

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2017**

OR

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

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

Commission File Number: **001-36384**

**THE RUBICON PROJECT, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-8881738**

(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  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding as of July 25, 2017
Common Stock, \$0.00001 par value	49,821,932

**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.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except per share amounts)**  
**(unaudited)**

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 165,241	\$ 149,423
Marketable securities	27,365	40,550
Accounts receivable, net	138,963	192,064
Prepaid expenses and other current assets	10,757	9,540
<b>TOTAL CURRENT ASSETS</b>	<b>342,326</b>	<b>391,577</b>
Property and equipment, net	34,107	36,246
Internal use software development costs, net	13,493	16,522
Other assets, non-current	1,892	2,921
Intangible assets, net	4,440	6,804
Goodwill	65,705	65,705
<b>TOTAL ASSETS</b>	<b>\$ 461,963</b>	<b>\$ 519,775</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 174,031	\$ 214,903
Other current liabilities	3,193	3,534
<b>TOTAL CURRENT LIABILITIES</b>	<b>177,224</b>	<b>218,437</b>
Deferred tax liability, net	42	42
Other liabilities, non-current	1,736	1,783
<b>TOTAL LIABILITIES</b>	<b>179,002</b>	<b>220,262</b>
Commitments and contingencies (Note 9)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.00001 par value, 10,000 shares authorized at June 30, 2017 and December 31, 2016; 0 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Common stock, \$0.00001 par value; 500,000 shares authorized at June 30, 2017 and December 31, 2016; 49,744 and 49,378 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	409,360	398,787
Accumulated other comprehensive loss	(3)	(273)
Accumulated deficit	(126,396)	(99,001)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>282,961</b>	<b>299,513</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 461,963</b>	<b>\$ 519,775</b>

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743
Expenses:				
Cost of revenue	13,698	17,540	28,386	34,323
Sales and marketing	12,529	21,966	27,157	43,244
Technology and development	12,044	13,294	24,797	25,737
General and administrative	14,355	16,390	29,435	36,995
Restructuring and other exit costs	1,621	—	5,959	—
Total expenses	54,247	69,190	115,734	140,299
Income (loss) from operations	(11,325)	1,321	(26,797)	(556)
Other (income) expense:				
Interest income, net	(228)	(131)	(395)	(225)
Other income	(167)	(197)	(379)	(197)
Foreign exchange (gain) loss, net	479	(578)	851	(317)
Total other (income) expense, net	84	(906)	77	(739)
Income (loss) before income taxes	(11,409)	2,227	(26,874)	183
Provision for income taxes	146	4,904	521	576
Net loss	(11,555)	(2,677)	(27,395)	(393)
Net loss per share:				
Basic and Diluted	\$ (0.24)	\$ (0.06)	\$ (0.56)	\$ (0.01)
Weighted-average shares used to compute net loss per share:				
Basic and Diluted	48,783	46,341	48,559	45,502

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Net loss	\$ (11,555)	\$ (2,677)	\$ (27,395)	\$ (393)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax of \$0 for the six months ended June 30, 2017 and 2016	4	20	—	84
Foreign currency translation adjustments	173	(138)	270	(111)
Other comprehensive income (loss)	177	(118)	270	(27)
Comprehensive loss	<u>\$ (11,378)</u>	<u>\$ (2,795)</u>	<u>\$ (27,125)</u>	<u>\$ (420)</u>

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**THE RUBICON PROJECT, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
(in thousands)  
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at December 31, 2016	49,378	—	398,787	(273)	(99,001)	299,513
Exercise of common stock options	99	—	384	—	—	384
Restricted stock awards, net	(166)	—	—	—	—	—
Shares withheld related to net share settlement	(361)	—	(2,048)	—	—	(2,048)
Issuance of common stock related to RSU vesting	705	—	—	—	—	—
Issuance of common stock related to Employee Stock Purchase Plan	89	—	444	—	—	444
Stock-based compensation	—	—	11,793	—	—	11,793
Other comprehensive income	—	—	—	270	—	270
Net loss	—	—	—	—	(27,395)	(27,395)
Balance at June 30, 2017	49,744	\$ —	\$ 409,360	\$ (3)	\$ (126,396)	\$ 282,961

