RUBICON PROJECT, INC.
Form 10-Q
May 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _____________

Commission File Number: 001-36384

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

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

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

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

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

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

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

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

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

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

Class	Outstanding as of April 27, 2016
Common Stock, $0.00001 par value	48,463,415

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

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE RUBICON PROJECT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$136,567	$116,499
Accounts receivable, net	159,268	218,235
Marketable securities, prepaid expenses, and other current assets	29,193	30,973
TOTAL CURRENT ASSETS	325,028	365,707
Property and equipment, net	24,308	25,403
Internal use software development costs, net	14,731	13,929
Goodwill	65,705	65,705
Intangible assets, net	46,726	50,783
Marketable securities and other assets, non-current	10,451	15,209
TOTAL ASSETS	$486,949	$536,736
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$185,399	$247,967
Other current liabilities	1,844	2,196
TOTAL CURRENT LIABILITIES	187,243	250,163
Other liabilities, non-current	2,047	2,247
Deferred tax liability, net	1,868	6,225
TOTAL LIABILITIES	191,158	258,635
Commitments and contingencies (Note 8)		
STOCKHOLDERS’ EQUITY		
Preferred stock, $0.00001 par value, 10,000 shares authorized at March 31, 2016 and December 31, 2015; 0 shares issued and outstanding at March 31, 2016 and December 31, 2015	—	—
Common stock, $0.00001 par value; 500,000 shares authorized at March 31, 2016 and December 31, 2015; 48,033 and 46,600 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	373,721	358,406
Accumulated other comprehensive income (loss)	76	(15)
Accumulated deficit	(78,006)	(80,290)
TOTAL STOCKHOLDERS’ EQUITY	295,791	278,101
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$486,949	$536,736

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

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenue	$69,232	$37,178
Expenses:		
Cost of revenue	16,783	6,561
Sales and marketing	21,278	15,049
Technology and development	12,443	8,414
General and administrative	20,605	14,279
Total expenses	71,109	44,303
Loss from operations	(1,877)	(7,125)
Other (income) expense		
Interest (income) expense, net	(94)	12
Foreign exchange (gain) loss, net	261	(2,190)
Total other (income) expense, net	167	(2,178)
Loss before income taxes	(2,044)	(4,947)
Provision (benefit) for income taxes	(4,328)	84
Net income (loss)	$2,284	$(5,031)
Net income (loss) per share:		
Basic	$0.05	$(0.14)
Diluted	$0.05	$(0.14)
Weighted-average shares used to compute net income (loss) per share:		
Basic	44,663	35,758
Diluted	48,676	35,758

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

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net income (loss)	$2,284	$(5,031)
Other comprehensive income (loss):		
Unrealized gain on investments, net of tax	64	—
Foreign currency translation adjustments	27	(63)
Comprehensive income (loss)	$2,375	$(5,094)

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

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2015	46,600	$ —	$ 358,406	$ (15)	$ (80,290)	$ 278,101
Exercise of common stock options	941	—	6,718	—	—	6,718
Restricted stock awards	485	—	—	—	—	—
Issuance of common stock related to RSU vesting	7	—	—	—	—	—
Stock-based compensation	—	—	8,597	—	—	8,597
Foreign exchange translation adjustment	—	—	—	27	—	27
Unrealized gain on investments, net of tax	—	—	—	64	—	64
Net income	—	—	—	—	2,284	2,284
Balance at March 31, 2016	48,033	$ —	$ 373,721	$ 76	$ (78,006)	$ 295,791

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

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
OPERATING ACTIVITIES:		
Net income (loss)	$2,284	$(5,031)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,626	4,390
Stock-based compensation	8,391	5,498
Loss on disposal of property and equipment, net	3	28
Change in fair value of contingent consideration	—	138
Unrealized foreign currency (gains) losses, net	972	(1,054)
Deferred income taxes	(4,351)	—
Changes in operating assets and liabilities:		
Accounts receivable	59,303	12,227
Prepaid expenses and other assets	179	1,471
Accounts payable and accrued expenses	(64,180)	5,564
Other liabilities	(559)	(795)
Net cash provided by operating activities	10,668	22,436
INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(1,443)	(2,259)
Capitalized internal use software development costs	(2,306)	(2,116)
Maturities of available-for-sale securities	6,400	—
Change in restricted cash	—	1,252
Net cash provided (used) by investing activities	2,651	(3,123)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	6,718	4,031
Repayment of debt and capital lease obligations	—	(52)
Net cash provided by financing activities	6,718	3,979
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	31	(152)
CHANGE IN CASH AND CASH EQUIVALENTS	20,068	23,140
CASH AND CASH EQUIVALENTS--Beginning of period	116,499	97,196
CASH AND CASH EQUIVALENTS--End of period	$136,567	$120,336
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Capitalized assets financed by accounts payable and accrued expenses	$667	$448
Capitalized stock-based compensation	$206	$172

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

THE RUBICON PROJECT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1—Organization and Summary of Significant Accounting Policies

Company Overview

The Rubicon Project, Inc., or Rubicon Project or the Company, was formed on April 20, 2007 in Delaware and began operations in April 2007. The Company is headquartered in Los Angeles, California.

The Company is a technology company with a mission to keep the Internet free and open and to fuel its growth by making it easy and safe to buy and sell advertising. The Company offers a highly scalable platform that provides an automated advertising solution for buyers and sellers of digital advertising.

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

Basis of Presentation and Summary of Significant Accounting Policies

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

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

There have been no significant changes in the Company’s accounting policies from those disclosed in its audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in its Annual Report on Form 10-K.

Revenue Recognition

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

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

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

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

Use of Estimates

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

Recent Accounting Pronouncements

Under the Jumpstart Our Business Startups Act, or the JOBS Act, the Company meets the definition of an emerging growth company. The Company has irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

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

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

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

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

Note 2—Net Income (Loss) Per Share

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

	Three Months Ended March 31, 2016	March 31, 2015
	(In thousands, except per share data)	
Net income (loss)	$2,284	$(5,031)
Weighted-average common shares outstanding	47,137	37,473
Weighted-average unvested restricted shares	(1,700)	(1,715)
Weighted-average escrow shares	(774)	—
Weighted-average common shares outstanding used to compute net income (loss) per share	44,663	35,758
Basic net income (loss) per share	$0.05	$(0.14)
Diluted EPS:		
Net income (loss)	$2,284	$(5,031)
Weighted-average common shares used in basic EPS	44,663	35,758
Dilutive effect of weighted-average common stock options	1,722	—
Dilutive effect of weighted-average restricted stock awards	613	—
Dilutive effect of weighted-average restricted stock units	897	—
Dilutive effect of weighted-average ESPP	18	—
Dilutive effect of weighted-average escrow shares	763	—
Weighted-average shares used to compute diluted net income (loss) per share	48,676	35,758

Diluted net income (loss) per share	$0.05	$(0.14)

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

	March 31, 2016	March 31, 2015
	(in thousands)	
Options to purchase common stock	—	7,348
Unvested restricted stock awards	—	1,691
Unvested restricted stock units	—	950
Shares held in escrow	—	125
Total shares excluded from net income (loss) per share	—	10,114

In addition to the above anti-dilutive shares, shares contingently issuable if certain milestones were achieved on December 31, 2015 related to business combinations that occurred during the year ended December 31, 2014 have been excluded from the calculation of diluted net loss per share for the three months ended March 31, 2015. If March 31, 2015 had been the end of the contingency period, 532,487 shares would have been issuable.

On December 31, 2015, the Company issued 585,170 shares in connection with the contingent consideration, which were included in the calculation of basic and diluted net income per share for the three months ended March 31, 2016.

