

Rocket Fuel Inc.
Form 10-K
March 14, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36071

ROCKET FUEL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

30-0472319

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices and Zip Code)

(650) 595-1300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.001 par value (Title of each class)

The NASDAQ Stock Market LLC (Name of each exchange in which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$190,023,061 based upon the closing price reported for such date on the NASDAQ Global Select Market. Shares of common stock held by each executive officer, director and by each person who owns 5% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 29, 2016, there were 43,627,818 shares of the registrant's common stock, par value \$0.001, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of December 31, 2015, the last day of the fiscal year covered by this Annual Report on Form 10-K.

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.
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TRADEMARKS

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "w", "should," "project," "plan," "expect," "predict," "target" or the negative of these terms or 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;
- our goal of reducing the cost of customer service, operations, account management, IT, and general and administrative functions as a percentage of revenue in future periods;
- the impact that our sales strategies and our product mix, including our managed service and self-service platform offerings, will have on our non-GAAP net revenue, media and other costs of revenue and gross margins (non-GAAP net revenue is a non-GAAP measure; please see Part II, Item 7 of this Annual Report on Form 10-K, "Non-GAAP Measures," for an explanation of this measure and a reconciliation to the most comparable GAAP measure);
- the expected impact of seasonality on our operating results;
- our expectations regarding our headcount levels in 2016;
- our ability to improve the productivity and efficiency of our resources and infrastructure;
- the expected impact of our expense reduction and operating efficiency initiatives
- our expectation regarding capital expenditures in 2016;
- the usefulness of non-GAAP financial measures for understanding and evaluating our operating results;
- our plans to finance data center hardware requirements through capital leasing facilities;
- the adequacy of our office facilities to meet or exceed our needs for the immediate future and our ability to sublease unused facilities;
- 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;
- anticipated growth of the digital advertising market and of brand advertising as part of that market;
- the ability of our solutions to deliver intended results to customers, including but not limited to the ability of our Programmatic Marketing Platform to successfully combine the functionality of our DSP with features of our DMP in a manner that is attractive to customers and prospects;
- the ability to effectively market our Programmatic Marketing Platform, through the integration of technologies and capabilities arising from our acquisition of [x+1];
- our ability to adapt our relationships with agencies and agency holding companies in light of the evolving competitive environment, and the anticipated success of our sales strategy;
- our expectation that we will improve our abilities to attract new customers, and to retain and gain a larger amount of our current customers' advertising budgets;
- our ability to achieve revenue growth by better tailoring our sales model to differing sizes of customers and prospects, and by improving the focus of our sales representatives on our core offerings;
- our expectations regarding an increase in the number of active customers;

- our ability to avoid serving ads on unsafe or inappropriate websites or to non-human targets;
- our ability to continue to expand internationally;
- our expectation that, 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; and
- our intention to vigorously defend against pending securities lawsuits.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Annual Report on Form 10-K to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed as exhibits thereto with the Securities and Exchange Commission, or "SEC," with the understanding that our actual future results and circumstances may be materially different from what we expect.

PART I

ITEM 1. BUSINESS

Overview

Rocket Fuel is a technology company that brings the power of machine learning to the world of digital marketing, offering a Programmatic Marketing Platform designed to help marketers and their agencies 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.

We are focused on the large and growing digital advertising market, where marketers are confronting an age-old challenge: how to deliver better return on investment, or "ROI," which encompasses both the measurement of that effective return, and a comparison with other approaches to delivering advertising assets. Doing such measurement involves difficulties in terms of speed and scale, in that there are tens of billions of daily ad purchases across all digital advertising exchanges and other sources of digital advertising inventory. Our platform autonomously purchases these 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 platforms - a Data Management Platform, or "DMP," and a Demand Side Platform, or "DSP" - which can be used by themselves, or can be integrated with a customer's other customer relationship management or marketing platforms, or can be used together in different permutations as our Programmatic Marketing Platform. That integrated platform is designed to deliver and optimize media spend to engage, upsell, and retarget consumers across addressable channels-including display, mobile, video, social, and television, and across addressable devices, including tablets, personal computers, set top boxes, television, and mobile phones. We offer our Programmatic Marketing Platform as a managed service, which we operate on behalf of our customers, and as a self-service platform operated by our customers or their agencies directly.