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

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

	Six Months Ended	
	June 30, 2017	June 30, 2016
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (27,395)	\$ (393)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	18,976	18,408
Stock-based compensation	11,542	15,517
Loss on disposal of property and equipment	271	5
Provision for doubtful accounts	566	594
Unrealized foreign currency gains, net	1,130	(1,179)
Deferred income taxes	274	557
Changes in operating assets and liabilities, net of effect of business acquisitions:		
Accounts receivable	52,917	59,044
Prepaid expenses and other assets	(469)	(113)
Accounts payable and accrued expenses	(44,561)	(59,252)
Other liabilities	(446)	62
Net cash provided by operating activities	<u>12,805</u>	<u>33,250</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(4,839)	(3,933)
Capitalized internal use software development costs	(4,327)	(5,029)
Investments in available-for-sale securities	(31,789)	(15,687)
Maturities of available-for-sale securities	45,050	12,800
Net cash provided by (used in) investing activities	<u>4,095</u>	<u>(11,849)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	384	12,859
Proceeds from issuance of common stock under employee stock purchase plan	444	1,137
Taxes paid related to net share settlement	(2,048)	(4,886)
Net cash provided by (used in) financing activities	<u>(1,220)</u>	<u>9,110</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH	140	(78)
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	15,820	30,433
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	149,498	116,832
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	<u>\$ 165,318</u>	<u>\$ 147,265</u>
<b>SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:</b>		
Capitalized assets financed by accounts payable and accrued expenses	\$ 3,944	\$ 1,698
Capitalized stock-based compensation	\$ 251	\$ 537

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 pioneered advertising automation technology and is one of the world's largest advertising exchanges. The Company helps websites and applications thrive by giving them tools and expertise to sell ads easily and safely. In addition, the world's leading agencies and brands rely on the Company's technology to execute billions of advertising transactions each month.

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, and their representatives, 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 six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for any future interim period, the year ending December 31, 2017, or for any future year.

The condensed consolidated balance sheet at December 31, 2016 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, 2016 included in its 2016 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, 2016 included in its Annual Report on Form 10-K.

***Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation. Specifically, this includes amounts reclassified to conform to the current year presentation in the Consolidated Statements of Cash Flows.

***Revenue Recognition***

The Company generates revenue from buyers and sellers who use its solution for the purchase and sale of advertising inventory. The Company's solution enables buyers and sellers to purchase and sell advertising inventory by matching buyers and sellers, and by establishing rules and parameters for auctions of advertising inventory. Buyers use the Company's solution to reach their intended audiences by buying advertising inventory that the Company makes available from sellers through its solution. Sellers use the Company's solution to monetize their inventory. The Company recognizes revenue upon 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) collectability being reasonably assured. The Company generally bills and collects the full purchase price of impressions from buyers, together with other fees, if applicable. The Company reports revenue on a net basis for arrangements in which it has determined that it does not act as the principal in the purchase and sale of advertising inventory because pricing is determined through the Company's auction process or directly between a buyer and a seller and the Company is not the primary obligor. In some cases, the Company generates revenue directly from sellers who maintain the primary relationship with buyers and utilize the Company's solution to transact and increase the monetization of their activities. The Company reports

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revenue on a net basis for these activities. The Company reported revenue on a gross basis for arrangements in which it determined that the Company acted as the principal in the purchase and sale of advertising inventory because the Company had direct contractual relationships with and managed advertising campaigns on behalf of the buyer by acting as the primary obligor in the purchase of advertising inventory, the Company exercised discretion in establishing prices, the Company had credit risk, and the Company independently selected and purchased inventory from the seller. The revenue the Company reported on a gross basis was associated with its intent marketing solution, which the Company ceased providing in the first quarter of 2017. For quarters ending after March 31, 2017, all the Company's revenue is reported on a net basis.

The Company's accounts receivable are recorded at the amount of gross billings to buyers, net of allowances, for the amounts the Company is responsible to collect, and the Company's accounts payable related to amounts due to sellers 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.

### ***Goodwill***

Goodwill represents the excess of the aggregate fair value of the consideration transferred in a business combination over the fair value of the assets acquired, net of liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test. The Company tests for impairment of goodwill annually during the fourth quarter or more frequently if events or changes in circumstances indicate that goodwill may be impaired. For purposes of goodwill impairment testing, the Company operates as a single operating segment and has identified a single reporting unit. Events or changes in circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations.

In January 2017, the FASB issued new guidance intended to simplify the test for goodwill impairment, which the Company adopted during the three month period ended March 31, 2017. Testing goodwill for impairment involves a quantitative analysis whereby the estimated fair value of the reporting unit is compared with its respective carrying amount, including goodwill. However, prior to performing this quantitative goodwill impairment test, the Company has the option to first assess qualitative factors to determine whether or not it is necessary to perform the quantitative goodwill impairment test. If the Company chooses the qualitative option, the Company is not required to perform the quantitative goodwill impairment test unless it has determined, based on the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the quantitative impairment test is required or chosen, the impairment test involves comparing the estimated fair value of the reporting unit with its respective carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, including goodwill, goodwill is considered not to be impaired and no additional steps are necessary.