Note 3—Fair Value Measurements

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

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

The table below sets forth a summary of financial instruments that are measured at fair value on a recurring basis at March 31, 2016:

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Money market funds	$25,725	$ 25,725	$ —	$ —
Corporate debt securities	$6,397	$ 6,397	$ —	$ —
U.S. Treasury, government and agency debt securities	$23,984	$ 23,984	$ —	$ —

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

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

At March 31, 2016, cash equivalents of $25.7 million consisted of money market funds with original maturities of three months or less. The fair values of the Company's money market funds, U.S. treasury, government and agency debt securities, and corporate debt securities are based on quoted market prices.

During the three months ended March 31, 2015, the Company had a contingent consideration liability in connection with the acquisition of iSocket that the Company classified within Level 3 as factors used to develop the estimated fair value included unobservable inputs that were not supported by market activity. The Company estimated the fair value of the contingent consideration liability by discounting the present value of the probability-weighted future payout related to the contingent earn-out criteria using an estimate of the Company's incremental borrowing rate. At March 31, 2015, the Company considered it highly likely that the iSocket earn-out criteria would be met. On December 31, 2015, the Company issued 585,170 shares of common stock in satisfaction of the contingent consideration.

For the three months ended March 31, 2015, the Company recognized an expense of $0.1 million relating to the change in fair value of the contingent consideration liability, which was recorded in general and administrative expenses.

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

	Three Month Roll Forward	
	March 31, 2016	March 31, 2015
	(in thousands)	
Beginning balance	$ —	$ 11,448
Change in fair value of contingent consideration liability recorded in general and administrative expense	—	138
Ending balance	$ —	$ 11,586

Note 4—Other Balance Sheet Amounts

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

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Investments in marketable securities as of March 31, 2016 consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale - short-term:				
U.S. Treasury, government and agency debt securities	$15,449	$ 2	$ (1)	$15,450
Corporate debt securities	6,397	—	—	6,397
Total	$21,846	$ 2	$ (1)	$21,847
Available-for-sale - long-term:				
U.S. Treasury, government and agency debt securities	$8,539	$ —	$ (5)	$8,534

As of March 31, 2016, the Company's available-for-sale securities had a weighted remaining contractual maturity of 0.7 years. For the three months ended March 31, 2016 the gross realized gains and gross realized losses were not significant and there were no unrealized holding gains (losses) reclassified out of accumulated other comprehensive income (loss) into the consolidated statements of operations for the sale of available-for-sale investments.

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

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

The amortized cost and fair value of the Company's marketable securities at March 31, 2016, by contractual years-to-maturity are as follows:

	Amortized Cost	Fair Value
	(in thousands)	
Due in less than 1 year	$21,846	$21,847
Due within 1-2 years	8,539	8,534
Total	$30,385	$30,381

Accounts payable and accrued expenses included the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Accounts payable—seller	$166,085	$228,850
Accounts payable—trade	8,492	6,962
Accrued employee-related payables	10,822	12,155
Total	$185,399	$247,967

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

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Note 5—Business Combinations

On April 24, 2015, or the Acquisition Date, the Company completed the acquisition of all the issued and outstanding shares of Chango, a Toronto, Canada based intent marketing technology company. The acquisition expanded the Company's premium advertising marketplace with intent marketing technology.

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

	Three Months Ended March 31, 2015 (in thousands, except per share data)
Pro forma revenues	$ 50,385
Pro forma net loss	$ (8,033)
Pro forma net loss per share, basic and diluted	$ (0.20)

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

Note 6—Stock-Based Compensation

The Company's equity incentive plans provide for the grant of equity awards, including non-statutory or incentive stock options, restricted stock, and restricted stock units, to the Company’s employees, officers, directors, and consultants. The Company’s board of directors administers the plans. Options outstanding vest based upon continued service at varying rates, but generally over four years from issuance with 25% vesting after one year of service and the remainder vesting monthly thereafter. Restricted stock and restricted stock units vest at varying rates. Options, restricted stock, and restricted stock units granted under the plans accelerate under certain circumstances on a change in control, as defined therein. An aggregate of 1,861,914 shares remained available for issuance at March 31, 2016 under the plans.

Stock Options

A summary of stock option activity for the three months ended March 31, 2016 is as follows:

	Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Contractual Life	Aggregate Intrinsic Value
	(in thousands)			(in thousands)
Outstanding at December 31, 2015	6,203	$ 9.76		
Granted	291	$ 14.02		
Exercised	(941)	$ 7.14		
Canceled	(110)	$ 12.06		
Outstanding at March 31, 2016	5,443	$ 10.39	7.45 years	$ 42,926
	5,368	$ 10.35	7.44 years	$ 42,584

Vested and expected to vest March 31, 2016				
Exercisable at March 31, 2016	3,004	$ 8.52	6.79 years	$ 29,320

At March 31, 2016, the Company had unrecognized employee stock-based compensation expense relating to stock options of approximately $13.7 million, which is expected to be recognized over a weighted-average period of 2.1 years.

The weighted-average grant date per share fair value of stock options granted in the three months ended March 31, 2016 was $6.20.

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Expected term (in years)	6.0	6.0
Risk-free interest rate	1.45 %	1.74 %
Expected volatility	45 %	46 %
Dividend yield	— %	— %

Restricted Stock

A summary of restricted stock activity for the three months ended March 31, 2016 is as follows:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock outstanding at December 31, 2015	1,479	$ 15.58
Granted	525	$ 12.15
Canceled	(40)	$ 16.22
Vested	(34)	$ 16.22
Nonvested shares subject to restricted stock outstanding at March 31, 2016	1,930	$ 14.62

At March 31, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock with service conditions of approximately $12.9 million, which is expected to be recognized over a weighted-average period of 2.8 years. At March 31, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock with market conditions granted in a prior year of approximately $1.0 million, which is expected to be recognized over a weighted-average period of 5.1 years.

In February 2016, the Company granted certain executives shares of restricted stock that vest based on certain stock price performance metrics. The grant date fair value per share of restricted stock was $11.07, which was estimated using a Monte-Carlo lattice model. In May 2015, the Company granted certain executives shares of restricted stock that vest based on certain stock price performance metrics. The grant date fair value per share of restricted stock was $13.81, which was estimated using a Monte-Carlo lattice model. At March 31, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock with market conditions of approximately $5.6 million, which is expected to be recognized over a weighted-average period of 2.4 years. The compensation expense will not be reversed if the performance metrics are not met.

Restricted Stock Units

A summary of restricted stock unit activity for the three months ended March 31, 2016 is as follows:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock units outstanding at December 31, 2015	2,647	$ 15.76
Granted	1,370	$ 13.79
Canceled	(160)	$ 15.41
Vested	(7)	$ 16.08

Nonvested shares subject to restricted stock units outstanding at March 31, 2016	3,850	$ 15.08

At March 31, 2016, the Company had unrecognized employee stock-based compensation expense relating to restricted stock units of approximately $44.9 million, which is expected to be recognized over a weighted-average period of 3.4 years.

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Employee Stock Purchase Plan

In November 2013, the Company adopted the Company's 2014 Employee Stock Purchase Plan, or ESPP. The ESPP is designed to enable eligible employees to periodically purchase shares of the Company's common stock at a discount through payroll deductions of up to 10% of their eligible compensation, subject to any plan limitations. At the end of each six month offering period, employees are able to purchase shares at a price per share equal to 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last trading day of the offering period. Offering periods generally commence and end in May and November of each year.

As of March 31, 2016, the Company has reserved 1,193,565 shares of its common stock for issuance under the ESPP. Shares reserved for issuance will increase on January 1 of each year by the lesser of (i) a number of shares equal to 1% of the total number of outstanding shares of common stock on the December 31 immediately prior to the date of increase or (ii) such number of shares as may be determined by the board of directors. In 2015, a total of 169,362 shares of common stock were purchased under the ESPP. The Company estimated the total grant date fair value of the ESPP awards for the offering period ending in May 2016 of $0.4 million using a Black-Scholes model with the following assumptions: term of 6 months corresponding with the offering period; volatility of 48% based on the Company's historical volatility for a six month period; no dividend yield; and risk-free interest rate of 0.33%. Compensation costs are recognized on a straight-line basis over the offering period.