Core to our ability to connect advertisers and consumers is our artificial intelligence engine, which consists of big data-driven predictive modeling and automated decision-making components. Our Programmatic Marketing Platform is designed to address the needs of marketers in a time when the amount of demographic, psychographic, and most fundamentally, behavioral data, has reached a mass that defies human intuition or comprehension, and requires the use of machine learning to offer real time analysis of the moments of influence, and make the decision to act upon the moments most likely to be influential.

Each ad purchasing decision on real time advertising exchanges must be made in milliseconds, which means any analysis and decision-making must happen in an even shorter period of time. Our Programmatic Marketing Platform uses a technology 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 advertisement based on relevant attributes. If the score is positive, we determine the value of that impression to the particular advertising campaign and how much we are willing to bid for that opportunity. If we win the bid, then the ad is served. This entire process takes place in approximately 100 milliseconds and over 100 billion times daily for a thousand or more advertising campaigns.

In addition to paid media options, a company may have tens of millions of interactions daily with its customers and prospects through its "owned media" or customer relationship management channels, such as its website, mobile applications, call centers, email, point of sale terminals, loyalty cards, and retail stores. Every company needs to make decisions about what to do with its data, and a smart company can optimize its customers' experiences and its own marketing by making the best use of the opportunities it has to interact with its customers.

In both cases of paid and owned media, our Programmatic Marketing Platform is designed to learn from each message it delivers and apply that learning to future decisions as an advertising campaign is being delivered - a feature we call Marketing that Learns™. This enables us to deliver solutions designed to optimize over time for both direct-response and brand campaigns focused on generating specific consumer actions or engagements, and other marketing programs designed to help marketers acquire, retain, and grow their customer base. The benefit of a platform that is designed to autonomously adapt and learn while solving multiple problems simultaneously instead of solving one specific

problem at a time, is that our platform is capable of simultaneously running thousands of marketing programs with highly diverse goals across multiple channels.

We were incorporated in Delaware in 2008. In July 2014, we announced the general availability of our self-service DSP, in North America and Europe. Prior to that time, we had provided a self-service DSP offering to a single advertising agency in Japan. In September 2014, we acquired X Plus Two Solutions, Inc., the parent company of [x+1], a privately held programmatic marketing technology company. Our acquisition of [x+1] allowed us to add important assets to our technology solutions, including

our DMP. Since September 2014, we have worked to join our DSP and DMP platforms into a combined platform, and this has allowed us to introduce our Programmatic Marketing Platform.

We have successfully run advertising campaigns for products and brands in industries ranging from luxury automobiles to financial services to retail, for a diversified customer base that, during 2015, included 91 of the Advertising Age 100 Leading National Advertisers and 65 of the Fortune 100 companies, and powered personalized marketing on owned media for 7 companies in the US.

For the years ended December 31, 2015, 2014, and 2013, our revenue was \$461.6 million, \$408.6 million, and \$240.6 million, respectively, representing a compound annual growth rate, or CAGR, of 118% since 2012. The early growth in sales through 2013 and 2014 led us to make significant investments in our business, in operations, sales, marketing, research and development, customer service and general and administrative functions. Partially as a result of these investments, for the years ended December 31, 2014 and 2013, our net losses were \$64.3 million and \$20.9 million, respectively. In response to slowing revenue growth in 2014 and early 2015, we engaged in a variety of cost-cutting and efficiency initiatives; however, those reductions in operating expenses were more than offset by 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. Thus, we incurred a net loss of \$210.5 million for the year ended December 31, 2015.

Our Offerings

Our Programmatic Marketing Platform is comprised of the following technologies.

Demand Side Platform (DSP)

Our proprietary artificial intelligence, or "AI" -driven DSP is built on our real-time optimization engine, which leverages big data and our vast computational infrastructure to purchase and deliver highly-automated digital advertising campaigns that are measurable against direct response and brand objectives. We make our DSP available to advertisers or their agencies as a fully managed service, through a self-service interface, or a combination of managed and self-service options.