In March 2017, the Company experienced a drop in the trading price of its common stock. As a result, the Company's public market capitalization, calculated by multiplying the share price by outstanding shares, is lower than the carrying value of its net assets. The Company considered this an indicator triggering the need to assess the carrying value of goodwill for potential impairment at March 31, 2017 and June 30, 2017. As a result, the Company performed a quantitative goodwill impairment assessment. The Company considered multiple factors including, among others, its current business condition, product and business plans, market perceptions, valuation considerations, and the timing of these factors. As a result, the Company determined that no impairment of goodwill was indicated at both March 31, 2017 and June 30, 2017.

Given the lack of significant headroom in our goodwill impairment assessment, we may be required to perform another interim goodwill impairment assessment in the third quarter of 2017 prior to our annual test. Based on the outcome of these future impairment assessments, we may be required to take a non-cash impairment charge if there is a future negative change in the factors considered above.

### ***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 Financial Accounting Standards Board, or 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

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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. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. 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. Since its issuance, the FASB has amended several aspects of the new guidance including provisions 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 has not yet selected a transition method, but is currently evaluating the new guidance with respect to its revenue arrangements and assessing the impact this guidance will have on the Company's condensed consolidated financial statements.

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 evaluating the effect this guidance will have on its condensed consolidated financial statements and related disclosures, and anticipates the guidance to result in increases in its assets and liabilities as most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and lease liabilities.

In October 2016, the FASB issued new guidance intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under the new guidance, entities should recognize the income tax consequences of such transfers when the transfers occur. The new guidance will be effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application using a modified retrospective transition method. The Company is currently assessing the impact this guidance will have on its condensed consolidated financial statements.

In November 2016, the FASB issued new guidance that requires a Company to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flow. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance will be effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted, including early adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The guidance requires application using a retrospective transition method to each period presented. The Company has early adopted this guidance during the six months ended June 30, 2017 and has reflected the changes in the current and prior period statement of cash flow.

In January 2017, the FASB issued amended guidance for business combinations. The new pronouncement changes the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied prospectively to any transactions occurring within the period of adoption. Early adoption is permitted, including for interim or annual periods in which the financial statements have not been issued or made available for issuance. Subsequent to adoption, the Company will apply this guidance to acquisitions or disposals occurring in the period of adoption and thereafter. The Company is currently assessing the impact this guidance will have on its condensed consolidated financial statements.

In May 2017, the FASB issued new guidance for modification accounting of stock based compensation expense. The new pronouncement provides guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting. The guidance notes that an entity should account for the effects of a modification unless the fair value of the modified award is the same as the fair value of the original award immediately before the original award was modified and it did not change any of the inputs to the valuation technique used to value the award, the vesting conditions did not change, and the classification of the award as either equity or liability did not change. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and will be applied prospectively to any transactions occurring within the period of adoption. Early adoption is permitted, including for interim or annual periods in which the financial statements have not been issued or made available for issuance. The Company is currently assessing the impact this guidance will have on its condensed consolidated financial statements.

**Note 2—Net Income (Loss) Per Share**

The Company had a loss from continuing operations for the three and six months ended June 30, 2017 and 2016, and therefore the number of diluted shares was equal to the number of basic shares for the period.

The following table presents the basic and diluted net loss per share attributable to common stockholders:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
(In thousands, except per share data)				
<b>Basic and Diluted EPS:</b>				
Net loss attributable to common stockholders	\$ (11,555)	\$ (2,677)	\$ (27,395)	\$ (393)
Weighted-average common shares outstanding	49,666	48,740	49,557	47,939
Weighted-average unvested restricted shares	(883)	(1,763)	(998)	(1,732)
Weighted-average escrow shares	—	(636)	—	(705)
Weighted-average common shares outstanding used to compute net loss per share	48,783	46,341	48,559	45,502
Basic and diluted net loss per share	\$ (0.24)	\$ (0.06)	\$ (0.56)	\$ (0.01)

The following weighted-average shares have been excluded from the calculation of diluted net loss per share attributable to common stockholders for each period presented because they are anti-dilutive:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
(in thousands)				
Options to purchase common stock	88	1,317	137	1,519
Unvested restricted stock awards	367	756	295	685
Unvested restricted stock units	585	930	623	913
ESPP	44	26	52	22
Shares held in escrow	—	635	—	699
Total shares excluded from net loss per share	1,084	3,664	1,107	3,838

**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 June 30, 2017:

	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)				
Cash equivalents	\$ 29,159	\$ 23,662	\$ 5,497	\$ —
Corporate debt securities	\$ 22,356	\$ —	\$ 22,356	\$ —
U.S. Treasury, government and agency debt securities	\$ 5,009	\$ 5,009	\$ —	\$ —