Stock-Based Compensation Expense

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Cost of revenue	$62	$ 42
Sales and marketing	2,114	1,125
Technology and development	1,374	790
General and administrative	4,841	3,541
Total stock-based compensation expense	$8,391	$ 5,498

Note 7—Income Taxes

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

The Company recorded an income tax benefit of $4.3 million and a tax provision $0.1 million for the three months ended March 31, 2016 and 2015, respectively. The tax benefit during the three months ended March 31, 2016 is the result of net operating losses generated by the Canadian operations, including the impact of the amortization of acquisition related intangibles, as well as the geographical mix of income and losses.

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

There were no material changes to the Company's unrecognized tax benefits in the three months ended March 31, 2016, and the Company does not expect to have any significant changes to unrecognized tax benefits through the end of the fiscal year. Because of the Company's history of tax losses, all years remain open to tax audit.

Note 8—Commitments and Contingencies

Operating Leases

The Company has commitments under non-cancelable operating leases for facilities and certain equipment, and its managed data center facilities. Total rental expenses were $4.0 million and $2.2 million for the three months ended March 31, 2016 and 2015, respectively.

During the three months ended March 31, 2016, the Company entered into new operating leases. Future non-cancelable minimum commitments as of March 31, 2016 relating to these operating leases totaling $0.2 million are due through March 2020.

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Guarantees and Indemnification

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

Employment Contracts

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

Other Contracts

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

Claims and Litigation

The Company and its subsidiaries may from time to time be parties to legal or regulatory proceedings, lawsuits and other claims incident to their business activities and to the Company’s status as a public company. Such matters may include, among other things, assertions of contract breach or intellectual property infringement, claims for indemnity arising in the course of the Company’s business, regulatory investigations or enforcement proceedings, and claims by persons whose employment has been terminated. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to such matters as of March 31, 2016. However, based on management’s knowledge as of March 31, 2016, management believes that the final resolution of these matters known at such date, individually and in the aggregate, will not have a material effect upon the Company’s consolidated financial position, results of operations or cash flows.

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

This Quarterly Report on Form 10-Q and related statements by the Company contain forward-looking statements, including statements based upon or relating to our expectations, assumptions, estimates, and projections. In some cases, you can identify forward-looking statements by terms such as “may,” “might,” “will,” “objective,” “intend,” “should,” “c “can,” “would,” “expect,” “believe,” “design,” “anticipate,” “estimate,” “predict,” “potential,” “plan” or the negative of these t similar expressions. Forward-looking statements may include, but are not limited to, statements concerning our anticipated performance, including revenue, margin, cash flow, balance sheet, and profit expectations; development of our technology; introduction of new offerings; scope and duration of client relationships; business mix; sales growth; client utilization of our offerings; market conditions, opportunities, and user reach; and operational and financial measures including managed revenue, non-GAAP net revenue, paid impressions, average CPM, Adjusted EBITDA, and take rate; and factors that could affect these and other aspects of our business. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements. These risks include, but are not limited to:

- our ability to grow rapidly and to manage our growth effectively;
- our ability to develop innovative new technologies and remain a market leader;
- our ability to attract and retain buyers and sellers and increase our business with them;
- our vulnerability to loss of, or reduction in spending by, large buyers;
- the effect on the advertising market and our business of difficult economic conditions;
- the freedom of buyers and sellers to direct their spending and inventory to competing sources of inventory and demand;
- our ability to use our solution to purchase and sell higher value advertising and to expand the use of our solution by buyers and sellers utilizing evolving digital media platforms;
- our ability to introduce new offerings and bring them to market in a timely manner in response to client demands and industry trends, including shifts in digital advertising growth from display to mobile channels;
- uncertainty of our estimates and expectations associated with new offerings, including private marketplace, mobile, Orders, automated guaranteed, video, and intent marketing;
- our ability to maintain a supply of advertising inventory from sellers;
- uncertainty of our estimates and assumptions about the mix of gross and net reported transactions;
- declining take rate;
- our limited operating history and history of losses;
- our ability to continue to expand into new geographic markets;
- our ability to adapt effectively to shifts in digital advertising to mobile and video channels;
- increased prevalence of ad blocking technologies;
- the slowing growth rate of online digital display advertising;
- the growing percentage of online and mobile advertising spending captured by owned and operated sites (such as Facebook and Google) where we are unable to participate;
- the effects of increased competition in our market and increasing concentration of advertising spending, including mobile spending, in a small number of very large competitors, and our ability to differentiate offerings, compete effectively and to maintain our pricing and take rate;
- requests from buyers and sellers for discounts, fee concessions or revisions, rebates, and greater levels of pricing transparency and specificity;
- potential adverse effects of malicious activity such as fraudulent inventory and malware;
- the effects of seasonal trends on our results of operations;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain qualified employees and key personnel;
- our ability to consummate and integrate future acquisitions of or investments in complementary companies or technologies and our ability to identify such companies or technologies;

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- our ability to comply with, and the effect on our business of, evolving legal standards and regulations, particularly concerning data protection and consumer privacy and evolving labor standards; and
- our ability to develop and maintain our corporate infrastructure, including our finance and information technology systems and controls.

We discuss many of these risks in Part II of this Quarterly Report on Form 10-Q in greater detail under the heading "Risk Factors" and in other filings we make from time to time with the Securities and Exchange Commission, or SEC. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Without limiting the foregoing, we generally give guidance only in connection with quarterly and annual earnings announcements, without interim updates, and we may appear at industry conferences or make other public statements without disclosing material nonpublic information in our possession. Given these uncertainties, investors should not place undue reliance on these forward-looking statements.

Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this report and have filed with the SEC completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Overview

We provide a complete technology solution to automate the purchase and sale of advertising for both buyers and sellers. Our highly scalable platform reaches approximately one billion Internet users globally on some of the world's leading websites and mobile applications. We help increase the volume and effectiveness of advertising, improving revenue for sellers and return on advertising investment for buyers. We believe our integration with leading global buyers and sellers of advertising and the benefits we provide to them give us a critical position in the digital advertising ecosystem.

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

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

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

Sellers of digital advertising use our platform to maximize revenue by accessing a global market of buyers representing top advertiser brands around the world to monetize their advertising inventory across inventory types, advertising units, and channels. We also help sellers decrease costs and protect their brands and user experience. Our relationships with our sellers are built on technical integration, which differentiates us from many other participants in the advertising ecosystem.

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

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Our platform incorporates proprietary machine-learning algorithms, sophisticated data processing, high-volume storage, detailed analytics capabilities, and a distributed infrastructure. We analyze billions of data points in real time to enable our solution to make approximately 300 data-driven decisions per transaction in milliseconds, and to execute up to 5 million peak queries per second, and over 9 trillion bid requests per month. Since 2012, we have processed over 200 trillion bid requests. Our solution is constantly self-optimizing based on our systems' ability to analyze and learn from vast volumes of data. The additional data we obtain from the volume of transactions on our platform help make our machine-learning algorithms more intelligent, leading to higher quality matching between buyers and sellers, better return on investment for buyers, and higher revenue for sellers. As a result of that high quality matching, we attract even more sellers which in turn attracts more buyers and vice versa. We believe this self-reinforcing dynamic creates a strong platform for growth.

