal to the product of (1) the monthly cost provided pursuant to paragraph 12 of the Service Agreement in effect immediately prior to (A) a Change in Control (if Executive's employment terminates on or after the Change in Control), or (B) the Executive's termination, whichever is greater, multiplied by 12 and (2) 1.5. Subject to Section 5, any payment pursuant to the prior sentence shall be made on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4); and

*2.1.3 Equity Award Vesting Acceleration*. With respect to the circumstances described in Section 2.1 (i) and (ii), or (iii), 100% of the Shares subject to each of Executive's then outstanding stock options, stock appreciation rights, restricted stock units and other Company equity compensation awards, including (subject to the provisions of this paragraph) performance-based vesting full-value awards where the payout is either a fixed number of Shares or zero Shares depending on whether the performance metric is obtained, shall immediately accelerate vesting. With respect to performance-based vesting full-value awards in which the performance period has not been completed prior to the Executive's termination date and where the number of Shares earned is variable based upon the extent to which performance milestones are reached (i.e., where the number of Shares earned based upon achieving performance milestones can be more than one positive number), each such award shall immediately accelerate vesting as described above as if one hundred percent of the target performance levels had been achieved. With respect to performance-

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based vesting full-value awards where the performance period has been completed prior to the Executive's termination date and that remain subject to additional service-based vesting, such awards shall accelerate as described above with respect only to the shares earned by virtue of attaining the performance metrics during the performance period. Any Company stock options and stock appreciation rights shall thereafter remain exercisable following the Executive's employment termination for the period prescribed in the respective option and stock appreciation right agreements. Subject to Section 5, any acceleration pursuant to this Section 2.1.3 shall occur upon (a) with respect to any restricted stock, stock options and stock appreciation rights, the date the Release becomes effective and irrevocable (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the date the Release becomes effective and irrevocable or the date of the Change in Control, subject to the provisions of Section 2.1.4), and (b) with respect to any restricted stock units, performance shares/units or similar equity awards, on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4).

*2.1.4 Interaction with Section 2.2.* For the avoidance of doubt, the payments under this Section 2.1 are in place of and not in addition to, any payments to which Executive may have become entitled under Section 2.2. To the extent Executive began receiving payment under such Section 2.2, and, due to a Change in Control, becomes eligible for payments under this Section 2.1, the payments previously made under Section 2.2 shall be deemed to have been made under this Section 2.1.

*2.2 Termination Other Than During the Change in Control Period.* If (i) Executive terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (ii) the Company (or any parent or subsidiary of the Company) terminates the Executive's employment for a reason other than Cause and other than the Executive's death or Disability, and such termination occurs other than during the Change in Control Period, then, subject to the Executive's compliance with Section 4, the Company shall cause Executive to receive the following Severance Benefits:

*2.2.1 Cash Severance Benefits.* A lump-sum payment of cash severance equal to six (6) months of Executive's annual base salary. Subject to Section 5, such payment shall be made on the Release Deadline Date; and

*2.2.2 Continued Medical Benefits.* If the Executive has private medical expenses insurance pursuant to paragraph 12 of the Service Agreement on the date of the Executive's termination of employment, the Company shall cause Executive to receive reimbursement of the agreed upon cost that is in effect immediately prior to the Executive's termination of employment for six (6) months following the Executive's employment termination. However, if the Company determines in its sole discretion that it is overly burdensome or costly to provide the reimbursement benefits or to provide such benefits without potentially violating applicable laws (including, without limitation, Section 2716 of the United States Public Health Service Act and the United States Employee Retirement Income Security Act of 1974, as amended), the Company will, in lieu thereof, cause Executive to be provided a taxable lump sum payment equal to the product of (1) the monthly cost provided pursuant to paragraph 12 of the Service Agreement in effect immediately prior to the Executive's termination of employment multiplied by 6 and (2) 1.5. Subject to Section 5, any payment pursuant to the prior sentence shall be made on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4)

### 3. Code Section 280G.

*3.1 Limitation on Payments.* In the event that the payments and benefits provided for in this Agreement or other payments and benefits payable or provided to the Executive (i) constitute "parachute

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payments” within the meaning of Section 280G of the Code and (ii) but for this Section 3, would be subject to the excise tax imposed by Section 4999 of the Code (“*Excise Tax*”), then the Executive’s payments and benefits under this Agreement or other payments or benefits (the “*Payment*”) will be reduced to the Reduced Amount. The “*Reduced Amount*” shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive’s receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting “parachute payments” is necessary so that the Payment equals the Reduced Amount and no portion of such Payment will be subject to the excise tax under Section 4999 of the Code, the reduction will occur in the following order: (a) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the excise tax will be the first cash payment to be reduced); (b) cancellation of equity awards that were granted “contingent on a change in ownership or control” within the meaning of Code Section 280G (if two or more equity awards are granted on the same date, each award will be reduced on a pro-rata basis); (c) reduction of the accelerated vesting of equity awards in the reverse order of date of grant of the awards (i.e., the vesting of the most recently granted equity awards will be cancelled first and if more than one equity award was made to Executive on the same date of grant, all such awards shall have their acceleration of vesting reduced pro rata); and (d) reduction of employee benefits in reverse chronological order (i.e., the benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first benefit to be reduced). In no event will the Executive have any discretion with respect to the ordering of payment reductions.

3.2 *Nationally Recognized Firm Requirement*. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 3 will be made in writing by a nationally recognized accounting or valuation firm (the “*Firm*”) selected by the Board or a committee of the Board, whose determination will be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this Section 3, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive will, furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 3. The Company will bear all costs for payment of the Firm’s services in connection with any calculations contemplated by this Section 3.

#### 4. *Conditions to Receipt of Severance*

4.1 *Release Agreement*. As a condition to receiving the Severance Benefits under this Agreement, Executive will be required to sign and not revoke a separation and release of claims agreement in a form reasonably satisfactory to the Company (which may include an agreement not to disparage the Company, and any parent or subsidiary of the Company, non-solicit provisions and other standard terms and conditions) (the “*Release*”). In all cases, the Release must become effective and irrevocable no later than the sixtieth (60<sup>th</sup>) day following the date of the Executive’s Involuntary Termination (the “*Release Deadline Date*”). If the Release does not become effective and irrevocable by the Release Deadline Date, the Executive will forfeit any right to the Severance Benefits. In no event will the Severance Benefits be paid or provided until the Release becomes effective and irrevocable.

4.2 *Timing of Severance Benefits*. Provided that the Release becomes effective and irrevocable by the Release Deadline Date and subject to Section 5, the severance payments and benefits under this

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Agreement will be paid, or in the case of installments, will commence, on the Release Deadline Date (such payment date, the “*Severance Start Date*”), and any severance payments or benefits otherwise payable to the Executive during the period immediately following the Executive’s termination of employment through the Severance Start Date will be paid in a lump sum to the Executive on the Severance Start Date, with any remaining payments to be made as provided in this Agreement.