The table below sets forth a summary of financial instruments that are measured at fair value on a recurring basis at December 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)				
Cash equivalents	\$ 15,776	\$ 7,781	\$ 7,995	\$ —
Corporate debt securities	\$ 17,314	\$ —	\$ 17,314	\$ —
U.S. Treasury, government and agency debt securities	\$ 23,236	\$ 23,236	\$ —	\$ —

At June 30, 2017 and December 31, 2016, cash equivalents of \$29.2 million and \$15.8 million, respectively, consisted of money market funds, commercial paper, treasury and agency debt securities with original maturities of three months or less. The carrying amounts of cash equivalents are classified as Level 1 or Level 2 depending on whether or not their fair values are based on quoted market prices for identical securities that are traded in an active market. The commercial paper included in cash equivalents is classified as Level 2 since its fair value is not based on quoted market prices for identical securities that are traded in an active market, but rather is derived from similar securities. Corporate debt securities included in marketable securities on the balance sheet whose fair values are not based on quoted market prices for identical securities that are traded in an active market, rather derived from similar securities, are classified as Level 2 as well. The fair values of the Company's U.S. treasury, government and agency debt securities, are based on quoted market prices and classified as Level 1.

**Note 4—Other Balance Sheet Amounts**

Investments in marketable securities as of June 30, 2017 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	\$ 5,009	\$ —	\$ —	\$ 5,009
Corporate debt securities	22,356	—	—	22,356
Total	\$ 27,365	\$ —	\$ —	\$ 27,365

Investments in marketable securities as of December 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	\$ 23,237	\$ 1	\$ (2)	\$ 23,236
Corporate debt securities	17,314	—	—	17,314
Total	\$ 40,551	\$ 1	\$ (2)	\$ 40,550

As of June 30, 2017 and December 31, 2016, the Company's available-for-sale securities had a weighted remaining contractual maturity of 0.2 years and 0.3 years, respectively. For the three and six months ended June 30, 2017, there were no realized gains (losses) and there were no unrealized holding gains (losses) reclassified out of accumulated other comprehensive income (loss) into the condensed consolidated statements of operations for the sale of available-for-sale investments.

Accounts payable and accrued expenses included the following:

	June 30, 2017	December 31, 2016
(in thousands)		
Accounts payable—seller	\$ 156,812	\$ 197,261
Accounts payable—trade	8,318	7,930
Accrued employee-related payables	8,901	9,712
Total	\$ 174,031	\$ 214,903

Cash, cash equivalents and restricted cash included in the cash flow is as follows:

	June 30, 2017	June 30, 2016
(in thousands)		
Cash and cash equivalents	\$ 165,241	\$ 147,188
Restricted cash (included in "prepaid expenses and other current assets")	77	77
Total cash, cash equivalents, and restricted cash	\$ 165,318	\$ 147,265

**Note 5—Intangible Assets**

Details of the Company's intangible assets was as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
<b>Amortizable intangible assets:</b>		
Developed technology	\$ 12,058	\$ 13,418
Customer relationships	2,880	3,330
Non-compete agreements	—	4,990
Total identifiable intangible assets, gross	14,938	21,738
<b>Accumulated amortization— intangible assets:</b>		
Developed technology	(7,618)	(7,652)
Customer relationships	(2,880)	(2,837)
Non-compete agreements	—	(4,445)
Total accumulated amortization—intangible assets	(10,498)	(14,934)
Total identifiable intangible assets, net	\$ 4,440	\$ 6,804

Amortization of intangible assets for the three and six months ended June 30, 2017 were \$0.8 million and \$2.4 million, respectively. In January 2017, the Company announced that it would cease providing intent marketing services. In connection with this decision, the Company assessed the asset group related to the intent marketing services, which consisted of client relationships and developed technology related to the Chango acquisition, and determined that the asset group was impaired. Accordingly, the Company recorded a charge for the impairment of intangible assets totaling \$23.5 million, which is included in the consolidated statement of operations for the year ended December 31, 2016.

The estimated remaining amortization expense associated with the Company's intangible assets was as follows as of June 30, 2017:

Fiscal Year	Amount
	(in thousands)
Remaining 2017	938
2018	1,862
2019	1,640
Total	\$ 4,440

**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, usually approximately 25% vesting after approximately one year of service and the remainder vesting semi-annually thereafter. Options, restricted stock, and restricted stock units granted under the plans accelerate under certain circumstances on a change in control, as defined in the governing plan. An aggregate of 5,356,354 shares remained available for future grants at June 30, 2017 under the plans.