During the early stages of our business following our incorporation in April 2007, our solution helped sellers to automate their existing advertising network relationships to match the right buyer with each impression, as well as increase their revenue and decrease their costs. Between 2008 and 2009, we developed direct relationships with buyers and created applications to assist buyers to increase their return on investment. During 2010, we added RTB capabilities, allowing sellers' inventory to be sold in an auction to buyers, creating a real-time unified auction where buyers compete to purchase sellers' advertising inventory. During 2012, we launched our private marketplace orders application, which allows sellers to connect directly with pre-approved buyers to execute direct sales of previously unsold advertising inventory.

Measured by inventory type, in 2015 the fastest-growing sources of our managed revenue were RTB and Orders, which also represent our most significant growth opportunities for the future. In December 2015, International Data Corporation, or IDC, estimated RTB was a $10.3 billion global market in 2015 and will increase to $20.5 billion by 2019, and Orders was a $3.7 billion global market in 2015 and will grow to $34.1 billion by 2019. The compound annual growth rate for these market opportunities is 41% on a combined basis. In addition, we are facilitating increasing spending in RTB and Orders on our platform via our expanded range of buyer capabilities.

To further capitalize on the growth opportunity in Orders, in 2014 we introduced the first generation of our guaranteed orders solution to automate the buying and selling of premium digital inventory on a fully reserved, or guaranteed, basis. Since that time, through acquisition and continued development, we created a fully integrated solution for automating, streamlining, and managing the processes of direct buying and selling of guaranteed and non-guaranteed advertising.

In April 2015, through a strategic acquisition, we expanded our buyer capabilities and expertise and our direct integrations with premium brands and advertising agencies and reinforced our order automation technology, specifically through the advancement of our Orders (Guaranteed Orders and Private Marketplaces) platform. Transactions generated through our expanded buyer capabilities generally are through direct contractual relationships between us and the advertising agency or brand advertiser buyer.

Another industry trend is the expansion of automated buying and selling of advertising through new channels, including mobile, which has market growth rates exceeding those of the desktop channel and is a critical area of operational focus for us. Mobile advertising (excluding search advertising) was a $28.1 billion global market in 2015 that is expected to increase to $85.1 billion by 2019, according to IDC estimates. In 2015, we significantly advanced our mobile capabilities, resulting in an increase in our mobile managed revenue of 89% in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, through a combination of internal product development, strategic customer wins, driving increased revenue from existing buyer and seller customers, and international expansion.

The growth of automated buying and selling of advertising is also expanding into new geographic markets, and in some markets the adoption of automated digital advertising is greater than in the United States. We intend to expand our business in existing territories served and enter new territories.

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We generate revenue from buyers and sellers who use our solution for the purchase and sale of advertising inventory. Buyers use our solution to reach their intended audiences by purchasing advertising inventory that we make available or in some cases purchase from sellers through our solution. We recognize revenue upon fulfillment of our contractual obligations in connection with a completed transaction, subject to satisfying all other revenue recognition criteria, including (i) persuasive evidence of an arrangement existing, (ii) delivery having occurred or services having been rendered, (iii) the fees being fixed or determinable, and (iv) collectibility being reasonably assured. We generally bill and collect the full purchase price of impressions from buyers in RTB transactions, together with other fees, if applicable. For arrangements in which pricing is determined through our auction process and we are not the primary obligor for the purchase of advertising inventory, or for those arrangements whereby we generate revenue directly from sellers who maintain the primary relationship with buyers and utilize our solution to transact and optimize their activities, we have determined we do not act as the principal and accordingly we report revenue on a net basis. For arrangements in which we manage advertising campaigns on behalf of the buyer by acting as the primary obligor in the purchase of advertising inventory, we exercise discretion in establishing prices, we have credit risk, and we independently select and purchase inventory from the seller, we have determined that we act as the principal and accordingly we report revenue on a gross basis. For additional information refer to the revenue recognition policy described in “Critical Accounting Policies and Estimates.”

For the three months ended March 31, 2016 and 2015, our revenue was $69.2 million and $37.2 million, respectively, representing a year-over-year increase of 86%, and our non-GAAP net revenue was $63.6 million and $37.2 million, respectively, representing a year-over-year increase of 71%. For the three months ended March 31, 2016 and 2015, we reported net income of $2.3 million and a net loss of $5.0 million, respectively, and Adjusted EBITDA of $15.5 million and $4.2 million, respectively. At March 31, 2016 and December 31, 2015, our assets were $486.9 million and $536.7 million, respectively. Non-GAAP net revenue and Adjusted EBITDA are non-GAAP measures. For information on how we compute non-GAAP net revenue and Adjusted EBITDA, and a reconciliation of non-GAAP net revenue to revenue and Adjusted EBITDA to net income (loss) on a GAAP basis, please refer to “Certain Operational and Financial Measures.” Our net income (loss) and Adjusted EBITDA will be impacted by our non-GAAP net revenue, seasonality, and the amount and timing of our investments in our operations.

Advertising spending transacted on our platform has grown significantly. Managed revenue is an operational measure that represents this advertising spending. Managed revenue would represent our revenue if we were to record all our revenue on a gross basis. Managed revenue does not represent revenue reported on a GAAP basis. We review managed revenue for internal management purposes to assess market share and scale and to compare our performance to others in our industry that report revenue on a gross basis. For the three months ended March 31, 2016 and 2015, our managed revenue was $248.5 million and $197.2 million, respectively, representing a year-over-year increase of 26%. In the three months ended March 31, 2016 and 2015, approximately 38.6% and 37.0%, respectively, of our managed revenue was generated from international markets based on the location of our sellers.

Our managed revenue, revenue, cash flow from operations, Adjusted EBITDA, operating results and other key operating and financial measures may vary from quarter to quarter due to the seasonal nature of buyer spending. For example, many buyers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. We expect our revenue, cash flow, operating results and other key operating and financial measures to fluctuate based on seasonal factors from period to period and expect these measures to be higher in the fourth quarters than in prior quarters.

In addition to the United States, we have personnel and operations in Canada, England, France, Australia, Germany, Italy, Japan, Singapore, and Brazil. As of March 31, 2016, 190 of our 686 employees were based outside the United States.

We operate our business on a worldwide basis, with an established operating presence in North America and Europe and a developing presence in Asia and Latin America. With the exception of approximately $37.8 million in intangible assets in Canada, substantially all of our assets are U.S. assets. Excluding Canada, our non-U.S. subsidiaries and operations perform primarily sales, marketing, and service functions.

Certain Operational and Financial Measures

We regularly review certain non-GAAP operational and financial performance measures, in addition to our GAAP results, to help us evaluate our business, measure our performance, identify trends affecting our business, establish budgets, measure the effectiveness of investments in our technology and development and sales and marketing, and assess our operational efficiencies. These non-GAAP measures include managed revenue, take rate, non-GAAP net revenue, and Adjusted EBITDA, which are discussed immediately following the table below. Revenue and other GAAP measures are discussed under the headings “Components of Our Results of Operations” and “Results of Operations.” We report our financial results as one operating segment. Our consolidated operating results, together with the following operating and financial measures, are regularly reviewed by our chief operating decision maker, principally to make decisions about how we allocate our resources and to measure our consolidated operating performance.

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	Three Months Ended	
	March 31, 2016	March 31, 2015
Operational Measures:		
Managed revenue (in thousands)	$248,497	$197,220
Take Rate	25.6 %	18.9 %
Financial Measures:		
Revenue (in thousands)	$69,232	$37,178
Non-GAAP net revenue (in thousands)	$63,560	$37,178
Adjusted EBITDA (in thousands)	$15,458	$4,192

Managed Revenue

Managed revenue is an operational measure that we define as the advertising spending transacted on our platform. Managed revenue does not represent revenue reported on a GAAP basis. We review managed revenue for internal management purposes to assess market share and scale. Tracking our managed revenue allows us to compare our results to the results of companies that report all or substantially all spending transacted on their platforms as GAAP revenue. Our managed revenue is influenced by demand for our services, the volume and characteristics of paid impressions, and average CPM.