Our DSP offerings are designed to enable direct-response and brand advertisers to optimize toward virtually any measurable advertising goal. Given the extensibility and flexibility of our DSP, our offerings are able to address the needs of advertisers across geographies, industry verticals, advertiser goals, and through addressable channels including display, mobile, social, video and programmatic TV.

Direct Response Objectives

Our direct response solution is focused on the following direct-response objectives:

Prospecting. Advertisers have various prospecting objectives, such as number of leads, sign-ups, registrations or sales. Our Programmatic Marketing Platform is designed to track every impression delivered and continuously learn from campaign results to refine our delivery of impressions to the appropriate consumers and achieve each advertiser's direct-response objectives. As our DSP optimizes over the course of campaigns, we believe that advertisers experience steady improvement against the prospecting goals they have defined.

Retargeting. As advertisers succeed in bringing consumers to their websites, our retargeting offering uses our Moment Scoring Technology to help return those same or similar consumers to the advertisers' websites, focusing specifically on the consumers most likely to perform a desired action. Unlike other retargeting solutions that merely display advertisements to every consumer that has visited an advertiser's website regardless of the value of such placements, our offering focuses on consumers who represent high-value opportunities for re-engagement, aiming to reach them at the best time and in the best context to achieve the advertiser's goals.

Sales Uplift. We find that some sophisticated direct response advertisers and their agencies want to optimize not only for a specified digital outcome (such as completion of a form, or establishment of a digital shopping cart) but also to maximize truly incremental sales. This is measured as the increase in revenue compared to a control group of customers who were not exposed to similar advertising. Through the same kinds of techniques used for offline sales or brand equity lift, we can develop digital maps that can be calibrated against sales uplift.

Brand Objectives

Brand objectives are commonly measured as an increase in a specified metric related to a target audience. Digital brand campaigns most commonly focus on any of the following, often with a specific, third party validated audience as the target being measured against:

- Reach, frequency and engagement. Traditionally, brand advertisers have focused on reach, frequency and engagement goals to assess the effectiveness of their advertising campaigns. Our DSP is designed to track, measure and optimize these goals through specific consumer actions, such as clicks, advertisement interactions and video completions. Our platform values and bids on billions of individual advertising impressions per day to maximize campaign performance measured against the goals defined by the advertiser.

Audience Accuracy. Brand advertising is audience specific, and our DSP is designed to optimize towards a defined audience, most commonly a particular age and gender range as measured by third parties such as Nielsen, Comscore and others.

Brand equity lift. Our DSP is designed to track, measure and optimize brand equity lift objectives. We use online surveys to measure these objectives, such as consumer awareness, recall, message association, purchase consideration, favorability and recommendation intent. Our technology is designed to automatically incorporate survey responses to enable optimization and calibration against online and offline brand equity lift as measured by third parties such as Nielsen, Comscore and others.

Offline sales. Many interactions that consumers have with a brand occur offline. We are able to connect online activity to offline sales or responses by integrating a variety of industry-specific offline data sources, such as retail purchase activity, coupon usage and grocery store purchase activity. Our technology is designed to measure and optimize campaigns, while they run, to maximize offline impact as measured by third parties such as IRI, NCS and others.

Data Management Platform (DMP)

Our DMP augments the capabilities of our DSP for media purchases. By using our Programmatic Marketing Platform, our advertisers can run analytics on data derived from their paid and owned media channels and develop a better understanding of their consumers. Our DMP enables:

Data Management: Our DMP is designed to allow marketers to ingest, analyze, segment, and export their own and third-party audience data for advertising, customer relationship management, or "CRM," email marketing, call-center routing, or other opportunities to touch consumers with a message or call-to-action. Our Programmatic Marketing Platform allows marketers to leverage their own data within our DSP or other media buying platforms of their choice.