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**Stock Options**

A summary of stock option activity for the six months ended June 30, 2017 is as follows:

	Shares Under Option (in thousands)	Weighted- Average Exercise Price	Weighted- Average Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2016	3,861	\$ 11.16		
Granted	991	\$ 5.81		
Exercised	(99)	\$ 3.87		
Expired	(254)	\$ 12.58		
Forfeited	(122)	\$ 13.26		
Outstanding at June 30, 2017	<u>4,377</u>	\$ 9.97	5.52 years	\$ 366
Exercisable at June 30, 2017	<u>2,855</u>	\$ 10.57	4.01 years	\$ 366

The aggregate total intrinsic value of options exercised for the six months ended June 30, 2017 was \$0.4 million. At June 30, 2017, the Company had unrecognized employee stock-based compensation expense relating to nonvested stock options of approximately \$5.2 million, which is expected to be recognized over a weighted-average period of 2.9 years. The weighted-average grant date fair value per share of stock options granted during the six months ended June 30, 2017 was \$3.08. Total fair value of options vested during the six months ended June 30, 2017 was \$3.1 million.

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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Expected term (in years)	5.7	5.8	6.0	5.9
Risk-free interest rate	1.87%	1.39%	2.10%	1.43%
Expected volatility	55%	55%	55%	48%
Dividend yield	—%	—%	—%	—%

**Restricted Stock**

A summary of restricted stock activity for the six months ended June 30, 2017 is as follows:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock outstanding at December 31, 2016	1,113	\$ 14.07
Granted	—	\$ —
Canceled	(166)	\$ 12.65
Vested	(251)	\$ 15.36
Nonvested shares of restricted stock outstanding at June 30, 2017	<u>696</u>	\$ 13.94

The aggregate fair value of restricted stock with service conditions that vested during the six months ended June 30, 2017 was \$1.4 million. At June 30, 2017, the Company had unrecognized stock-based compensation expense for restricted stock with service conditions of \$3.5 million, which is expected to be recognized over a weighted-average period of 1.6 years.

**Restricted Stock Units**

A summary of restricted stock unit activity for the six months ended June 30, 2017 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
	(in thousands)	
Nonvested restricted stock units outstanding at December 31, 2016	2,903	\$ 13.63
Granted	2,616	\$ 5.98
Canceled	(635)	\$ 11.88
Vested	(696)	\$ 14.08
Nonvested restricted stock units outstanding at June 30, 2017	4,188	\$ 9.00

The weighted-average grant date fair value per share of restricted stock units granted during the six months ended June 30, 2017 was \$5.98. The aggregate fair value of restricted stock units that vested during six months ended June 30, 2017 was \$4.0 million. At June 30, 2017, the intrinsic value of nonvested restricted stock units was \$21.5 million. At June 30, 2017, the Company had unrecognized stock-based compensation expense relating to nonvested restricted stock units of approximately \$29.8 million, which is expected to be recognized over a weighted-average period of 3.1 years.

***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' accumulated contributions are applied 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 June 30, 2017, the Company has reserved 1,569,188 shares of its common stock for issuance under the ESPP.

***Stock-Based Compensation Expense***

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Cost of revenue	\$ 96	\$ 108	\$ 180	\$ 170
Sales and marketing	974	2,543	2,409	4,657
Technology and development	981	1,800	2,056	3,174
General and administrative	2,628	2,675	5,337	7,516
Restructuring and other exit costs	624	—	1,560	—
Total stock-based compensation expense	\$ 5,303	\$ 7,126	\$ 11,542	\$ 15,517

**Note 7—Restructuring and Other Exit Costs**

As part of management's plan to streamline operations and prioritize resources for growth initiatives, the Company implemented restructuring initiatives that included departure of seven senior leaders and the shut-down of the Company's intent marketing services. For the six months ended June 30, 2017, in connection with these initiatives, the Company recorded restructuring and other exit costs totaling \$6.0 million for one-time employee termination benefits, operational shut-down costs and other related costs.

The following table summarizes the accrued restructuring liability related to this plan, which is recorded in "Accounts payable and accrued expenses" on the consolidated balance sheet:

	<b>Amount</b>
	<b>(in thousands)</b>
Accrued restructuring and other exit costs at December 31, 2016	\$ 801
Restructuring and other exit costs <sup>(1)</sup>	5,959
Cash paid for restructuring and other exit costs	(4,165)
Non-cash stock based compensation for restructuring and other exit costs	(1,560)
Accrued restructuring and other exit costs at June 30, 2017	<u>\$ 1,035</u>

<sup>(1)</sup>Restructuring and other exit costs for the three and six months ended June 30, 2017 consisted of \$1.5 million and \$5.1 million in employee termination costs, respectively, and \$0.1 million and \$0.9 million in facility closing costs, respectively.