4.3 *Exclusive Remedy: Non-Duplication of Benefits*. The provisions of Section 2 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid salary, holiday entitlement, pension and other paid employee benefits and reimbursable expenses due at termination or the repayment of any salary received for holiday taken in excess of accrued entitlement at the date of termination pursuant to the Service Agreement). Termination of the Executive’s employment shall be immediate under an Involuntary Termination and Severance Benefits paid pursuant to Section 2 of this Agreement shall be deemed inclusive of the payment in lieu of notice that would otherwise be payable under clauses 3.4, 19 and 20 of the Service Agreement. Executive hereby forfeits and waives any rights to any severance or change in control benefits set forth in any employment agreement or offer letter, other than the acceleration of vesting provisions in any of Executive’s written equity compensation agreements, which remain in full force and effect, and as provided by Section 14 below. For the avoidance of doubt, where the Executive’s employment is terminated during the term of this Agreement in circumstances that do not constitute an Involuntary Termination, the notice requirements and payment in lieu of notice provisions under Clauses 3.4, 19 and 20 of the Service Agreement will apply. Notwithstanding any other provision in this Agreement to the contrary, if, after the Effective Date, the Executive becomes entitled to any severance, change in control or similar benefits outside of this Agreement by operation of applicable law or under another policy, contract, or arrangement, his or her benefits under this Agreement will be reduced by the value of the severance, change in control, or similar benefits that the Executive receives by operation of applicable law or under the policy, contract, or arrangement, all as determined by the Board or a committee of the Board in its discretion. For the avoidance of doubt, earned commissions and other wages due and payable upon termination are not similar benefits.

4.4 *No Mitigation*. The Executive shall not be required to mitigate the amount of any severance payments or benefits provided for under this Agreement by seeking other employment nor shall any amounts to be received by the Executive under this Agreement be reduced by any other compensation earned.

5. *Section 409A*. This Section will apply if Executive is subject to United States income taxes.

5.1 Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits to be paid or provided to Executive, if any, under this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Code, and the final regulations and any guidance promulgated thereunder (“*Section 409A*”) (together, the “*Deferred Payments*”) will be paid or provided until the Executive has a “separation from service” within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, under this Agreement that otherwise would be exempt from Section 409A pursuant to United States Treasury Regulation Section 1.409A-1(b)(9) will be payable until the Executive has a “separation from service” within the meaning of Section 409A.

5.2 It is intended that none of the severance payments or benefits under this Agreement will constitute Deferred Payments but rather will be exempt from Section 409A as a payment that would fall within the “short-term deferral period” as described in Section 5.4 below or resulting from an involuntary separation from service as described in Section 5.5 below. In no event will Executive have discretion to determine the taxable year of payment of any Deferred Payment.

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5.3 Notwithstanding anything to the contrary in this Agreement, if Executive is a “specified employee” within the meaning of Section 409A at the time of the Executive’s separation from service (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following the Executive’s separation from service, will become payable on the date six (6) months and one (1) day following the date of the Executive’s separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of the Executive’s death following the Executive’s separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of the Executive’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

5.4 Any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of Section 5.1 above.

5.5 Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit will not constitute Deferred Payments for purposes of Section 5.1 above.

5.6 The foregoing provisions, and all payments and benefits provided under this Agreement, are intended to comply with or be exempt from the requirements of Section 409A so that none of the payments and benefits to be provided under this Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply or be exempt. The Company and Executive agree to consider in good faith amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid the imposition of any additional tax or income recognition under Section 409A prior to actual payments to Executive.

6. Withholdings. The Company will cause the withholding from any payments or benefits under this Agreement all applicable U.S. federal, state, local and non-U.S. taxes required to be withheld and any other required payroll deductions.

7. Term. This Agreement will become effective upon the Effective Date and will terminate automatically upon the completion of all payments (if any) under the terms of this Agreement. However, in the event that a Change in Control has not occurred by the date that is three (3) years following the Effective Date, this Agreement will terminate automatically unless the term of this Agreement is extended by the parties, provided, further, however, that if prior to the expiration of the term of this Agreement, the Company enters into a definitive agreement (a “*Definitive Agreement*”) with a third party (or third parties), the consummation of which would result in a Change in Control (as defined in this Agreement), then the term of this Agreement shall automatically be extended to twenty-four months following the resulting Change in Control unless the Definitive Agreement terminates or is cancelled without resulting in a Change in Control, in which case such extension shall not be effective. Moreover, this Agreement shall survive the lapse of the term of this Agreement and shall be binding on both parties with respect to any termination of Executive’s employment that triggers Severance Benefits under Section 2 hereof that occurs prior to the lapsing of the term of this Agreement. Further, the decision by either party not to extend the term of this Agreement will not by itself constitute a termination of Executive’s employment by the Company other

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than for Cause or grounds for Executive's resignation for Good Reason, and unless determined otherwise by Executive or the Company, after such non-renewal, Executive's employment will continue outside of this Agreement and pursuant to the Service Agreement (or such employment agreement with the Company or a subsidiary of the Company as then in effect) and Executive will not be eligible for any severance payments or benefits under this Agreement.

8. No Enlargement of Employment Rights. Neither this Agreement, nor the making of any benefit payment hereunder, will be construed to confer upon Executive any right to continue to be an employee of the Company. The Company expressly reserves the right to discharge any of its employees at any time, with or without cause. However, as described in this Agreement, Executive may be entitled to benefits pursuant to this Agreement depending upon the circumstances of his or her termination of employment.

9. Successors. Any successor to the Company of all or substantially all of the Company's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or other transaction) will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of this Agreement by operation of law, or otherwise, and references to Executive's termination of employment from the Company will include termination of employment from the Company's successor, and all subsidiaries and parents of the Company or its successor.

10. Notices. All notices, requests, demands and other communications called for under this Agreement shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successor at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Rocket Fuel Inc.

Pacific Shores Center

1900 Seaport Boulevard Redwood City, CA 94063 Attn: General Counsel

If to Executive:

At the last residential address known to the Company

11. Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

12. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

13. Voluntary Nature of Agreement. Each of the Company and Executive acknowledges and agrees that such party is executing this Agreement voluntarily and without any duress or undue influence by anyone.

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Executive further acknowledges and agrees that he has carefully read this Agreement and has asked any questions needed for him to understand the terms, consequences, and binding effect of this Agreement and fully understands it. Finally, Executive agrees that he has been provided an opportunity to seek the advice of an attorney of his choice before signing this Agreement.

14. Entire Agreement. This Agreement, along with the Service Agreement as modified by this Agreement, and Executive’s written equity compensation agreements with the Company, constitutes the entire agreement of the parties hereto and supersedes all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof.

