

ROCKET FUEL

Q1 2016 Earnings Call

Supplemental Material as of
May 10, 2016



CAUTIONS REGARDING FORWARD LOOKING STATEMENTS

This presentation contains “forward-looking” statements regarding future events and financial performance, including but not limited to our expectations for second quarter non-GAAP net revenue and non-GAAP adjusted EBITDA; our expected media margins; our anticipated facilities related capital expenditures; our planned categorization of expected revenue by media services and platform solutions, channel and direct, and brand and direct response; our anticipation of DSP self-service, DMP, and Professional Services revenues as part of our platform solutions; our anticipated services to agencies and direct clients; our anticipated expansion into other channel opportunities such as systems integrators, marketing services firms and resellers; our supplementation of our brand offerings; and our anticipated participation in investor events.

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

The statements in this presentation are made as of May 10, 2016, and we expressly disclaim any obligation to update any forward-looking statements made in this presentation after May 10, 2016.

We encourage investors to consider all of our publicly filed materials before making an investment decision.

You may get our most recent Form 10-Q, filed on May 10, 2016, and all other documents we file with the SEC for free at www.sec.gov.

Rocket Fuel is a registered trademark of Rocket Fuel Inc.

Q1'16 Financial Results Summary

- GAAP Revenue slightly up YoY at \$104.7M, compared to \$104.3M in the first quarter of 2015
- Non-GAAP Net Revenue up by 6% YoY to \$62.2M, compared to \$58.8M in the first quarter of 2015
- Non-GAAP Operating Expenses (previously, referred to as “Cash Costs”) lower by \$1.0M sequentially from Q4'15 and \$7.6M YoY
- Non-GAAP Adjusted EBITDA of \$(2.6M) compared to \$(13.6M) YoY
- Free cash flow negative \$(7.5M) due to Adjusted EBITDA loss and debt pay downs
- GAAP Revenue by Top 50 and Top 250 customers grew YoY

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



Definitions

Media Services and Platform Solutions

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

Channel and Direct

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

Brand and Direct Response

Brand comprises video, including pTV. Previously, Brand consisted of campaigns geared towards lifting brand metrics, generally defined as cost-per-click and brand survey goals. Going forward, we are moving all non-video revenues into Direct Response. As we supplement our Brand offerings over time, we will disclose those additional offerings to the extent included in Brand revenue.

Summary Financial Metrics

	Q1'16	Q4'15	Q1'15
Revenue	\$ 104.7 M	\$ 125.4 M	\$ 104.3 M
Non-GAAP Net Revenue	\$ 62.2 M	\$ 74.7 M	\$ 58.8 M
Non-GAAP Operating Expenses	\$ 64.8 M	\$ 65.8 M	\$ 72.4 M
Non-GAAP Adjusted EBITDA	\$ (2.6) M	\$ 8.9 M	\$ (13.6) M
Non-GAAP Adjusted Net Loss	\$ (12.0) M	\$ (1.8) M	\$ (25.1) M

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



GAAP Revenue Breakdown

	Q1'16		Q4'15		Q1'15	
<u>Geography</u>						
North America	\$ 85.0 M	81 %	\$ 102.1 M	81 %	\$ 88.2 M	85 %
International	\$ 19.8 M	19 %	\$ 23.3 M	19 %	\$ 16.1 M	15 %
Total	\$ 104.7 M	100 %	\$ 125.4 M	100%	\$ 104.3 M	100 %
<u>Delivery</u>						
Mobile, Video and Social	\$ 36.2 M	35 %	\$ 46.9 M	37 %	\$ 37.4 M	36 %
Mobile	\$ 27.1 M	26 %	\$ 35.0 M	28 %	\$ 25.4 M	24 %
<u>Product</u>						
Media Services	84 %		89 %		94 %	
Platform Solutions (1)	16 %		11 %		6 %	
DSP Self-Serve (2)	13 %		9 %		2 %	

Note: Breakouts based on Total GAAP Revenue.

(1) Includes DSP Self-Serve, DMP and Professional Services revenues from supporting self-serve clients.

(2) As reported in Q4 2015.