The Company expects to pay the majority of the remaining expenses by the fourth quarter of 2017.

**Note 8—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 income tax expense of \$0.1 million and \$4.9 million for the three months ended June 30, 2017 and 2016, respectively, and income tax expense of \$0.5 million and \$0.6 million for the six months ended June 30, 2017 and 2016, respectively. The tax provision is primarily the result of the domestic and certain international valuation allowances and the geographical mix of income and losses.

Due to uncertainty as to the realization of benefits from the Company's domestic and certain international deferred tax assets, including net operating loss carryforwards and research and development tax credits, the Company has a full valuation allowance reserved against such assets. The Company intends to continue to maintain a full valuation allowance on the 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 six months ended June 30, 2017, 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. During the first quarter of 2017, the Internal Revenue Service commenced an examination of the 2015 tax year.

**Note 9—Commitments and Contingencies*****Operating Leases***

The Company has commitments under non-cancelable operating leases for facilities, certain equipment, and its managed data center facilities. Total rental expenses were \$3.0 million and \$2.8 million for the three months ended June 30, 2017 and 2016, respectively. Total rental expenses were \$6.3 million and \$5.4 million for the six months ended June 30, 2017 and 2016, respectively. Additionally, expenses for cloud-based services related to data centers were \$1.1 million and \$1.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$2.8 million and \$2.9 million for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, \$2.9 million of letters of credit associated with office leases were outstanding, none of which have been drawn down.

***Purchase Obligations***

The Company's purchase obligations were \$0.9 million as of June 30, 2017.

### ***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. No material demands have been made upon the Company to provide indemnification under such agreements and there are no claims that the Company is aware of that could have a material effect on the Company's condensed consolidated financial statements.

### ***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 June 30, 2017. However, based on management's knowledge as of June 30, 2017, management believes that the final resolution of these matters known at such date, individually and in the aggregate, will not have a material adverse effect upon the Company's condensed consolidated financial position, results of operations or cash flows.

On March 31, 2017, Guardian News & Media Limited (Guardian) issued proceedings (the Complaint) against the Company in the Chancery Division of the High Court of Justice in England & Wales. The Complaint alleges that the Company underpaid Guardian for inventory sold by Guardian through the Company's platform as a result of the fact that the Company charged fees to buyers of that inventory. Guardian claims the Company was precluded from charging buyer fees as a result of the contractual arrangements with Guardian and English agency law principles, as well as representations the Company allegedly made to Guardian. The Complaint claims damages including loss of revenue, interest, and costs, without specifying the amount of damages sought. The Company disputes Guardian's claims and is defending them vigorously, but the Complaint involves disputed facts and complex legal questions, and its outcome is therefore uncertain. Even if Guardian were to prevail in this action, the Company does not believe payment of the damages that may be recoverable by Guardian would have a material adverse effect upon the Company's condensed consolidated financial position, results of operations, or cash flows.

### ***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.

### **Note 10—Subsequent Events**

On July 11, 2017, the Company entered into an Agreement and Plan of Merger with nToggle, Inc. ("nToggle"), Caviar Acquisition Corp., a wholly owned subsidiary of the Company, Shareholder Representative Services LLC, solely in its capacity as the initial Holder Representative thereunder, and certain persons delivering joinder agreements therewith. On July 14, 2017, the parties consummated the transaction contemplated by the merger agreement and nToggle became a wholly owned subsidiary of the Company. Immediately following the merger transaction, nToggle was merged into the Company and ceased to exist as a separate entity. The technology acquired from nToggle should make it easier and more cost effective for buyers to find the inventory they seek among the billions of bid requests they receive.

In connection with the acquisition, at the closing, the Company paid cash consideration of \$38.5 million to the stockholders, warrant holders, and holders of vested in-the-money options of nToggle, of which, \$3.4 million was deposited into an escrow account to cover a post-closing working capital adjustment and to secure indemnification obligations of such holders. In addition, the Company assumed all outstanding unvested in-the-money options and certain shares of restricted stock held by

continuing employees, and issued an aggregate of 174,117 restricted stock units to the continuing employees under the Company's 2014 Inducement Grant Equity Incentive Plan.

The initial accounting for the acquisition is expected to be completed by Q3 2017.