Our managed revenue has increased period over period as a result of increased use of our solutions by buyers and sellers, increases in average CPM, and our buyer cloud initiatives. We expect managed revenue to continue to grow with increases in the pricing or volume of transactions on our platform, which can result from increases in advertising spending and from improvements in our auction algorithms. This increase may fluctuate due to seasonality and increases or decreases in average CPM and paid impressions. For example, historically we have experienced higher managed revenue during the fourth quarter, resulting from higher advertising spending and more bidding activity, which has driven higher volumes of paid impressions and average CPM.

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Our solution enables buyers and sellers to transact through our comprehensive inventory offerings and channels. The following tables present managed revenue by inventory type and channel and managed revenue by inventory type and channel as a percentage of total managed revenue for the three months ended March 31, 2016 and 2015:

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Managed revenue by inventory type:		
RTB	$193,103	$149,697
Static	13,280	18,111
Orders	42,114	29,412
Total managed revenue	$248,497	$197,220
Managed revenue by channel:		
Desktop	$174,666	$158,158
Mobile	73,831	39,062
Total managed revenue	$248,497	$197,220

	Three Months Ended	
	March 31, 2016	March 31, 2015
Managed revenue by inventory type:		
RTB	78 %	76 %
Static	5 %	9 %
Orders	17 %	15 %
Total managed revenue	100%	100 %
Managed revenue by channel:		
Desktop	70 %	80 %
Mobile	30 %	20 %
Total managed revenue	100%	100 %

Take Rate

Take rate is an operational measure that we define as non-GAAP net revenue divided by managed revenue. We review take rate for internal management purposes to assess the development of our marketplace with buyers and sellers. Our take rate can be affected by a variety of factors, including the terms of our arrangements with buyers and sellers active on our platform in a particular period, the scale of a buyer's or seller's activity on our platform, mix of inventory types, the implementation of new products, platforms and solution features, auction dynamics, and the overall development of the digital advertising ecosystem.

We expect take rate to decline over time for various reasons. For example, we may provide the market with different pricing opportunities in an effort to drive more volume. Another factor that could contribute to declining take rate is an increase of Orders as a percentage of overall managed revenue because Orders carries a lower take rate, although an increase in Orders as a percentage of our revenue could yield higher absolute non-GAAP net revenue due to the higher CPMs typically associated with Orders transactions.

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Non-GAAP Net Revenue

Non-GAAP net revenue is a financial measure that we define as GAAP revenue less amounts we pay sellers that are included within cost of revenue for the portion of our revenue recorded on a gross basis. Non-GAAP net revenue would represent our revenue if we were to record all of our revenue on a net basis. Non-GAAP net revenue does not represent revenue reported on a GAAP basis. We review non-GAAP net revenue for internal management purposes to assess performance. Non-GAAP net revenue is one useful measure in assessing the performance of our business because it shows the operating results of our business on a consistent basis without the effect of differing revenue reporting (gross vs. net) that we apply under GAAP across different types of transactions. A potential limitation of non-GAAP net revenue is that other companies may define non-GAAP net revenue differently, which may make comparisons difficult. Our non-GAAP net revenue is influenced by demand for our services, the volume and characteristics of paid impressions, average CPM, our take rate, and the amounts we pay sellers.

The following table presents a reconciliation of revenue to non-GAAP net revenue for the three months ended March 31, 2016 and 2015. Before our acquisition of Chango in April 2015 and our resulting Buyer Cloud integration, we reported all revenue on a net basis and therefore payments to sellers were not included in the cost of revenue before that date.

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Revenue	$69,232	$37,178
Less amounts paid to sellers	5,672	—
Non-GAAP net revenue	$63,560	$37,178

Adjusted EBITDA

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

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

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

- stock-based compensation is a non-cash charge and is and will remain an element of our long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period;
- depreciation and amortization are non-cash charges, and the assets being depreciated or amortized will often have to be replaced in the future, but Adjusted EBITDA does not reflect any cash requirements for these replacements;
- Adjusted EBITDA does not reflect non-cash charges related to acquisition and related items, such as amortization of acquired intangible assets and changes in the fair value of contingent consideration;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, acquisition and related items, such as certain transaction expenses and expenses associated with earn-out amounts;

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- Adjusted EBITDA does not reflect changes in our working capital needs, capital expenditures, or contractual commitments;
- Adjusted EBITDA does not reflect cash requirements for income taxes and the cash impact of other income or expense; and
- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Our Adjusted EBITDA will be impacted by the rate at which our revenue increases and the timing of our investments in our operations. Please see below for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated in accordance with GAAP.

The following table presents a reconciliation of net income (loss), the most comparable GAAP measure, to Adjusted EBITDA for the three months ended March 31, 2016 and 2015:

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Net income (loss)	$2,284	$(5,031)
Add back (deduct):		
Depreciation and amortization expense, excluding amortization of acquired intangible assets	4,569	3,374
Amortization of acquired intangibles	4,057	1,016
Stock-based compensation expense	8,391	5,498
Acquisition and related items	318	1,429
Interest (income) expense, net	(94)	12
Foreign currency (gain) loss, net	261	(2,190)
Provision (benefit) for income taxes	(4,328)	84
Adjusted EBITDA	$15,458	$4,192

Components of Our Results of Operations

Revenue

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

Our revenue, cash flow from operations, operating results, and certain operational and financial performance may vary from quarter to quarter due to the seasonal nature of advertiser spending, as well as other circumstances that affect advertising activity. For example, many advertisers devote a disproportionate amount of their advertising budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Moreover, advertising inventory in the fourth quarter may be more expensive due to increased demand. Historically, the fourth quarter of the year reflects our highest level of revenue, and the first quarter reflects the lowest level of our revenue.
Our revenue recognition policies are discussed in more detail below and in the notes to our condensed consolidated financial statements presented within this Form 10-Q.
Expenses
We classify our expenses into the following four categories:
Cost of Revenue. Our cost of revenue consists primarily of amounts we pay sellers for transactions for which we are the principal and report revenues on a gross basis, data center costs, bandwidth costs, depreciation and maintenance expense of hardware supporting our revenue-producing platform, amortization of software costs for the development of our revenue-producing platform, amortization expense associated with acquired developed technologies, personnel costs, and facilities-related costs. Amounts we pay sellers include the cost of advertising impressions we purchase from sellers through third-party exchanges in transactions for which we are the principal. Personnel costs included in cost of revenue include salaries, bonuses, stock-based compensation, and employee benefit costs, and are primarily attributable to personnel in our network operations group who support our platform. We capitalize costs associated with software that is developed or obtained for internal use and amortize the costs associated with our revenue-producing platform in cost of revenue over their estimated useful lives. We amortize acquired developed technologies over their estimated useful lives. Many of these expenses are generally fixed and do not increase or decrease in direct proportion to increases or decreases in our revenue.
Sales and Marketing. Our sales and marketing expenses consist primarily of personnel costs, including stock-based compensation and the sales bonuses paid to our sales organization, marketing expenses such as brand marketing, travel expenses, trade shows and marketing materials, professional services, and amortization expense associated with customer relationships and backlog from our business acquisitions, and to a lesser extent, facilities-related costs and depreciation and amortization. Our sales organization focuses on marketing our solution to increase the adoption of our solution by existing and new buyers and sellers. We amortize acquired intangibles associated with customer relationships and backlog from our business acquisitions over their estimated useful lives.
Technology and Development. Our technology and development expenses consist primarily of personnel costs, including stock-based compensation, and professional services associated with the ongoing development and maintenance of our solution, and to a lesser extent, facilities-related costs and depreciation and amortization, including amortization expense associated with acquired intangible assets from our business acquisitions that are related to technology and development functions. These expenses include costs incurred in the development, implementation, and maintenance of internal use software, including platform and related infrastructure. Technology and development costs are expensed as incurred, except to the extent that such costs are associated with internal use software development that qualifies for capitalization, which are then recorded as internal use software development costs, net on our consolidated balance sheet. We amortize internal use software development costs that relate to our revenue-producing activities on our platform to cost of revenue and amortize other internal use software development costs to technology and development costs or general and administrative expenses, depending on the nature of the related project. We amortize acquired intangibles associated with technology and development functions from our business acquisitions over their estimated useful lives.
General and Administrative. Our general and administrative expenses consist primarily of personnel costs, including stock-based compensation, associated with our executive, finance, legal, human resources, compliance, and other administrative personnel, as well as accounting and legal professional services fees, facilities-related costs and depreciation, and other corporate-related expenses. General and administrative expenses also include amortization of internal use software development costs and acquired intangible assets from our business acquisitions over their estimated useful lives that relate to general and administrative functions and changes in fair value associated with the liability-classified contingent consideration related to acquisitions.