GAAP Revenue Breakdown

	Q1'16	Q4'15	Q3'15	Q2'15	Q1'15
<u>Product (Direct Response and Brand)</u>					
Direct Response	92 %	94 %	94 %	94 %	95 %
Brand (Video)	8 %	6 %	6 %	6 %	5 %
As reported in Q4'15:					
Direct Response	80 %	77 %	78 %	77 %	80 %
Brand	20 %	23 %	22 %	23 %	20 %
<u>Customer</u>					
Channel	71 %	73 %	75 %	76 %	76 %
Direct	29 %	27 %	25 %	24 %	24 %
Active Customers:					
Channel	1,266	1,369	1,277	1,260	1,149
Direct	264	297	264	332	338
Total	1,530	1,666	1,541	1,592	1,487
<u>Customer Spend</u>					
Top 50	49 %	45 %	48 %	47 %	47 %
Top 250	80 %	76 %	78 %	77 %	79 %

Note: Breakouts based on Total GAAP Revenue.



Summary Financial Metrics

	Q1'16	Q4'15	Q1'15
Cash and Cash Equivalents	\$ 67.4 M	\$ 78.6 M	\$ 92.1 M
Debt (1)	\$ 80.5 M	\$ 83.8 M	\$ 84.5 M
Cash Flow from Operations	\$ (2.8) M	\$ 2.1 M	\$ (4.2) M
Capital Expenditures (2)	\$ (4.7) M	\$ (3.9) M	\$ (8.6) M
Free Cash Flow	\$ (7.5) M	\$ (1.8) M	\$ (12.8) M
DSO	95	90	97
Employee Headcount	917	954	1,183

(1) Includes capital lease obligations.

(2) Excludes property and equipment acquired under capital lease, which comprised \$0.2 million in Q1 2016, \$3.7 million in Q4 2015 and \$0.3 million in Q1 2015.

Q2 2016 Financial Outlook

Q2 2016

Non-GAAP Net Revenue	\$64 - \$67 million
Media Margins	Down approximately 1-2% sequentially
Non-GAAP Adjusted EBITDA	\$0 - \$3 million
Facilities-related Capital Expenditures	\$1 - \$2 million

Second Quarter 2016 Investor Events

Date	Event	Location
May 18, 2016	Needham Emerging Technology Conference	New York, NY
June 21, 2016	Bernstein 'Future of Media' & Telecom Summit	Boston, MA

Consolidated Statements of Operations

(In thousands, except loss per share data)

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 74,397	\$ 92,642	\$ 102,098	\$ 139,504	\$ 104,334	\$ 120,065	\$ 111,836	\$ 125,401	\$ 104,745
Costs and expenses:									
Media costs	29,707	37,930	43,006	62,834	45,561	49,155	43,673	50,700	42,559
Other cost of revenue	7,828	8,993	11,946	19,819	19,956	19,826	20,105	19,980	20,085
Research and development	7,241	8,434	11,200	12,919	11,323	11,791	11,022	10,786	10,639
Sales and marketing	29,759	33,789	40,421	42,461	42,878	41,750	41,681	39,831	36,840
General and administrative	10,340	12,135	19,320	18,750	17,574	14,761	12,328	13,691	14,321
Impairment of goodwill	-	-	-	-	-	-	117,521	-	-
Restructuring	-	-	-	-	-	6,471	-	922	(199)
Total costs and expenses	84,875	101,281	125,893	156,783	137,292	143,754	246,330	135,910	124,245
Operating loss	(10,478)	(8,639)	(23,795)	(17,279)	(32,958)	(23,689)	(134,494)	(10,509)	(19,500)
Interest expense	414	514	1,157	1,007	1,340	1,045	1,087	1,090	1,237
Other (income) expense, net	19	425	1,999	2,824	2,208	(696)	797	803	(194)
Loss before income taxes	(10,911)	(9,578)	(26,951)	(21,110)	(36,506)	(24,038)	(136,378)	(12,402)	(20,543)
Income tax provision (benefit)	314	181	(4,120)	(614)	357	372	213	279	230
Net loss	\$ (11,225)	\$ (9,759)	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.33)	\$ (0.28)	\$ (0.61)	\$ (0.49)	\$ (0.88)	\$ (0.58)	\$ (3.19)	\$ (0.29)	\$ (0.48)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	34,033	35,172	37,230	41,486	41,981	42,296	42,763	43,150	43,601
Media Margin (% of Revenue)	60.1%	59.1%	57.9%	55.0%	56.3%	59.1%	60.9%	59.6%	59.4%