Multi-modal Advertising Optimization: Our Programmatic Marketing Platform is designed to allow marketers to seamlessly execute programmatic advertising campaigns globally through our platform, and apply learning and insights from the DMP to augment campaign performance. Moreover, our Programmatic Marketing Platform is designed to enable cross-channel (e.g. display, video, mobile, and social) and cross-device (e.g. smartphone and desktop) campaigns, thereby reducing friction and eliminating the need to work with multiple companies that offer point solutions.

Other Features

Brand Assurance. Advertiser brand protection is a high priority for us. We have adopted a proactive approach designed to prevent us from serving advertisements on unsafe or inappropriate websites, and designed to protect advertisers from forms of fraud in the modern digital ecosystem. We have a brand-assurance team that monitors our brand safety efforts, makes policy decisions, offers guidance to advertisers and continuously analyzes and improves our Brand Assurance offering. We have proprietary technology designed to identify and block fraudulent activity, and we work with independent third parties to validate our approach and further our efforts against fraud.

Insights. We identify the key drivers of an advertising campaign's success and help marketers improve and optimize future marketing strategies and creative development. Our Insights feature is designed to help advertisers understand what strategies are effective and why, and allows them to better understand the quality, composition and characteristics of the consumers their campaigns reach, including which consumers are most responsive to their messages.

Our Technology

We believe our technology is disrupting traditional approaches to digital advertising. The digital advertising campaigns we run are designed to be effective, as well as efficient and easy for us to set up and manage, and do not require advertisers to know or guess who their target audiences are, nor the best digital channels through which to reach them. Instead, our AI-driven technology reaches desired consumers globally by programmatically buying advertising inventory. We primarily access inventory through real-time bidding, or RTB, which is the real-time purchase and sale of advertising inventory on an impression-by-impression basis on real-time advertising exchanges. For each impression that we purchase on behalf of an advertiser, our technology determines precisely the amount that we will bid for each single opportunity based on our technology's valuation of that opportunity in real time.

We bid on billions of these impressions per day in approximately 100 milliseconds per bid request. As our engine learns which attributes best contribute to meeting an advertiser's campaign goals, it adapts as the campaign runs to improve performance measured against these goals. We believe this enables us to deliver more rapid optimization and better campaign results than the periodic manual adjustments of traditional solutions. Leveraging the massive amounts of inventory available through real-time advertising exchanges, our solution enables advertisers to efficiently connect with large audiences while it maintains a focus on results-driven optimization.

We have invested in and will continue to invest in developing our differentiated and proprietary technology, aimed at solving the problems of marketers in ways that traditional, and point solutions, cannot. We have assembled a team of highly skilled engineers and computer scientists with deep expertise across a broad range of relevant disciplines. Key focus areas of our engineering team include:

Artificial Intelligence. We employ AI technology, including predictive modeling and automated decision-making. Our platform has analyzed millions of attributes from our data warehouse, as evidenced by the billions of impressions and bid requests processed daily, to determine the most effective attributes, monitored in real time, to predict expected consumer response and precise impression value.

Computational infrastructure. We use a combination of proprietary and open source software to achieve a horizontally scalable, global, distributed and fault-tolerant architecture, with the goal of enabling us to ensure the continuity of our business, regardless of local disruptions. Our computational infrastructure currently processes tens of billions of events per day and is designed in a way that enables us to add significant capacity to our platform as we scale our business without requiring any material design or architecture modifications. Our technology infrastructure is hosted across 12 data centers in co-location facilities in California, Germany, New Jersey, Nevada, Virginia, Hong Kong and the Netherlands. Our servers are custom designed by our engineering team.

Big Data. We have built a multi-tier big data management system based on proprietary and open source software to help us maintain a variety of data in many different formats. Our data includes anonymized user profile data that is accessible at very low latencies and used to execute our campaigns. In addition, we maintain a large data warehouse with multi-petabytes of data that we use for algorithm training and reporting.

Bidding adapters. Bidding adapters enable us to receive bid requests from real-time advertising exchanges, evaluate each request and either reject the request or respond with a bid. The adapters then present our proposed bid and advertisement to the advertising exchange in the format required by the exchange. Bidding adapters allow us to easily expand and adapt our platform across multiple inventory sources, including across different channels, such as display, mobile, video, and programmatic TV.