Other Expense, Net

Interest Expense, Net. Interest expense is mainly related to our credit facility. Interest income consists of interest earned on our cash equivalents and marketable securities and was insignificant for the three months ended March 31, 2016 and 2015.

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

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Provision (Benefit) for Income Taxes

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

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

Results of Operations

The following tables set forth our consolidated results of operations and our consolidated results of operations as a percentage of revenue for the periods presented:

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Revenue	$69,232	$37,178
Expenses:		
Costs of revenue [(1)] [(2)]	16,783	6,561
Sales and marketing [(1)] [(2)]	21,278	15,049
Technology and development [(1)] [(2)]	12,443	8,414
General and administrative [(1)] [(2)]	20,605	14,279
Total expenses	71,109	44,303
Loss from operations	(1,877)	(7,125)
Other (income) expense	167	(2,178)
Loss before income taxes	(2,044)	(4,947)
Provision (benefit) for income taxes	(4,328)	84
Net income (loss)	$2,284	(5,031)

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Costs of revenue	$62	$ 42
Sales and marketing	2,114	1,125

Technology and development	1,374	790
General and administrative	4,841	3,541
Total stock-based compensation expense	$8,391	$ 5,498

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Cost of revenue	$5,948	$ 3,471
Sales and marketing	1,592	505
Technology and development	598	254
General and administrative	488	160
Total depreciation and amortization expense	$8,626	$ 4,390

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenue	100 %	100 %
Cost of revenue	24 %	18 %
Sales and marketing	31 %	40 %
Technology and development	18 %	23 %
General and administrative	30 %	38 %
Total expenses	103 %	119 %
Loss from operations	(3)%	(19)%
Other (income) expense, net	— %	(6)%
Loss before income taxes	(3)%	(13)%
Provision (benefit) for income taxes	(6)%	— %
Net income (loss)	3 %	(14)%

* Certain figures may not sum due to rounding.

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

Revenue

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Revenue	$69,232	$ 37,178

Revenue increased $32.1 million, or 86%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase in revenue was primarily due to an increase in the amount of advertising spending on our platform during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase in revenue was also attributable to an increase in average CPM during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to increased matching efficiency and a shift in mix of managed revenue, or advertising spend on our platform, from lower-priced higher-volume inventory mainly associated with static bidding to higher-priced lower-volume inventory mainly associated with RTB and

Orders. For example, paid impressions associated with RTB and Orders increased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, while paid impressions associated with static bidding decreased. Static bidding now makes up a small portion of our paid impressions, so we expect the influence of shift in mix from static bidding to RTB and orders to moderate in future quarters. In addition, the increase was due to the impact of the gross revenue reporting for buyer cloud initiatives, for which the vast majority of the revenue is reported on a gross basis during the three months ended March 31, 2016, which were not included in revenue during the three months ended March 31, 2015 because our transactional activity in which we act as principal and therefore report revenue on a gross basis did not commence until April 2015.

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We expect revenue to continue to grow on an annual basis. Revenue may be impacted by seasonality, changes in the amounts we are able to charge buyers and sellers for our services, and other factors such as changes in the market, our execution of the business, and competition.

Cost of Revenue

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands, except percentages)	
Costs of revenue	$16,783	$6,561
Percent of revenue	24 %	18 %

Cost of revenue increased by $10.2 million, or 156%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase was primarily due to the addition of $5.7 million in amounts we paid sellers for transactions we reported on a gross revenue basis because we determined we are the primary obligor and due to an increase of $2.5 million in depreciation and amortization expense. The increase in amounts we pay sellers was attributable to the fact that such amounts were not included in cost of revenue during the three months ended March 31, 2015 because our buyer cloud initiatives in which we act as principal and therefore report revenue on a gross basis did not commence until April 2015. The increase in depreciation and amortization was primarily attributable to an increase of $1.4 million in amortization of developed technology acquired in our business combinations.

As a percentage of revenue, cost of revenue increased for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily as a result of the inclusion of amounts we pay sellers in cost of revenue attributable to buyer cloud initiatives, for which the vast majority of revenue are reported on a gross basis during the three months ended March 31, 2016.

We expect cost of revenue to increase in absolute dollars in future periods as we continue to invest additional capital into our data centers, increase amounts we pay sellers as a result of an increase in transactions we report on a gross revenue basis, hire additional personnel to continue to build and maintain our systems, and invest in our technology. As a percentage of revenue, cost of revenue may fluctuate on a quarterly basis depending on revenue levels, the amounts we pay sellers for transactions in which we are the primary obligor, the timing of investments, and due to increased amortization of acquired technology from business combinations.

Sales and Marketing

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands, except percentages)	
Sales and marketing	$21,278	$15,049
Percent of revenue	31 %	40 %

Sales and marketing expense increased by $6.2 million, or 41%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase was primarily due to an increase in personnel costs of $4.0 million, and to a lesser extent, an increase in depreciation and amortization of $1.1 million. The increase in personnel costs was primarily due to an increase in sales and marketing headcount resulting from continued hiring and our acquisition in April 2015. The increase in depreciation and amortization was mainly related to amortization of customer relationships and backlog acquired in our business combinations.

As a percentage of revenue, sales and marketing expenses decreased for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, compared to the increase in sales and marketing expenses.

We expect sales and marketing expenses to increase in absolute dollars in future periods as we continue to invest in our business, including expanding our domestic and international business. Sales and marketing expense as a percentage of revenue may fluctuate from period to period based on revenue levels, the timing of our investments, the seasonality in our industry and business, and increased amortization as a result of customer relationship intangibles acquired in our business combinations.

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Technology and Development

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands, except percentages)	
Technology and development	$12,443	$8,414
Percent of revenue	18 %	23 %

Technology and development expense increased by $4.0 million, or 48%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase was primarily due to an increase in personnel costs of $2.6 million. The increase in personnel costs was primarily due to an increase in headcount as a result of our recent acquisitions and continued hiring of engineers to maintain and support our technology and development efforts.

As a percentage of revenue, technology and development expenses decreased for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, compared to the increase in technology and development expenses.

We expect technology and development expense to increase in absolute dollars in future periods as we continue to invest in our engineering and technology teams to support our technology and development efforts; however, the timing and amount of our capitalized development and enhancement projects may affect the amount of development costs expensed in any given period. Technology and development expense as a percentage of revenue may fluctuate from period to period based on revenue levels, the timing of these investments, the timing and the rate of the amortization of capitalized projects, and increased amortization as a result of non-compete intangibles acquired in our business combinations.

General and Administrative

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands, except percentages)	
General and administrative	$20,605	$14,279
Percent of revenue	30 %	38 %

General and administrative expense increased by $6.3 million, or 44%, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. This increase was primarily due to an increase in personnel costs of $3.8 million primarily due to increased headcount.