## **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," "could," "can," "would," "expect," "believe," "design," "anticipate," "estimate," "predict," "potential," "plan" or the negative of these terms, and similar expressions. Forward-looking statements may include, but are not limited to, statements concerning our anticipated financial performance, including, without limitation, revenue, advertising spend, profitability, net income (loss), Adjusted EBITDA, earnings per share, and cash flow; strategic objectives, including focus on header bidding, mobile, video, Orders, and automated guaranteed opportunities; investments in our business; development of our technology; introduction of new offerings; the impact of our acquisition of nToggle and its traffic shaping technology on our business; scope and duration of client relationships; the fees we may charge in the future; business mix; sales growth; client utilization of our offerings; our competitive differentiation; our leadership position in the industry; market conditions, trends, and opportunities; user reach; certain statements regarding future operational performance measures including take rate, paid impressions, and average CPM; 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 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, buyers;*
- *our ability to maintain and grow a supply of advertising inventory from sellers;*
- *the effect on the advertising market and our business from 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;*
- *the increased prevalence of header bidding and its effect on our competitive position;*
- *our header bidding solution not resulting in revenue growth and causing infrastructure strain and added cost;*
- *uncertainty of our estimates and expectations associated with new offerings, including header bidding, private marketplace, mobile, video, Orders, automated guaranteed and guaranteed audience solutions, and traffic shaping;*
- *declining fees and take rate, including as a result of implementation of alternative pricing models, and the need to grow through advertising spend and fill rate increases rather than pricing increases;*
- *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 and formats;*
- *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);*
- *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;*
- *acts of competitors and other third parties that can adversely affect our business;*

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- our ability to differentiate our offerings and compete effectively in a market trending increasingly toward commodification, transparency, and disintermediation;
- requests from buyers and sellers for discounts, fee concessions or revisions, rebates, refunds 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 identify future acquisitions of or investments in complementary companies or technologies and our ability to consummate the acquisitions and integrate such companies or technologies; and
- 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.

We discuss many of these risks and additional factors that could cause actual results to differ materially from those anticipated by our forward-looking statements under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report and in other filings we have made and will make from time to time with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2016. These forward-looking statements represent our estimates and assumptions only as of the date of this report. 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 are currently not providing guidance, and any guidance we may provide will generally be given 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 or will file 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 pioneered advertising automation technology and are one of the world's largest advertising exchanges. We help websites and applications thrive by giving them tools and expertise to sell ads easily and safely. In addition, the world's leading agencies and brands rely on our technology to execute billions of advertising transactions each month.

We deliver value to buyers and sellers of digital advertising through our 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, and their representatives, 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 our automated advertising solution that brings buyers and sellers together and facilitates intelligent decision-making and automated transaction execution for the advertising inventory managed on our platform.

One way that we measure buyer and seller activity on our platform is advertising spend, which we define as the buyer spending on advertising transacted on our platform. From advertising spend we retain fees associated with the services that we provide, and those fees make up the revenue we record. Take rate is a measurement we use to track the level of our fees as a percentage of the advertising spend for a given period. We discuss advertising spend and take rate more fully under the "Non-GAAP Financial Measures and Operational Performance Measures" section below.

### **Industry Trends and Trends in Our Business**

Our solutions include real-time bidding and Orders. Real-time bidding, or RTB, allows sellers' inventory to be sold in an auction to buyers that compete in a real-time auction to purchase sellers' advertising inventory. Our Orders solution allows sellers to connect directly with buyers to execute direct sales of advertising inventory. The digital advertising market continues to

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experience growth. In December 2016, International Data Corporation, or IDC, estimated RTB was a \$10.7 billion global market in 2016 that will increase to \$20.9 billion by 2020, and Orders was a \$6.7 billion global market in 2016 that will grow to \$51.8 billion by 2020. The compound annual growth rate for these market opportunities is 43% on a combined basis. Another important trend in the digital advertising industry 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. According to IDC estimates, mobile advertising (excluding search advertising) was a \$30.7 billion global market in 2016 that is expected to increase to \$100.5 billion by 2020, a compound annual growth rate of 35%.

The growth of automated buying and selling of advertising is also expanding into new geographic markets, and in some markets the rate of adoption of automated digital advertising is greater than in the United States. Our advertising spend in international markets, based upon seller location, represented approximately 35% and 40% of total advertising spend during the six months ended June 30, 2017 and 2016, respectively. We will continue our efforts to expand our international business. Refer to the "Non-GAAP Financial Measures and Operational Performance Measures" section for further details.