15. Choice of Law. This Agreement will be governed by the laws of England and the parties submit to the exclusive jurisdiction of the English courts to resolve any disputes under or in connection with this Agreement.

16. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

17. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties have executed this Management Retention Agreement on the respective dates set forth below.

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COMPANY ROCKET FUEL INC.

By: /s/ Monte Zweben

Title: Interim Chief Executive Officer

Date: 4/24/2015 | 16:50 PT

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EXECUTIVE DOMINIC TRIGG

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**By:** /s/ Dominic Trigg

**Title:** Managing Director - EU

**Date:** 4/24/2015 | 20:08 PT

## ROCKET FUEL MANAGEMENT RETENTION AGREEMENT

This Management Retention Agreement (the “*Agreement*”) is made and entered into by and between Manu Thapar (the “*Executive*”) and Rocket Fuel Inc. (the “*Company*”), effective as of the Effective Date (defined below). The purpose of this Agreement is to provide assurances of specified benefits to Executive whose employment is subject to being involuntarily terminated under the circumstances described in this Agreement.

1. Definitions. The following words and phrases, when the initial letter of the term is capitalized, will have the meanings set forth in this Section 1, unless a different meaning is plainly required by the context:

1.1 “Board” means the Board of Directors of the Company.

1.2 “Cause” means, with respect to Executive, (i) an unauthorized use or disclosure of the Company’s (or any subsidiary’s or parent’s of the Company) confidential information or trade secrets, which use or disclosure causes material harm to the Company; (ii) a deliberate, material failure to comply with any of the written policies or rules of the Company (or any employing subsidiary or parent of the Company); (iii) conviction of, or plea of “guilty” or “no contest” to, a felony under the laws of the United States or any state thereof; (iv) gross misconduct; (v) a continued failure to perform assigned duties after receiving written notification of such failure from the Board of Directors, provided that such duties are those customarily performed by a person holding the position that Executive holds immediately prior to the Change in Control Period (defined below); or (vi) failure to cooperate in good faith with a governmental or internal investigation of the Company (or any subsidiary or parent of the Company) or its directors, officers or employees, if the Company has requested the Executive’s cooperation.

1.3 “Change in Control” means the occurrence of any of the following on or after the Effective Date of this Agreement:

(a) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“*Person*”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(b) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (b), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(c) a change in the ownership of a substantial portion of the Company’s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of

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all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (c), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (c)(B)(3). For purposes of this subsection (c), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(d) For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation or other entity that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(e) Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

(f) Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

1.4 "Change in Control Period" means the time period beginning on the date that is three (3) months prior to the Change in Control and ending on the date that is twelve (12) months following the Change in Control.

1.5 "Code" means the Internal Revenue Code of 1986, as amended.

1.6 "Director" means a member of the Board.

1.7 "Disability" means that the Executive has been unable to perform the Executive's duties as the result of the Executive's incapacity due to physical or mental illness, and such inability, at least twenty-six (26) weeks after its commencement or 180 days in any consecutive twelve (12) month period, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be unreasonably withheld). Termination by the Company resulting from Executive's Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate the Executive's employment. In the event that the Executive resumes the performance of substantially all of the Executive's duties hereunder before the termination of the Executive's employment becomes effective, the notice of intent to terminate will automatically be deemed to have been revoked.

1.8 "Effective Date" means the later of the date upon which the Company's Board or a committee thereof approves the Company entering into this form of Agreement, which date is March 23,

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2015, or the date Executive and the Company enter into this Agreement.

1.9 “Good Reason” means, the Executive’s resignation within thirty (30) days following the end of the Cure Period (as defined below), following the occurrence of one or more of the following without the Executive’s express written consent: (a) a material reduction of Executive’s duties, position or responsibilities, or the removal of Executive from such position and responsibilities, either of which results in a material diminution of Executive’s authority, duties or responsibilities, unless Executive is provided with a comparable position (i.e., a position of equal or greater organizational level, duties, authority, compensation and status); provided, however, that a reduction in duties, position or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Executive Officer of the Company remains as such following a Change in Control but is not made the Chief Executive Officer of the acquiring corporation) will not constitute “Good Reason”; (b) a material reduction in Executive’s base salary; or (c) a material relocation of the Executive’s principal workplace, provided that a relocation of 35 miles or less, or a relocation to the Executive’s home as his or her principal workplace, will not be considered a material relocation. In addition, in order to qualify as Good Reason, the Executive must not terminate employment with the Company without first providing the Company with written notice of the acts or omissions constituting the grounds for “Good Reason” within sixty (60) days of the initial existence of the grounds for “Good Reason” and a reasonable cure period of thirty (30) days following the date of written notice (the “Cure Period”), and such grounds must not have been cured during such time.

1.10 “Involuntary Termination” means a termination of employment of Executive under the circumstances described in Section 2.

1.11 “Pre-CIC Period” means the portion of the Change in Control Period that occurs prior to the Change in Control.

1.12 “Section 409A Limit” means two (2) times the lesser of: (i) Executive’s annualized compensation based upon the annual rate of pay paid to Executive during Executive’s taxable year preceding the Executive’s taxable year of the Executive’s termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified

plan pursuant to Section 401(a)(17) of the Code for the year in which Executive’s employment is terminated.

1.13 “Severance Benefits” means the compensation and other benefits that the Executive will be provided in the circumstances described in Section 2.

1.14 “Share” means a share of the Company’s common stock.

1.15 “Target Bonus” means either (i) the Executive’s target bonus percentage or target commission percentage multiplied by the Executive’s annual base salary, or (ii) the target bonus amount or target commission amount (as applicable), in each case, as in effect for the Company’s (or its successor’s) fiscal year in which the Executive’s Involuntary Termination occurs.

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## 2. Involuntary Termination.