Non-GAAP Consolidated Statements of Operations

(In thousands, except loss per share data)

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 74,397	\$ 92,642	\$ 102,098	\$ 139,504	\$ 104,334	\$ 119,996	\$ 111,836	\$ 125,401	\$ 104,745
Media costs	29,707	37,930	43,006	62,834	45,561	49,155	43,673	50,700	42,559
Non-GAAP Net Revenue	44,690	54,712	59,092	76,670	58,773	70,841	68,163	74,701	62,186
Non-GAAP Operating Expenses	47,081	53,177	62,046	73,826	72,399	69,447	64,741	65,802	64,811
Non-GAAP Adjusted EBITDA	(2,391)	1,535	(2,954)	2,844	(13,626)	1,394	3,422	8,899	(2,625)
Adjustments:									
Depreciation and amortization expense	2,920	3,890	5,749	11,111	11,866	12,158	14,055	12,684	12,264
Stock-based compensation expense	4,957	5,999	5,929	6,645	7,447	6,434	6,307	5,785	4,810
Restructuring expense	-	-	-	-	-	6,471	-	922	(199)
Acquisition expense	-	100	9,136	2,240	-	-	-	-	-
Payroll tax expense related to stock-based compensation	210	185	27	127	19	20	33	17	-
Impairment of goodwill	-	-	-	-	-	-	117,521	-	-
Total adjustments	8,087	10,174	20,842	20,123	19,332	25,084	137,916	19,408	16,876
Operating loss	(10,478)	(8,639)	(23,795)	(17,279)	(32,958)	(23,689)	(134,494)	(10,509)	(19,500)
Interest expense	414	514	1,157	1,007	1,340	1,045	1,087	1,090	1,237
Other (income) expense, net	19	425	1,999	2,824	2,208	(696)	797	803	(194)
Loss before income taxes	(10,911)	(9,578)	(26,951)	(21,110)	(36,506)	(24,038)	(136,378)	(12,402)	(20,543)
Income tax provision (benefit)	314	181	(4,120)	(614)	357	372	213	279	230
Net loss	\$ (11,225)	\$ (9,759)	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.33)	\$ (0.28)	\$ (0.61)	\$ (0.49)	\$ (0.88)	\$ (0.58)	\$ (3.19)	\$ (0.29)	\$ (0.48)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	34,033	35,172	37,230	41,486	41,981	42,296	42,763	43,150	43,601
Media Margin (% of Revenue)	60.1%	59.1%	57.9%	55.0%	56.3%	59.0%	60.9%	59.6%	59.4%

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



Consolidated Balance Sheets

(In thousands)