User Interface and Reporting Tools. Based on the latest HTML5 technologies, our user interface provides flexible reporting and interactive visualization of the key drivers of success for each advertising campaign. We use these reporting and visualization products internally to manage campaigns, and provide advertisers with the ability to manage their own campaigns, form custom audiences and to gain campaign insights.

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Platform Convergence. To enhance our Programmatic Marketing Platform, we continue to converge the best attributes from our DSP and our DMP for a unified user experience across our DSP, DMP and web site optimization interfaces.

Our research and development expenses were \$44.9 million, \$39.8 million and \$17.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. Our capitalized internal-use software development costs were \$15.5 million, \$9.4 million and \$6.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Our Customers

As of December 31, 2015, we had 1,666 active customers, including many of the world's leading advertisers. We interact with customers primarily through advertising agencies acting on their behalf. We also work with some customers directly.

We define an active customer as a customer from whom we recognized revenue in the last three months. An active customer can be either an advertiser who purchases our solution from us directly or an advertiser who purchases our solution through an advertising agency or other third party. We count all advertisers within a single corporate structure as one customer even in cases where multiple brands, branches or divisions of an organization enter into separate contracts with us. We believe that our ability to increase the number of active customers using our solution is one important indicator of our ability to grow our business, although we expect this number to fluctuate based on the seasonality in our business.

During 2015, we served a diverse advertiser base across industry verticals, such as automotive, cable, computer manufacturing, education, finance and insurance, health care, hospitality and food services, retail and telecommunications.

For the year ended December 31, 2015, no single customer represented 10% or more of our revenue.

Sales and Marketing

In North America, Europe, and Australia we sell our solutions through direct sales teams, which focus on advertising agencies and advertisers, as well as on other third parties. Our direct sales team is organized by geography, with regional offices in the United States and offices in Canada, the United Kingdom, Australia, France, Germany, Italy, Spain, and Sweden. We also sell our solutions through resellers. We recently announced the closure of our office in Brazil and we intend to service customers in that market through our other offices and a reseller relationship.

We are focused on managing our brand, increasing market awareness and generating new advertiser leads. To do so, we often present at industry conferences, create customer events and invest in public relations. In addition, our marketing team advertises online, in print and in other forms of media, creates case studies, sponsors research, composes whitepapers, publishes marketing collateral, generates online content and undertakes customer research studies and surveys.

Employees and Culture

We are proud of our company culture, and believe it is one of our fundamental strengths as well as a strategic priority. Our employees are focused on technological innovation to improve our solution for advertisers and marketers. We encourage creativity and open dialogue to improve on ideas through iteration.

As of December 31, 2015, we had 954 full-time employees, consisting of 755 employees in the United States and 199 employees internationally. This represents a 15% decrease from December 31, 2014. We currently expect only modest changes in headcount in 2016.

Our Competition

Our industry is highly competitive and fragmented. We compete with large, well-established companies such as Google, Facebook, Yahoo! and digital advertising networks. In addition, we compete against other companies that offer robust digital marketing solutions and demand side and data management technology platforms that allow advertisers to purchase inventory directly and manage and analyze their own customer data. We also compete with divisions of certain advertising agencies, including agency trading desks, that place digital advertising on behalf of the agencies' clients, and other companies, many of which claim to use advanced technologies to optimize advertising campaigns. As we introduce new offerings, as our existing offerings evolve, or as other companies introduce new products and services, we may become subject to additional competition.

We compete for advertising revenue based on our ability to meet advertiser goals, the effectiveness and relevance of our offerings, pricing structure, ease-of-use, scalability, cross-channel and cross-device capabilities, customer service, breadth and depth of customer relationships and awareness of our brand. In addition, as we move forward with our Programmatic Marketing Platform, we will also compete based on (i) our ability to offer a comprehensive technology solution that meets the needs of our customers and (ii) the ease of integration with customers' other systems and databases.

Intellectual Property

The protection of our technology and intellectual property is an important component of our success. We rely on intellectual property laws, including trade secret, copyright, trademark and patent laws in the United States and abroad, and use contracts, confidentiality procedures, non-disclosure agreements, employee disclosure and invention assignment agreements and other contractual rights to protect our intellectual property.