2.1 Termination During the Change in Control Period. If, during the Change in Control Period, (i) Executive terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (ii) the Company (or any parent or subsidiary of the Company) terminates the Executive's employment for a reason other than Cause and other than death or Disability; or (iii) solely with respect to Equity Award Vesting Acceleration, Executive's employment is terminated due to death or Disability, then, subject to the Executive's compliance with Section 4, as applicable, the Executive will receive the following Severance Benefits from the Company:

2.1.1 Cash Severance Benefits. With respect to the circumstances described in Section 2.1 (i) and (ii), a lump-sum payment of cash severance equal to the sum of:

(a) twelve (12) months of the Executive's annual base salary (as in effect immediately prior to (A) a Change in Control (if Executive's employment terminates on or after the Change in Control), or (B) the Executive's termination, whichever is greater) and (b) 100% of Executive's Target Bonus for the Company fiscal year in which the Executive's employment terminated minus any bonus payments or commission payments, as applicable actually paid to Executive prior to such termination for such fiscal year's performance. Subject to Section 5, such payment shall be made on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4);

2.1.2 Continued Medical Benefits. With respect to the circumstances described in Section 2.1 (i) and (ii), if the Executive, and any spouse and/or dependents of the Executive ("Family Members") has coverage on the date of the Executive's Involuntary Termination under a group health plan sponsored by the Company, the Company will reimburse the Executive the total applicable premium cost for continued group health plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") for twelve (12) months following the Executive's employment termination, provided that the Executive validly elects and is eligible to continue coverage under COBRA for the Executive and his or her Family Members. Any COBRA reimbursements under this Agreement shall be made by the Company to the Executive consistent with the Company's normal expense reimbursement policy, provided that the Executive submits documentation to the Company substantiating his or her payments for COBRA coverage. However, if the Company determines in its sole discretion that it cannot provide the COBRA reimbursement benefits without potentially violating applicable laws (including, without limitation, Section 2716 of the Public Health Service Act and the Employee Retirement Income Security Act of 1974, as amended), the Company will in lieu thereof provide to the Executive a taxable lump sum payment equal to the product of (1) to the monthly COBRA premium that the Executive would be required to pay to continue the group health coverage in effect on the date of the Executive's termination of employment (which amount will be based on the premium for the first month of COBRA coverage) multiplied by twelve (12) months following the termination and (2) 1.5, which payment will be made regardless of whether the Executive elects COBRA continuation coverage. Subject to Section 5, any payment pursuant to the prior sentence shall be made on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4); and

2.1.3 Equity Award Vesting Acceleration. With respect to the circumstances described in Section 2.1 (i) and (ii), or (iii), 100% of the Shares subject to each of Executive's then outstanding stock options, stock appreciation rights, restricted stock units and other Company equity compensation awards, including (subject to the provisions of this paragraph) performance-based vesting full-value awards

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where the payout is either a fixed number of Shares or zero Shares depending on whether the performance metric is obtained, shall immediately accelerate vesting. With respect to performance-based vesting full-value awards in which the performance period has not been completed prior to the Executive's termination date and where the number of Shares earned is variable based upon the extent to which performance milestones are reached (i.e., where the number of Shares earned based upon achieving performance milestones can be more than one positive number), each such award shall immediately accelerate vesting as described above as if one hundred percent of the target performance levels had been achieved. With respect to performance-based vesting full-value awards where the performance period has been completed prior to the Executive's termination date and that remain subject to additional service-based vesting, such awards shall accelerate as described above with respect only to the shares earned by virtue of attaining the performance metrics during the performance period. Any Company stock options and stock appreciation rights shall thereafter remain exercisable following the Executive's employment termination for the period prescribed in the respective option and stock appreciation right agreements. Subject to Section 5, any acceleration pursuant to this Section 2.1.3 shall occur upon (a) with respect to any restricted stock, stock options and stock appreciation rights, the date the Release becomes effective and irrevocable (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the date the Release becomes effective and irrevocable or the date of the Change in Control, subject to the provisions of Section 2.1.4), and (b) with respect to any restricted stock units, performance shares/units or similar equity awards, on the Release Deadline Date (or, if Executive's termination occurs during the Pre-CIC Period, on the later of the Release Deadline Date or the date of the Change in Control, subject to the provisions of Section 2.1.4).

*2.1.4 Interaction with Section 2.2.* For the avoidance of doubt, the payments under this Section 2.1 are in place of and not in addition to, any payments to which Executive may have become entitled under Section 2.2. To the extent Executive began receiving payment under such Section 2.2, and, due to a Change in Control, becomes eligible for payments under this Section 2.1, the payments previously made under Section 2.2 shall be deemed to have been made under this Section 2.1.

*2.2 Termination Other Than During the Change in Control Period.* If (i) Executive terminates his or her employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (ii) the Company (or any parent or subsidiary of the Company) terminates the Executive's employment for a reason other than Cause and other than the Executive's death or Disability, and such termination occurs other than during the Change in Control Period, then, subject to the Executive's compliance with Section 4, the Executive will receive the following Severance Benefits from the Company:

*2.2.1 Cash Severance Benefits.* A lump-sum payment of cash severance equal to six (6) months of Executive's annual base salary. Subject to Section 5, such payment shall be made on the Release Deadline Date; and

*2.2.2 Continued Medical Benefits.* If the Executive, and any Family Members, has coverage on the date of the Executive's Involuntary Termination under a group health plan sponsored by the Company, the Company will reimburse the Executive the total applicable premium cost for continued group health plan coverage under COBRA for six (6) months following the Executive's employment termination, provided that the Executive validly elects and is eligible to continue coverage under COBRA for the Executive and his or her Family Members. Any COBRA reimbursements under this Agreement shall be made by the Company to the Executive consistent with the Company's normal expense reimbursement policy, provided that the Executive submits documentation to the Company substantiating his or her payments for COBRA coverage. However, if the Company determines in its sole

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discretion that it cannot provide the COBRA reimbursement benefits without potentially violating applicable laws (including, without limitation, Section 2716 of the Public Health Service Act and the Employee Retirement Income Security Act of 1974, as amended), the Company will in lieu thereof provide to the Executive a taxable lump sum payment equal to the product of (1) to the monthly COBRA premium that the Executive would be required to pay to continue the group health coverage in effect on the date of the Executive's termination of employment (which amount will be based on the premium for the first month of COBRA coverage) multiplied by six (6) months following the termination, and (2) 1.5, regardless of whether the Executive elects COBRA continuation coverage. Subject to Section 5, any payment pursuant to the prior sentence shall be made on the Release Deadline Date.

### 3. Code Section 280G.

3.1 Limitation on Payments. In the event that the payments and benefits provided for in this Agreement or other payments and benefits payable or provided to the Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Section 3, would be subject to the excise tax imposed by Section 4999 of the Code ("Excise Tax"), then the Executive's payments and benefits under this Agreement or other payments or benefits (the "Payment") will be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount and no portion of such Payment will be subject to the excise tax under Section 4999 of the Code, the reduction will occur in the following order: (a) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the excise tax will be the first cash payment to be reduced); (b) cancellation of equity awards that were granted "contingent on a change in ownership or control" within the meaning of Code Section 280G (if two or more equity awards are granted on the same date, each award will be reduced on a pro-rata basis); (c) reduction of the accelerated vesting of equity awards in the reverse order of date of grant of the awards (i.e., the vesting of the most recently granted equity awards will be cancelled first and if more than one equity award was made to Executive on the same date of grant, all such awards shall have their acceleration of vesting reduced pro rata); and (d) reduction of employee benefits in reverse chronological order (i.e., the benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first benefit to be reduced). In no event will the Executive have any discretion with respect to the ordering of payment reductions.