As a percentage of revenue, general and administrative expenses decreased for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily as a result of revenue increasing at a higher percentage, as explained above, compared to the increase in general and administrative expenses.

We expect general and administrative expense to increase in absolute dollars as we continue to invest in corporate infrastructure to support our growth and our operation as a public company, including professional services fees, insurance premiums and compliance costs. In addition, general and administrative expense is expected to be impacted as a result of changes to the fair value of contingent consideration liabilities associated with our acquisitions. General and administrative expenses may fluctuate from period to period based on the timing of our investments and related expenditures in our general and administrative functions as they vary in scope and scale over periods which may not be directly proportional to changes in revenue.

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Other (Income) Expense, Net

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Interest (income) expense, net	$ (94)	$ 12
Foreign exchange (gain) loss, net	261	(2,190)
Total other (income) expense, net	$ 167	$ (2,178)

Foreign exchange (gain) loss, net is impacted by movements in exchange rates, primarily the British Pound and Euro relative to the U.S. Dollar, and the amount of foreign-currency denominated receivables and payables, which are impacted by our billings to buyers and payments to sellers. The foreign currency loss, net during the three months ended March 31, 2016 was primarily attributable to the weakening of the U.S. Dollar in relation to the British Pound and Euro for foreign denominated transactions. The foreign currency gain, net during the three months ended March 31, 2015 was primarily attributable to the strengthening of the U.S. Dollar in relation to the British Pound and Euro for foreign denominated transactions.

Provision and Benefit for Income Taxes

For the three months ended March 31, 2016 we recorded an income tax benefit of $4.3 million, compared to an income tax provision of $0.1 million for the three months ended March 31, 2015. The tax benefit during the three months ended March 31, 2016 is the result of net operating losses generated by the Canadian operations, including the impact of the amortization of acquisition related intangibles, as well as the geographical mix of income and losses.

Liquidity and Capital Resources

At March 31, 2016, we had cash and cash equivalents of $136.6 million, of which $19.9 million was held in foreign currency cash accounts, and restricted cash of $0.3 million. We have also been able to fund acquisitions by using stock as purchase consideration.

At March 31, 2016, we had no amounts outstanding under our credit facility with Silicon Valley Bank, or SVB, and $40.0 million was available for borrowing.

At our option, loans under the credit facility may bear interest based on either the LIBOR rate or the prime rate plus, in each case, an applicable margin. The applicable margins under the credit facility are (i) 2.00% or 3.50% per annum in the case of LIBOR rate loans, and (ii) 0.00% or 1.50% per annum in the case of prime rate loans (based on SVB's net exposure to us after giving effect to unrestricted cash held at SVB and its affiliates plus up to $3 million held at other institutions). In addition, an unused revolver fee in the amount of 0.15% per annum of the average unused portion of the credit facility is payable by us to SVB monthly in arrears.

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

In addition, in the event that the amount available to be drawn is less than 20% of the maximum amount of the credit facility, or if an event of default exists, we are required to satisfy a minimum fixed charge coverage ratio test of 1.10 to 1.00. At March 31, 2016, our fixed charge coverage ratio was 320.9 to 1.0.

The credit facility also includes customary representations and warranties, affirmative covenants, and events of default, including events of default upon a change of control and material adverse change (as defined in the credit facility). Following an event of default, SVB would be entitled to, among other things, accelerate payment of amounts due under the credit facility and exercise all rights of a secured creditor. We were in compliance with the covenants under the credit facility at March 31, 2016.

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

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In the future, we may attempt to raise additional capital through the sale of equity securities or through equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors.

There can be no assurances that we will be able to raise additional capital, which would adversely affect our ability to achieve our business objectives. In addition, if our operating performance during the next twelve months is below our expectations, our liquidity and ability to operate our business could be adversely affected.

Cash Flows

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(in thousands)	
Cash flows provided by operating activities	$10,668	$22,436
Cash flows provided (used) in investing activities	2,651	(3,123)
Cash flows provided by financing activities	6,718	3,979
Effects of exchange rate changes on cash and cash equivalents	31	(152)
Change in cash and cash equivalents	$20,068	$23,140

Operating Activities

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

For the three months ended March 31, 2016, cash provided by operating activities of $10.7 million resulted from our net income of $2.3 million and non-cash expenses of $13.6 million, offset by net changes in our working capital of $5.3 million. The net change in operating working capital was primarily related to a decrease in accounts payable and accrued expenses of approximately $64.2 million and a decrease in other liabilities of $0.6 million, offset by a decrease in accounts receivable of approximately $59.3 million. The changes in accounts payable and accrued expenses and accounts receivable was primarily due to the timing of cash receipts from buyers and the timing of payments to sellers driven by seasonality. The decrease in other liabilities was primarily due to a decrease in deferred revenue and deferred rent.

For the three months ended March 31, 2015, cash provided by operating activities of $22.4 million resulted from our net loss of $5.0 million, adjusted for non-cash expenses of $9.0 million, and net changes in our working capital of $18.5 million. The net change in operating working capital was primarily related to a decrease in accounts receivable of approximately $12.2 million, an increase in accounts payable and accrued expenses of approximately $5.6 million, and a decrease in prepaid expenses and other current assets of approximately $1.5 million, partially offset by a decrease in other liabilities of $0.8 million. The changes in accounts receivable and accounts payable and accrued expenses were primarily due to the timing of cash receipts from buyers and the timing of payments to sellers. The decrease in prepaid expenses and other current assets was primarily due to the timing of payments to vendors. The decrease in other liabilities was primarily due to a decrease in deferred rent as well as a decrease in business activity associated with the timing of payments to tax authorities.

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Investing Activities

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

During the three months ended March 31, 2016, cash provided by investing activities of $2.7 million was primarily due to inflow of $6.4 million due to maturities of available-for-sale securities. These cash inflows were partially offset by outflow of $2.3 million of investments in our internal use software and $1.4 million in investments in property and equipment, net of amounts reflected in accounts payable and accrued expenses at March 31, 2016.

During the three months ended March 31, 2015, we used $3.1 million of cash in investing activities, consisting of $2.3 million of investments in property and equipment, net of amounts reflected in accounts payable and accrued expenses at March 31, 2015, and $2.1 million of investments in our internal use software. In conjunction with our corporate office building lease, restricted cash decreased by $1.3 million.

Financing Activities

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

For the three months ended March 31, 2016, cash provided by financing activities of $6.7 million was primarily due to proceeds of $6.7 million from stock option exercises.

For the three months ended March 31, 2015, cash provided by financing activities of $4.0 million was primarily due to proceeds of $4.0 million from stock option exercises.

Off-Balance Sheet Arrangements

We do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We did not have any other off-balance sheet arrangements at March 31, 2016 other than the operating leases and the indemnification agreements described below.

Contractual Obligations and Known Future Cash Requirements

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

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

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

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Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with the evaluation of revenue recognition criteria, including the determination of revenue recognition as net versus gross in our revenue arrangements, internal-use software development costs, including assumptions used in the valuation models to determine the fair value of stock options and stock-based compensation expense, the assumptions used in the valuation of acquired assets and liabilities in business combinations, and income taxes, including the realization of tax assets and estimates of tax liabilities, have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. There have been no significant changes in our accounting policies from those disclosed in our audited consolidated financial statements and notes thereto for the year ended December 31, 2015 included in our Annual Report on Form 10-K.

Our revenue recognition policy is further described below, which is consistent with the policy included in our Annual Report referenced above.