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Assets									
Current Assets:									
Cash and cash equivalents	\$ 218,174	\$ 203,540	\$ 111,632	\$ 107,056	\$ 92,055	\$ 81,065	\$ 83,083	\$ 78,560	\$ 67,392
Accounts receivable, net	83,293	93,941	116,229	135,400	112,689	119,423	110,660	124,998	109,821
Deferred tax assets, net	207	207	1,154	1,716	1,716	1,716	1,709	-	-
Prepaid expenses	2,688	2,526	3,974	3,698	4,029	3,167	3,499	3,803	4,474
Other current assets	6,868	17,797	15,331	12,531	6,915	6,847	1,689	2,081	2,987
Total current assets	311,230	318,011	248,320	260,401	217,404	212,218	200,640	209,442	184,674
Property, equipment and software, net	37,283	56,234	78,217	89,441	91,752	86,719	87,647	82,781	75,715
Restricted cash	2,294	2,227	3,010	2,915	2,188	2,304	2,235	2,141	2,002
Intangible assets, net	-	-	73,525	69,299	65,072	60,845	55,046	50,919	46,792
Goodwill	-	-	114,871	115,412	115,412	115,412	-	-	-
Deferred tax assets, net	-	-	-	-	-	-	-	718	722
Other assets	1,026	1,315	1,198	1,797	1,364	1,620	1,326	1,053	1,059
Total assets	\$ 351,833	\$ 377,787	\$ 519,141	\$ 539,265	\$ 493,192	\$ 479,118	\$ 346,894	\$ 347,054	\$ 310,964
Liabilities and Stockholders' Equity									
Current Liabilities:									
Accounts payable	\$ 34,305	\$ 42,976	\$ 65,284	\$ 76,085	\$ 63,408	\$ 63,305	\$ 61,414	\$ 71,292	\$ 59,999
Accrued and other current liabilities	24,940	22,891	33,268	33,258	28,833	32,740	32,484	40,734	34,596
Deferred revenue	878	1,375	1,251	593	3,124	1,931	1,651	2,116	1,642
Current portion of capital leases	777	2,566	2,695	5,482	5,691	6,233	7,421	8,602	8,723
Current portion of debt	8,493	9,743	45,990	45,705	45,720	45,720	45,720	45,720	61,957
Total current liabilities	69,393	79,551	148,488	161,123	146,776	149,929	148,690	168,464	166,917
Debt - Less current portion	18,368	17,168	15,965	23,335	21,907	20,477	19,047	17,617	-
Capital leases - Less current portion	1,568	4,744	5,024	12,341	11,156	10,649	11,257	11,855	9,793
Deferred rent - Less current portion	7,445	19,629	24,260	26,818	26,521	25,498	24,955	14,042	14,866
Deferred tax liabilities	207	207	2,231	2,068	2,044	1,949	2,061	39	-
Other liabilities	387	499	543	814	808	1,204	1,171	1,137	1,143
Total liabilities	97,368	121,798	196,511	226,499	209,212	209,706	207,181	213,154	192,719
Stockholders' Equity:									
Common stock	35	36	41	42	42	43	43	44	44
Additional paid-in capital	310,113	321,403	410,923	421,630	429,816	439,542	446,410	453,338	458,631
Accumulated other comprehensive loss	17	10	(44)	(120)	(229)	(113)	(88)	(151)	(326)
Accumulated deficit	(55,700)	(65,460)	(88,290)	(108,786)	(145,649)	(170,060)	(306,652)	(319,331)	(340,104)
Total stockholders' equity	254,465	255,989	322,630	312,766	283,980	269,412	139,713	133,900	118,245
Total Liabilities and Stockholders' Equity	\$ 351,833	\$ 377,787	\$ 519,141	\$ 539,265	\$ 493,192	\$ 479,118	\$ 346,894	\$ 347,054	\$ 310,964



Consolidated Statements of Cash Flows

(In thousands)