3.2 Nationally Recognized Firm Requirement. Unless the Company and the Executive otherwise agree in writing, any determination required under this Section 3 will be made in writing by a nationally recognized accounting or valuation firm (the "Firm") selected by the Board or a committee of the Board, whose determination will be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this Section 3, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 3. The Company will bear all costs for payment of the Firm's services in connection with any calculations contemplated by this Section 3.

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#### 4. Conditions to Receipt of Severance.

4.1 Release Agreement. As a condition to receiving the Severance Benefits under this Agreement, Executive will be required to sign and not revoke a separation and release of claims agreement in a form reasonably satisfactory to the Company (which may include an agreement not to disparage the Company, non-solicit provisions and other standard terms and conditions) (the “*Release*”). In all cases, the Release must become effective and irrevocable no later than the sixtieth (60<sup>th</sup>) day following the date of the Executive’s Involuntary Termination (the “*Release Deadline Date*”). If the Release does not become effective and irrevocable by the Release Deadline Date, the Executive will forfeit any right to the Severance Benefits. In no event will the Severance Benefits be paid or provided until the Release becomes effective and irrevocable.

4.2 Timing of Severance Benefits. Provided that the Release becomes effective and irrevocable by the Release Deadline Date and subject to Section 5, the severance payments and benefits under this Agreement will be paid, or in the case of installments, will commence, on the Release Deadline Date (such payment date, the “*Severance Start Date*”), and any severance payments or benefits otherwise payable to the Executive during the period immediately following the Executive’s termination of employment with the Company through the Severance Start Date will be paid in a lump sum to the Executive on the Severance Start Date, with any remaining payments to be made as provided in this Agreement.

4.3 Exclusive Remedy; Non-Duplication of Benefits. In the event of a termination of Executive’s employment as set forth in Section 2.1 or Section 2.2 of this Agreement, the provisions of Section 2 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Executive hereby forfeits and waives any rights to any severance or change in control benefits set forth in any employment agreement or offer letter, other than the acceleration of vesting provisions in any of Executive’s written equity compensation agreements, which remain in full force and effect, and as provided by Section 14 below. Notwithstanding any other provision in this Agreement to the contrary, if, after the Effective Date, the Executive becomes entitled to any severance, change in control or similar benefits outside of this Agreement by operation of applicable law or under another policy, contract, or arrangement, his or her benefits under this Agreement will be reduced by the value of the severance, change in control, or similar benefits that the Executive receives by operation of applicable law or under the policy, contract, or arrangement, all as determined by the Board or a committee of the Board in its discretion. For the avoidance of doubt, earned commissions and other wages due and payable upon termination are not similar benefits.

4.4 No Mitigation. The Executive shall not be required to mitigate the amount of any severance payments or benefits provided for under this Agreement by seeking other employment nor shall any amounts to be received by the Executive under this Agreement be reduced by any other compensation earned.

#### 5. Section 409A.

5.1 Notwithstanding anything to the contrary in this Agreement, no severance payments or benefits to be paid or provided to Executive, if any, under this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under

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Section 409A of the Code, and the final regulations and any guidance promulgated thereunder (“*Section 409A*”) (together, the “*Deferred Payments*”) will be paid or provided until the Executive has a “separation from service” within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, under this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until the Executive has a “separation from service” within the meaning of Section 409A.

5.2 It is intended that none of the severance payments or benefits under this Agreement will constitute Deferred Payments but rather will be exempt from Section 409A as a payment that would fall within the “short-term deferral period” as described in Section 5.4 below or resulting from an involuntary separation from service as described in Section 5.5 below. In no event will Executive have discretion to determine the taxable year of payment of any Deferred Payment.

5.3 Notwithstanding anything to the contrary in this Agreement, if Executive is a “specified employee” within the meaning of Section 409A at the time of the Executive’s separation from service (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following the Executive’s separation from service, will become payable on the date six (6) months and one (1) day following the date of the Executive’s separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of the Executive’s death following the Executive’s separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of the Executive’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

5.4 Any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of Section 5.1 above.

5.5 Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit will not constitute Deferred Payments for purposes of Section 5.1 above.

5.6 The foregoing provisions, and all payments and benefits provided under this Agreement, are intended to comply with or be exempt from the requirements of Section 409A so that none of the payments and benefits to be provided under this Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply or be exempt. The Company and Executive agree to consider in good faith amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid the imposition of any additional tax or income recognition under Section 409A prior to actual payments to Executive.

6. Withholdings. The Company will withhold from any payments or benefits under this Agreement all applicable U.S. federal, state, local and non-U.S. taxes required to be withheld and any other required payroll deductions.

7. Term. The Agreement will become effective upon the Effective Date and will terminate automatically upon the completion of all payments (if any) under the terms of this Agreement. However,

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in the event that a Change in Control has not occurred by the date that is three (3) years following the Effective Date, this Agreement will terminate automatically unless the term of this Agreement is extended by the parties, provided, further, however, that if prior to the expiration of the term of this Agreement, the Company enters into a definitive agreement (a “*Definitive Agreement*”) with a third party (or third parties), the consummation of which would result in a Change in Control (as defined in this Agreement), then the term of this Agreement shall automatically be extended to twenty-four months following the resulting Change in Control, unless the Definitive Agreement terminates or is cancelled without resulting in a Change in Control, in which case such extension shall not be effective. Moreover, this Agreement shall survive the lapse of the term of this Agreement and shall be binding on both parties with respect to any termination of Executive’s employment that triggers Severance Benefits under Section 2 hereof that occurs prior to the lapsing of the term of this Agreement. . Further, the decision by either party not to extend the term of this Agreement will not by itself constitute a termination of Executive’s employment by the Company other than for Cause or grounds for Executive’s resignation for Good Reason, and unless determined otherwise by Executive or the Company, after such non-renewal, Executive’s employment will continue on an at-will basis outside of this Agreement and Executive will not be eligible for any severance payments or benefits under this Agreement.

8. No Enlargement of Employment Rights. Neither this Agreement, nor the making of any benefit payment hereunder, will be construed to confer upon Executive any right to continue to be an employee of the Company. The Company expressly reserves the right to discharge any of its employees at any time, with or without cause. However, as described in this Agreement, Executive may be entitled to benefits pursuant to this Agreement depending upon the circumstances of his or her termination of employment.

9. Successors. Any successor to the Company of all or substantially all of the Company’s business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or other transaction) will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term “Company” will include any successor to the Company’s business and/or assets which become bound by the terms of this Agreement by operation of law, or otherwise, and references to Executive’s termination of employment from the Company will include termination of employment from the Company’s successor, and all subsidiaries and parents of the Company or its successor.

10. Notices. All notices, requests, demands and other communications called for under this Agreement shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successor at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Rocket Fuel Inc.