In September 2014, we acquired two issued patents and one pending non-provisional patent application in the United States as a result of our acquisition of [x+1]. As of December 31, 2015, we had two issued patents in the United States. Our issued patents are expected to expire between May and September 2022. As of December 31, 2015, we had pending 11 non-provisional patent applications in the United States and one application in Great Britain. In addition, we maintain a trademark portfolio in the United States and abroad, including trademarks or trademark applications in Australia, Brazil, China, European Union, Hong Kong, India, Japan, Singapore and Russia.

Circumstances outside of our control could pose a threat to our intellectual property rights. Effective intellectual property protection may not be available in the United States or other countries in which we provide our solution. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business, our ability to compete and our results of operations.

Privacy and Interest-based Advertising

Much of the acceptance and widespread use of digital media across the globe is attributable to the ability of consumers to access valuable content quickly, without friction, and free of charge. The digital media content providers, or publishers, who support the creation and distribution of this content do so largely by selling advertisements on their properties, similar to the business model of television and radio broadcasters. Online it is possible to serve advertisements to potential consumers based upon interests that are inferred in part from a consumer's online actions and web-browsing history, although some companies have distributed programs call "ad blockers" that online consumers could use to prevent the display of all or some advertising. The use of web browsing history to inform advertising purchase decisions is commonly referred to as "interest-based" or "online behavioral" advertising. Advertisers are willing to make a greater investment in, and pay a higher rate for, digital advertising when this interest-based data can be used to inform decisions about purchasing advertising impressions to reach desired consumers.

The use of interest-based advertising has come under scrutiny by consumer advocacy organizations and regulatory agencies in the U.S. and abroad that focus on online privacy. Because we rely upon access to large volumes of data, including web browsing history, primarily through cookies, it is essential that we monitor developments in this area in the U.S. and globally, and that we engage in responsible privacy practices. The collection of specific geo-location data, including latitude and longitude and IP address, and the collection of mobile device identifiers, are also important signals that assist our technology when optimizing our clients' marketing campaigns. If regulatory agencies and legislative bodies in different regions and markets enact rules or enforce guidance that limits how geo-location and device identification data may be collected and used, it could limit our ability to run successful advertising campaigns for our clients. Our privacy practices are described in our privacy policy, which explains the type of data we collect and use to provide services to advertisers. Our privacy policy can be found on our website at <http://rocketfuel.com/privacy-policy>. The information contained on, or that can be accessed through, our website is not a part of this Annual Report on Form 10-K.

We are also active members of industry self-regulatory organizations, including the Network Advertising Initiative, or "NAI," and the Digital Advertising Alliance, or "DAA," and participate in the Self-Regulatory Program for Online Behavioral Advertising coordinated by the DAA and enforced by both the Direct Marketing Association and the Council of Better Business Bureaus. Similarly, in Europe we are signatories to the IAB Europe EU Framework for Online Behavioural Advertising and are members of the European Digital Advertising Alliance, or EDAA. For further information, please see our Risk Factors in Item 1A "Risk Factors" of this Annual Report on Form 10-K.

Seasonality

In the advertising industry, companies commonly experience significant seasonal fluctuations in revenue. 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 our fiscal year reflects our highest level of advertising

activity and associated revenue, and the first quarter reflects the lowest level of such activity. For more information regarding the impact of seasonality on our business, please refer to Part II, Item 7 of this Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors Affecting Our Performance."

Financial Information about Segments and Geographic Areas

We manage our operations as a single reportable segment. For information regarding our reporting segment, and revenue and long-lived assets by geographic location please refer to Note 13 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K. For information regarding risks associated with our international operations, please refer to “Risk Factors” in Part I, Item 1A in this Annual Report on Form 10-K.

Available Information

You can obtain copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, free of charge from our website at www.rocketfuel.com as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. The contents of our website are not incorporated into this Annual Report on 10-K or in any report or document we file with the SEC. Further, any references to the URL for our website are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see page 4 of this Annual Report on Form 10-K 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