	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
OPERATING ACTIVITIES:									
Net Loss	\$ (11,225)	\$ (9,760)	\$ (22,831)	\$ (20,496)	\$ (36,863)	\$ (24,410)	\$ (136,591)	\$ (12,681)	\$ (20,773)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:									
Impairment of goodwill	-	-	-	-	-	-	117,521	-	-
Depreciation and amortization	2,920	4,020	5,749	11,111	11,866	12,157	14,055	12,684	12,264
Impairment of leasehold improvements	-	-	-	-	-	2,704	-	-	3,929
Stock-based compensation	5,125	6,116	5,952	6,645	7,447	6,434	6,307	5,785	4,810
Deferred taxes	-	112	-	(1,618)	285	(305)	20	(379)	-
Excess tax benefit from stock-based activity	(147)	(16)	(16)	(99)	-	-	-	-	-
Other non-cash adjustments, net	84	(15)	189	483	509	535	71	384	1,350
Changes in operating assets and liabilities, net of effects of acquisition:									
Accounts receivable	7,175	(10,354)	(1,883)	(20,072)	22,549	(7,187)	8,771	(14,858)	14,103
Prepaid expenses and other assets	(3,559)	(11,055)	2,216	3,245	5,379	939	3,574	(764)	(1,796)
Accounts payable	(5,004)	4,756	14,173	13,027	(14,812)	3,274	(2,093)	9,616	(10,846)
Accrued and other liabilities	(100)	(1,201)	(4,180)	484	(4,271)	4,453	(1,671)	1,758	(1,851)
Deferred rent	3,570	12,179	4,722	3,597	1,184	(294)	(206)	(3,868)	(3,074)
Deferred revenue	(40)	497	(134)	(657)	2,530	(1,192)	(280)	465	(474)
Net cash (used in) provided by operating activities	(1,201)	(4,721)	3,957	(4,350)	(4,197)	(2,892)	9,478	2,071	(2,754)
INVESTING ACTIVITIES:									
Purchases of property, equipment and software	(7,177)	(11,964)	(21,145)	(7,579)	(5,519)	(4,566)	(712)	(715)	(1,787)
Business acquisition, net	-	-	(97,444)	-	-	-	(367)	-	-
Capitalized internal use software development costs	(1,757)	(1,798)	(1,904)	(2,141)	(3,076)	(2,972)	(3,159)	(3,195)	(2,924)
Proceeds from sale of fixed assets	-	-	-	-	-	-	-	-	293
Change in restricted cash	(2,281)	78	-	-	636	-	-	53	39
Net cash used in investing activities	(11,215)	(13,684)	(120,493)	(9,720)	(7,959)	(7,538)	(4,238)	(3,857)	(4,379)
FINANCING ACTIVITIES:									
Proceeds from the issuance of common stock in public offering, net of underwriting discounts and commission and issuance costs	115,525	(395)	273	-	-	-	-	-	-
Proceeds from employee stock plans, net	1,059	4,612	796	3,712	189	2,950	234	1,146	28
Excess tax benefit from stock-based activity	147	16	16	99	-	-	-	-	-
Tax withholdings related to net share settlements of restricted stock units	-	(53)	(188)	(326)	-	(533)	(441)	(458)	(241)
Repayment of capital lease obligations	(38)	(392)	(129)	(776)	(1,090)	(1,665)	(1,582)	(1,902)	(2,092)
Proceeds from debt facilities, net of issuance costs	-	-	35,000	9,479	(242)	-	-	-	22,350
Repayment of debt facilities	-	-	(11,133)	(2,445)	(1,500)	(1,500)	(1,500)	(1,500)	(24,000)
Net cash (used in) provided by financing activities	116,693	3,788	24,635	9,743	(2,643)	(748)	(3,289)	(2,714)	(3,955)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS	24	(17)	(7)	(249)	(202)	188	67	(23)	(80)
CHANGE IN CASH AND CASH EQUIVALENTS	104,301	(14,634)	(91,908)	(4,576)	(15,001)	(10,990)	2,018	(4,523)	(11,168)
CASH AND CASH EQUIVALENTS—Beginning of period	113,873	218,174	203,540	111,632	107,056	92,055	81,065	83,083	78,560
CASH AND CASH EQUIVALENTS—End of period	\$ 218,174	\$ 203,540	\$ 111,632	\$ 107,056	\$ 92,055	\$ 81,065	\$ 83,083	\$ 78,560	\$ 67,392



Reconciliation of GAAP to Non-GAAP Financial Measures

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

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

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



Reconciliation of GAAP to Non-GAAP Financial Measures

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

	Three Months Ended	
	March 31,	
	2016	2015
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	<u>\$ (2,625)</u>	<u>\$ (13,626)</u>

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

Reconciliation of GAAP to Non-GAAP Financial Measures

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

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (20,773)	\$ (36,863)
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 income (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	<u>43,601</u>	<u>41,981</u>

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

Reconciliation of GAAP to Non-GAAP Financial Measures

Rocket Fuel Inc.
UNAUDITED RECONCILIATION FROM GAAP TOTAL COSTS AND EXPENSES TO NON-GAAP
OPERATING EXPENSES
(In thousands)

	Three Months Ended	
	March 31,	
	2016	2015
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	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	<u>\$ 64,811</u>	<u>\$ 72,399</u>

Note: Non-GAAP operating expenses (which we previously referred to as non-GAAP adjusted operating expenses or “cash costs”) is defined as GAAP total costs and expenses less media costs, depreciation and amortization expense (including amortization of capitalized software development costs), impairment charges, stock-based compensation expense and related payroll taxes, and acquisition and restructuring related expense.