Pacific Shores Center

1900 Seaport Boulevard Redwood City, CA 94063 Attn: General Counsel

If to Executive:

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At the last residential address known to the Company

11. Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

12. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

13. Arbitration.

13.1 The Company and Executive each agree that any and all disputes arising out of the terms of this Agreement, Executive's employment by the Company, Executive's service as an officer or director of the Company, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration under the Federal Arbitration Act and the arbitration rules set forth in California Code of Civil Procedure Sections 1280 through 1294.2, including Section 1281.8 (the "*Act*"), and pursuant to California law, and shall be brought in Executive's individual capacity and not as a plaintiff, representative or class member in any purported class, collective or representative proceeding. Notwithstanding the foregoing, Executive understands that he or she may bring a proceeding as a private attorney general as permitted by law. For the avoidance of doubt, the Federal Arbitration Act governs this agreement and shall continue to apply with full force and effect notwithstanding the application of procedural rules set forth in the Act and California law. Disputes that the Company and Executive agree to arbitrate, and thereby agree to waive any right to a trial by jury, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes-Oxley Act, the Worker Adjustment and Retraining Notification Act, the Fair Labor Standards Act, the California Fair Employment and Housing Act, the Family and Medical Leave Act, the California Family Rights Act, the California Labor Code, claims relating to employment status, classification and relationship with the Company, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims, and breach of contract, except as prohibited by law. Executive also agrees to arbitrate any disputes arising out of or relating to the interpretation or application of this agreement to arbitrate, but not disputes about the enforceability, revocability or validity of this agreement to arbitrate or any portion hereof or the class, collective and representative proceeding waiver herein. Notwithstanding the foregoing, Executive understands that nothing in this agreement constitutes a waiver of Executive's rights under Section 7 of the National Labor Relations Act. The Company and Executive further understand that this agreement to arbitrate also applies to any disputes that the Company may have with Executive. However, claims for workers' compensation benefits and unemployment insurance (or any other claims where mandatory arbitration is prohibited by law) are not covered by this arbitration agreement, and such claims may be presented by the Executive to the appropriate court or government agency.

13.2 Procedure. The Company and Executive agree that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. ("*JAMS*"), pursuant to its Employment Arbitration Rules & Procedures (the "*JAMS Rules*"), which are available from Human Resources. The Arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary

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judgment and/or adjudication, motions to dismiss and demurrers, applying the standards set forth under the California Code of Civil Procedure. The Arbitrator will have the power to award any remedies available under applicable law, and the Arbitrator will award attorneys' fees and costs to the prevailing party, where provided by applicable law. The Company will pay for any administrative or hearing fees charged by the Arbitrator or JAMS except that Executive will pay any filing fees associated with any arbitration that Executive initiates, but only so much of the filing fees as Executive would have instead paid had he or she filed a complaint in a court of law. The Arbitrator will administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure, and the Arbitrator will apply substantive and procedural California law to any dispute or claim, without reference to rules of conflict of law. To the extent that the JAMS Rules conflict with California law, California law will take precedence. The decision of the Arbitrator will be in writing, and any decree or award rendered by the Arbitrator may be entered as a final and binding judgment in any court having jurisdiction thereof. Any arbitration under this Agreement will be conducted in San Mateo County, California.

13.3 Remedy. Except as provided by the Act and this Agreement, arbitration will be the sole, exclusive, and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Act and this Agreement, neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.

13.4 Administrative Relief. Executive understands that this Agreement does not prohibit him or her from pursuing any administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers' Compensation Board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim, except as permitted by law.

13.5 Voluntary Nature of Agreement. Each of the Company and Executive acknowledges and agrees that such party is executing this Agreement voluntarily and without any duress or undue influence by anyone. Executive further acknowledges and agrees that he or she has carefully read this Agreement and has asked any questions needed for him or her to understand the terms, consequences, and binding effect of this Agreement and fully understands it, including that ***Executive is waiving his or her right to a jury trial***. Finally, Executive agrees that he or she has been provided an opportunity to seek the advice of an attorney of his or her choice before signing this Agreement.

14. Entire Agreement. This Agreement, the At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement, and Executive's written equity compensation agreements with the Company constitute the entire agreement of the parties hereto and supersede in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter hereof.

15. Choice of Law. This Agreement will be governed by the laws of the State of California (with the exception of its choice of law and conflict of laws provisions).

16. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

17. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

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*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties have executed this Management Retention Agreement on the respective dates set forth below.

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COMPANY ROCKET FUEL INC.

By: /s/ Monte Zweben

Title: Interim Chief Executive Officer

Date: 4/8/2015 | 08:48 PT

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EXECUTIVE MANU THAPAR

By: /s/ Manu Thapar

Title: SVP R&D

Date: 4/8/2015 | 16:42 PT

## SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (“*Agreement*”) is made by and between Manu Thapar (“*Employee*”) and Rocket Fuel Inc. (the “*Company*”) (collectively referred to as the “*Parties*” or individually referred to as a “*Party*”).

### RECITALS

WHEREAS, Employee signed an At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement with the Company on November 17, 2014, attached hereto as Exhibit A (the “*Confidentiality Agreement*”);

WHEREAS, Employee is subject to an offer letter with the Company dated November 16, 2014, attached hereto as Exhibit B (the “*Offer Letter*”);

WHEREAS, Employee signed a Management Retention Agreement with the Company on April 8, 2015, attached hereto as Exhibit C (the “*Management Retention Agreement*”);

WHEREAS, your last day of work for the Company, and your employment termination date, is April 1, 2016 (the “*Termination Date*”);

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that the Employee may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Employee’s employment with or separation from the Company.

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

### COVENANTS

1. Payments. On April 1, 2016, the Company paid you all accrued salary, less applicable withholdings, through April 1 2016. In addition, if you sign this Agreement, and return it by the deadline specified below, and it becomes effective, as described below, and you comply fully with your obligations under this Agreement, then the Company shall pay you the severance benefits provided in paragraph 2.2 of the Management Retention Agreement, pursuant to all the terms and conditions of that agreement. You acknowledge and represent that other than the consideration set forth in the Management Retention Agreement, the Company and its agents have paid or provided all salary, wages, bonuses, accrued vacation/paid time off, notice periods, premiums, leaves, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, and any and all other benefits and compensation due to you. You specifically acknowledge and agree that the
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consideration provided to you hereunder fully satisfies any obligation that the Company had to pay you severance, retention payments, wages, or any other compensation for any of the services that you rendered to the Company, and that the amount paid is in excess of any severance, retention payments, wages, or any other compensation that is or may be due to you.