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

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

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

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

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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Interest Rate Fluctuation Risk

Our cash and cash equivalents consist of cash and money market funds. Our investments consist of U.S. government and agency bonds and corporate debt securities. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash, cash equivalents, and investments have a relatively short maturity, our portfolio's fair value is relatively insensitive to interest rate changes. Our line of credit is at variable interest rates. We had no amounts outstanding under our credit facility at March 31, 2016. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition. In future periods, we will continue to evaluate our investment policy relative to our overall objectives.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and expenses denominated in currencies other than the U.S. Dollar, principally British Pounds and Euros. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net income (loss) as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances and intercompany balances that are denominated in currencies other than the U.S. Dollar. The effect of an immediate 10% adverse change in foreign exchange rates on foreign-denominated accounts at March 31, 2016, including intercompany balances, would result in a foreign currency loss of approximately $2.1 million. In the event our non-U.S. Dollar denominated sales and expenses increase, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. If our costs were to become subject to significant inflationary pressures, we might not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives of ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. There is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. Based upon the evaluation described above, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We and our subsidiaries may from time to time be parties to legal or regulatory proceedings, lawsuits and other claims incident to our business activities and to our status as a public company. Such matters may include, among other things, assertions of contract breach or intellectual property infringement, claims for indemnity arising in the course of our business, regulatory investigations or enforcement proceedings, and claims by persons whose employment has been terminated. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to such matters as of March 31, 2016. However, based on our knowledge as of March 31, 2016, we believe that the final resolution of such matters pending at the time of this report, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

The following description of risk factors includes changes to risk factors associated with the Company's business previously disclosed in Part I, Item 1A of the 2015 Form 10-K under the heading "Risk Factors," and accordingly this description of risk factors should be considered most current. Investing in our common stock involves a high degree of risk, including the risks described below, each of which may be relevant to decisions regarding an investment in or ownership of our stock. The occurrence of any of these risks could have a significant adverse effect on our reputation, business, financial condition, revenue, results of operations, growth, or ability to accomplish our strategic objectives, and could cause the trading price of our common stock to decline. You should carefully consider the risks set forth below and the other information contained in this report, including our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, before making investment decisions related to our common stock. However, this report cannot anticipate and fully address all possible risks of investing in our common stock, and the risks of investing in our common stock may change over time. Accordingly, you are advised to consider additional sources of information and exercise your own judgment in addition to the information we provide.

Risks Relating to Our Business, Growth Prospects and Operating Results

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

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

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

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

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

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

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

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

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

In order to increase the demand on our platform, we are making significant investments in our intent marketing business, including through our acquisition in April 2015 of Chango Inc. Our strategy is based upon various assumptions and expectations, including continued growth in the intent marketing business, acceleration in the development of our Orders business, our ability to build retargeting, CPC, and CPA capabilities utilizing technologies acquired from Chango, synergies between Chango’s brand and agency clients and our clients, our ability to continue to develop Chango’s data and other technologies in response to evolving market requirements, and our ability to leverage our platform to take advantage of Chango’s business model, including pricing and products.

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The intent marketing business may grow slower than anticipated, and we may not benefit from growth in the market to the degree expected due to stronger offerings by competitors, pricing pressures, or other factors. Until we are able to scale and differentiate the intent marketing business, it will be vulnerable to loss of, or reduction in spending by, larger buyers. We compete for demand with well-established companies that have technological advantages stemming from their experience in the market, and we must continue to adapt and improve our demand technology, including the technology we acquired from Chango, to compete effectively. Client demands for transparency and pricing concessions have increased significantly, and more quickly than we previously expected, making it difficult for us to increase our business with some clients, causing others to reduce their spending, reducing our take rate in some transactions with demand sources, and requiring us to adapt our intent marketing business model, including to provide less expensive self-service offerings and more transparent pricing alternatives. We believe that our buyer cloud take rates will continue to decline over time due to increasing demand for pricing transparency and general competitive pressures. Even if the market develops as anticipated, buyers and sellers may not embrace our combined offerings due to various factors, and Chango’s historical success in its market may be more difficult to translate to our client base and infrastructure than anticipated, making synergies elusive. Market practices and regulation related to data capture and use are complex and evolving, and development or enforcement of restrictions could make it difficult for us to achieve or sustain data-driven competitive advantages. In addition, growth in our intent marketing business may cause some of our legacy clients to perceive us as a competitor for brand or agency clients and therefore reduce their business with us.

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

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

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

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

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

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

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

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

We reported net income of $2.3 million and a net loss of $5.0 million during the three months ended March 31, 2016 and 2015, respectively. We reported net income of $0.4 million during the year ended December 31, 2015 and incurred net losses of $18.7 million and $9.2 million during the years ended December 31, 2014 and 2013, respectively. As of March 31, 2016, we had an accumulated deficit of $78.0 million. We may not be able to sustain the revenue growth we have experienced in recent periods, and revenue may decrease due to competitive pressures, maturation of our business, or other factors. Our expenses have increased with our revenue growth, primarily due to substantial investments in our business. Our historical revenue growth should not be considered as indicative of our future performance. We expect our expenses to continue to increase substantially in the foreseeable future as we continue to expand our business, including by hiring engineering, sales, marketing, and related support employees, investing in our technology and infrastructure, and developing additional digital media platforms, such as mobile and video. Accordingly, we may not be able to achieve or sustain profitability in the future. If our revenue growth declines or our expenses exceed expectations, our financial performance will be adversely affected.

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

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

- build and maintain our reputation for innovation and solutions that meet the evolving needs of buyers and sellers;
- distinguish ourselves from the wide variety of solutions available in our industry;
- maintain and expand our relationships with buyers and sellers;
- respond to evolving industry standards and government regulations that impact our business, particularly in the areas of data collection and consumer privacy;
- prevent or otherwise mitigate failures or breaches of security or privacy;
- attract, hire, integrate and retain qualified employees;
- effectively execute upon our international expansion plans;
- evaluate new acquisition targets, and successfully integrate acquired companies' business and technologies;
- grow our share of online and mobile ad spending and the supply of advertising impressions available to us notwithstanding the growing share of online impressions that is controlled by owned and operated sites (such as Facebook and Google) who may not make their advertising inventory available to us;
- maintain our cloud-based technology solution continuously without interruption 24 hours a day, seven days a week; and
- anticipate and respond to varying product life cycles, regularly enhance our existing advertising solutions, and introduce new advertising solutions and pricing models on a timely basis, including by developing our capabilities in evolving areas of the business, such as mobile and video.

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

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

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

- seasonality in demand for digital advertising;
- changes in pricing of advertising inventory or pricing for our solutions and our competitors' offerings, including potential reductions in our pricing and overall take rate as a result of competitive pressure, changes in supply, improvements in technology and extension of automation to higher-value inventory, uncertainty regarding rate of adoption, changes in the allocation of demand spend by buyers, changes in revenue mix, auction dynamics, pricing discussions or negotiations with clients and potential clients, and other factors;
- diversification of our revenue mix to include new services, some of which may have lower pricing than our historic lower-value inventory business or may cannibalize existing business;
- the addition or loss of buyers or sellers;
- changes in the advertising strategies or budgets or financial condition of advertisers;
- the performance of our technology and the cost, timeliness, and results of our technology innovation efforts;
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advertising technology and digital media industry conditions and the overall demand for advertising, or changes and uncertainty in the regulatory environment for us or buyers or sellers, including with respect to privacy regulation;

- the introduction of new technologies or service offerings by our competitors and market acceptance of such technologies or services;
- our level of expenses, including investment required to support our technology development, scale our technology infrastructure and business expansion efforts, including acquisitions, hiring and capital expenditures, or expenses related to litigation;
- the impact of changes in our stock price on valuation of stock-based compensation or other instruments that are marked to market;
- the effect of our efforts to maintain the quality of transactions on our platform, including the blocking of non-human inventory and traffic, which could cause a reduction in our revenue if there are fewer transactions consummated through our platform even though the overall quality of the transactions may have improved;
- the effectiveness of our financial and information technology infrastructure and controls;
- foreign exchange rate fluctuations; and
- changes in accounting policies and principles and the significant judgments and estimates made by management in the application of these policies and principles.

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

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

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