2. Equity. Employee has received one or more restricted stock unit awards (“ *RSU(s)* ”) and one or more stock option awards (“ *Stock Option(s)* ”) (collectively, the “ *Equity Awards* ”) subject to the terms and conditions of the Company’s 2013 Equity Incentive Plan (the “ *Plan* ”) and of the related restricted stock unit and stock option award agreement(s) (each such agreement, together with the Plan, collectively, the “ *Equity Agreements* ”), pursuant to which Employee was eligible to purchase or receive shares of the Company’s common stock if the applicable vesting conditions were met. We agree that as of the Termination Date, you will have vested in each RSU award and each Stock Option to the extent shown on Exhibit D hereto and no more. Any other RSUs and Stock Options are unvested and all unvested RSUs and unvested Stock Options shall immediately terminate and be forfeited as of the Termination Date. We agree that you hold no other, and have rights to no other, Company equity awards. The exercise of your outstanding Stock Options and the shares purchased thereunder, and any shares received under your RSU awards shall continue to be governed by the terms and conditions of the applicable Equity Agreements and the applicable equity plan under which the grants were made.
  3. Benefits. Employee’s health insurance benefits shall cease on the last day of the month in which the Termination Date occurs, subject to Employee’s right to continue his health insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“ *COBRA* ”) and, as applicable, state insurance laws. Employee will receive additional information regarding his right to elect continued coverage under COBRA in a separate communication. *You will be required to sign up for the COBRA insurance in order to receive this benefit*. Employee’s participation in all benefits and incidents of employment, including, but not limited to, vesting in stock options, and the accrual of bonuses, vacation, and paid time off, ceased as of the Termination Date.
  4. Expense Reimbursement. Employee agrees that, within thirty (30) days after the Termination Date, Employee will submit your final documented expense reimbursement statement reflecting all reasonable business expenses Employee incurred during your employment with the Company through the Termination Date, if any, for which Employee seeks reimbursement. The Company will reimburse Employee for all reasonable business expenses pursuant to its regular business practice.
  5. Return of Company Property. By the Termination Date, Employee agrees to return to the Company all hard copy and electronic documents (and all copies thereof) and other Company property that Employee has had in his possession at any time, including, but
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not limited to, files, notes, drawings, records, business plans and forecasts, financial information, specifications, computer-recorded information (including email), tangible property, credit cards, entry cards, identification badges and keys; and, any materials of any kind that contain or embody any proprietary or confidential information of the Company (and all reproductions thereof).

6. Release of Claims. Except as otherwise set forth in this Agreement and as provided in the Company's by-laws and the indemnification agreement between you and the Company, Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the "*Releasees*"). Employee, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation:
- a. any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;
  - b. any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;
  - c. any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;
  - d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act; the Fair Credit Reporting Act;
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the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; the Sarbanes-Oxley Act of 2002; the Uniformed Services Employment and Reemployment Rights Act; California Fair Employment and Housing Act, as amended, Cal. Gov't Code § 12900 et seq.; Unruh Civil Rights Act, as amended, Cal. Civ. Code § 51; Moore-Brown-Roberti Family Rights Act, as amended, Cal. Gov't Code § 12945.1 et seq.; and the California Constitution;

- e. any and all claims for violation of the federal or any state constitution;
- f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;
- g. any claim for any loss, cost, damage, or expense arising out of any dispute over the nonwithholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and
- h. any and all claims for attorneys' fees and costs.

Employee agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not release claims that cannot be released as a matter of law, including, but not limited to, Employee's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Employee the right to recover any monetary damages against the Company; Employee's release of claims herein bars Employee from recovering such monetary relief from the Company). This release does not extend to any right Employee may have to unemployment compensation benefits or workers' compensation benefits. Employee represents that he has made no assignment or transfer of any right, claim, complaint, charge, duty, obligation, demand, cause of action, or other matter waived or released by this Section.

7. Acknowledgment of Waiver of Claims under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Employee agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that: (a) he should consult with an attorney prior to executing this Agreement; (b) he has twenty-one (21) days within which to consider this Agreement; (c) he has seven (7) days following his
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execution of this Agreement to revoke this Agreement; (d) this Agreement shall not be effective until after the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Employee signs this Agreement and returns it to the Company in less than the 21-day period identified above, Employee hereby acknowledges that he has freely and voluntarily chosen to waive the time period allotted for considering this Agreement. Employee acknowledges and understands that revocation must be accomplished by a written notification to the undersigned Company representative that is received prior to the Effective Date. The Parties agree that changes, whether material or immaterial, do not restart the running of the 21-day period.

8. California Civil Code Section 1542. Employee acknowledges that he has been advised to consult with legal counsel and is familiar with the provisions of California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Employee, being aware of said code section, agrees to expressly waive any rights he may have thereunder, as well as under any other statute or common law principles of similar effect.

9. No Pending or Future Lawsuits. Employee represents that he has not filed any charges, complaints, grievances, arbitrations, lawsuits, or claims against the Company or any of the Releasees, with any local, state or federal agency, union or court up to the date of execution of this Agreement pertaining to the claims released in this Agreement, and that, except as allowed by this Agreement, Employee will not do so at any time hereafter, based upon events occurring prior to the date of execution of this Agreement. In the event any agency, union, or court ever assumes jurisdiction of any lawsuit, claim, charge, grievance, arbitration, or complaint, or purports to bring any legal proceeding on Employee's behalf pertaining to the claims released in this Agreement, except as allowed by this Agreement, Employee will ask any such agency, union, or court to withdraw from and/or dismiss any such action, grievance, or arbitration, with prejudice. Notwithstanding the foregoing, nothing in this Agreement shall in any way limit or prohibit Employee from engaging for a lawful purpose in any Protected Activity. For purposes of this Release, "*Protected Activity*" shall mean filing a charge or complaint, or otherwise communicating, cooperating, or participating with, any state, federal, or other governmental agency, including the Securities and Exchange Commission, the
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Equal Employment Opportunity Commission, and the National Labor Relations Board. Notwithstanding any restrictions set forth in this Agreement, Employee understands that he is not required to obtain authorization from the Company prior to disclosing information to, or communicating with, such agencies, nor is Employee obligated to advise the Company as to any such disclosures or communications. Notwithstanding, in making any such disclosures or communications, Employee agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information under the Confidentiality Agreement to any parties other than the relevant government agencies. Employee further understands that "Protected Activity" does not include the disclosure of any Company attorney-client privileged communications, and that any such disclosure without the Company's written consent shall constitute a material breach of this Agreement.

10. Trade Secrets and Confidential Information/Company Property . Employee reaffirms and agrees to observe and abide by the terms of the Confidentiality Agreement, specifically including the provisions therein regarding nondisclosure of the Company's trade secrets and confidential and proprietary information, and non-solicitation of Company employees. Employee agrees that the above reaffirmation and agreement with the Confidentiality Agreement shall constitute a new and separately enforceable agreement to abide by the terms of the Confidentiality Agreement, entered and effective as of the Effective Date. Employee specifically acknowledges and agrees that any violation of the restrictive covenants in the Confidentiality Agreement shall constitute a material breach of this Agreement. Employee's signature below constitutes his certification that he has returned all documents and other items provided to Employee by the Company, developed or obtained by Employee in connection with his employment with the Company, or otherwise belonging to the Company, including, but not limited to, all passwords to any software or other programs or data that Employee used in performing services for the Company.
  11. No Cooperation . Employee agrees that he will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Agreement. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that he cannot provide counsel or assistance.
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12. Cooperation. The parties acknowledge that as of the Termination Date, the Company is involved in litigation related to certain matters in which you may have been involved during your employment at the Company (“*Litigation*”). You agree to cooperate with the Company and participate to the extent reasonably requested by the Company in connection with its investigation and response to the Litigation.
  13. Nondisparagement. Employee agrees to refrain from any disparaging statements about the Company or any of the other Releasees including, without limitation, the business, products, intellectual property, financial standing, future, or employment/compensation/benefit practices of the Company.
  14. Breach. In addition to the rights provided in the “Attorneys’ Fees” section below, Employee acknowledges and agrees that any material breach of this Agreement, unless such breach constitutes a legal action by Employee challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, or of any provision of the Confidentiality Agreement shall entitle the Company to recover and/or cease providing the consideration provided to Employee under this Agreement and to obtain damages, except as provided by law, provided, however, that the Company shall not recover One Hundred Dollars (\$100.00) of the consideration already paid pursuant to this Agreement and such amount shall serve as full and complete consideration for the promises and obligations assumed by Employee under this Agreement and the Confidentiality Agreement.
  15. No Admission of Liability. Employee understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Employee. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Employee or to any third party.
  16. Costs. The Parties shall each bear their own costs, attorneys’ fees, and other fees incurred in connection with the preparation of this Agreement.
  17. ARBITRATION. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN SAN FRANCISCO COUNTY, BEFORE THE JUDICIAL ARBITRATION AND MEDIATION SERVICE (“JAMS”) UNDER ITS COMPREHENSIVE ARBITRATION RULES (“JAMS RULES”) AND CALIFORNIA LAW. THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH CALIFORNIA
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LAW, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL CALIFORNIA LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH CALIFORNIA LAW, CALIFORNIA LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY HALF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES AGREE THAT PUNITIVE DAMAGES SHALL BE UNAVAILABLE IN ARBITRATION. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS PARAGRAPH CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

18. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Employee or made on his behalf under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state, and/or federal taxes on the payments and any other consideration provided hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of (a) Employee's failure to pay, or Employee's delayed payment of, federal or state taxes, or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs.
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19. Section 409A. This Agreement and all payments and benefits hereunder are intended to be exempt from or otherwise comply with Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance thereunder, and any applicable state law equivalent, as each may be amended or promulgated from time to time (together, “*Section 409A*”), so that none of the payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted in that manner. In all cases, any severance payments payable to Employee under this Agreement will be paid within the “short-term deferral” period under Section 409A. Notwithstanding the foregoing, if and to the extent necessary to avoid subjecting Employee to an additional tax under Section 409A, payment of all or a portion of the severance payments or benefits payable under this Agreement and any other separation-related deferred compensation (within the meaning of Section 409A) payable to Employee will be delayed until the date that is 6 months and 1 day following Employee’s separation from service (within the meaning of Section 409A). In no event will the Company reimburse Employee for any taxes that may be imposed on Employee as a result of Section 409A. Employee and the Company agree to work together to consider amendments to this Agreement and to take such reasonable actions to avoid imposition of any additional tax or income recognition under Section 409A prior to actual payment to Employee. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of the Section 409A-related regulations.
  20. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any claim or cause of action released herein.
  21. No Representations. Employee represents that he has had an opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Employee has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.
  22. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.
  23. Attorneys’ Fees. Except with regard to a legal action challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, in
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the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

24. Entire Agreement. This Agreement, and its exhibits, represents the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Employee's relationship with the Company, including the Offer Letter and the Management Retention Agreement, with the exception of the Confidentiality Agreement and the Equity Agreements.
25. No Oral Modification. This Agreement may only be amended in a writing signed by Employee and the Company's Chief Executive Officer.
26. Governing Law. This Agreement shall be governed by the laws of the State of California, without regard for choice-of-law provisions. Employee consents to personal and exclusive jurisdiction and venue in the State of California.
27. Effective Date. Employee understands that this Agreement shall be null and void if not executed by him within the twenty-one (21) day period set forth above. Each Party has seven (7) days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth (8th) day after Employee signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the "*Effective Date*").
28. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.
29. Voluntary Execution of Agreement. Employee understands and agrees that he executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of his claims against the Company and any of the other Releasees.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

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MANU THAPAR, an individual

Dated: April 7, 2016      /s/ Manu Thapar  
Manu Thapar

ROCKET FUEL INC.

Dated: April 7, 2016      By /s/ Jennifer Trzepacz  
Jennifer Trzepacz  
Senior Vice President, Employee Success

**Certification of Principal Executive Officer  
pursuant to  
Exchange Act Rules 13a-14(a) and 15d-14(a),  
as adopted pursuant to  
Section 302 of Sarbanes-Oxley Act of 2002**

I, E. Randolph Wootton III, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Rocket Fuel Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ E. RANDOLPH WOOTTON III

**E. Randolph Wootton III**

*Chief Executive Officer*

*(Principal Executive Officer)*

Date: May 10, 2016

**Certification of Principal Financial Officer  
pursuant to  
Exchange Act Rules 13a-14(a) and 15d-14(a),  
as adopted pursuant to  
Section 302 of Sarbanes-Oxley Act of 2002**

I, Rex S. Jackson, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Rocket Fuel Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Rex S. Jackson

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**Rex S. Jackson**

*Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

Date: May 10, 2016

**Certification of Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Rocket Fuel Inc. for the period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Randolph Wootton III, Chief Executive Officer of Rocket Fuel Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rocket Fuel Inc. for the periods presented therein.

Date: May 10, 2016

/s/ E. RANDOLPH WOOTTON III

**E. Randolph Wootton III**

*Chief Executive Officer*

*(Principal Executive Officer)*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Rocket Fuel Inc. and will be retained by Rocket Fuel Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Rocket Fuel Inc. for the period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rex S. Jackson, Chief Financial Officer of Rocket Fuel Inc., certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rocket Fuel Inc. for the periods presented therein.

Date: May 10, 2016

/s/ Rex S. Jackson

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**Rex S. Jackson**

*Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Rocket Fuel Inc. and will be retained by Rocket Fuel Inc. and furnished to the Securities and Exchange Commission or its staff upon request.