These macro trends present long-term growth opportunity; however, in the near term the industry-wide shift from desktop to mobile advertising is having an adverse impact on our business. In recent years, we have seen an industry-wide slowdown in the growth rate for traditional desktop advertising, and the growth rate for this portion of the market is expected to flatten in future years. According to IDC, desktop advertising (excluding search advertising) is expected to grow at a 1% compound annual growth rate over the 2016-2020 period. These trends are having a significant effect on our overall growth rate, because desktop advertising has historically been our core business and continues to represent a significant majority of our revenue. Our advertising spend for desktop decreased 30% during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. In addition to this overall shift toward mobile, the impact of the slowdown in the growth rate for traditional desktop advertising was compounded for our business beginning in 2016 by the faster-than-expected industry migration to header bidding in North America. Header bidding increased competition for some inventory, and our decision to focus on other growth priorities and consequently not to invest earlier in our own header bidding solution, called FastLane, resulted in adverse revenue effects for us due to loss to competitors of some inventory that we would otherwise have been able to sell through our platform. However, header bidding makes available to us premium inventory that previously we were unable to access and FastLane (which we launched in early 2016) began producing positive results for us in the second half of 2016, which have continued through the second quarter of 2017. As a result, we believe that FastLane has the potential to improve our competitiveness in the traditional desktop market in 2017 and beyond. However, we must continue to address certain technical and operational challenges, as described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, in order to realize FastLane's full potential.

In anticipation of the continued industry shift toward mobile advertising, we have significantly advanced our mobile capabilities through a combination of internal product development, strategic client wins, increased mobile activity driven from existing buyer and seller clients, and international expansion, resulting in strong growth in our mobile advertising spend over the two-year period ended December 31, 2016. However, our mobile advertising spend declined \$5.0 million, or 3%, for the six months ended June 30, 2017, compared to the six months ended June 30, 2016. Our mobile business is composed of mobile web, which constitutes the majority of our mobile business and is impacted by many of the same factors impacting our desktop business, and mobile application, which is where we see the greatest potential for growth.

Because of these rapid developments in the industry, advertising spend from our traditional desktop business has declined and no longer can be relied upon to drive the growth of our business. Our strategic focus is on growth areas—including mobile, video, and Orders—that are expected to represent a majority of our advertising spend in 2017. However, despite our solid progress in mobile, our traditional desktop business accounted for approximately 61% and 69% of our advertising spend during the six months ended June 30, 2017 and 2016, respectively, and is expected to continue to represent a significant part of our business in the near term. Therefore, the weight of our desktop business and its decreasing advertising spend trend will continue to have a significant adverse effect on our growth until our advertising spend mix has shifted more fully to growth areas. Another factor impacting our business is that a large share of the growth in digital advertising spending worldwide is being captured by owned and operated sites, such as Facebook and Google.

Although we believe our pricing is competitive, we experience requests from buyers and sellers for discounts, fee concessions or revisions, rebates, refunds, and greater levels of pricing transparency and specificity. Buyers on our platform have come under growing pressure from their clients to reduce their fees and/or to provide fee transparency, sellers are also under revenue pressure, and these pressures may increasingly impact us. In light of increasing market trends toward transparency, commoditization of intermediary services, and disintermediation, we have implemented and expect to continue to implement strategic pricing reductions in an effort to be more competitive in attracting demand and capturing supply. While pricing reductions could make us more competitive, it is not clear whether they will result in increases in spending on our platform or whether any spending increases will compensate fully for the reduction in pricing. Another factor that we expect to contribute to a declining take rate is a continued shift in the mix of our advertising spend from RTB to Orders, which carry lower fees than RTB. An increase in Orders as a percentage of our advertising spend could yield higher revenue despite lower fees due to the higher CPMs typically associated with Orders transactions, but it is not certain that our Orders business will increase or that this effect

will be realized. Although our advertising spend and revenue have increased in prior years as a result of an increase in overall advertising spending in the market, increased use of our solution by buyers and sellers, and increases in take rate and average CPM, our growth slowed significantly in 2016 due to market and competitive pressures, deceleration in traditional desktop display spending, header bidding dynamics as described above and decreases in our fees. This deceleration continued into the second quarter of 2017, with our revenue and advertising spend decreasing 36% and 22%, respectively, compared to the six months ended June 30, 2016 due primarily to the factors noted above and to a lesser extent from the impact of our cessation of our intent marketing solution. We expect these challenging business dynamics to have an increasingly adverse effect on our business for at least the rest of 2017.

In response to the challenges described above, we have taken steps to reduce costs and reallocate resources to growth areas. In the third quarter of 2016, we terminated our Static bidding offering, which accounted for approximately 3% of total advertising spend in 2016 and was continuing to contract due to shifts in market spending from Static bidding to RTB. In the fourth quarter of 2016, we restructured our workforce, reducing our headcount by approximately 125 persons. In the first quarter of 2017, we ceased offering our intent marketing solution, closed our Toronto office, and implemented a management restructuring involving the departure of seven senior leaders. These measures are intended to facilitate investment in market share growth, technology and R&D for growth areas including mobile, video, Orders, and header bidding.

In addition, we completed the acquisition of nToggle in July 2017 for aggregate cash consideration of \$38.5 million. We expect the acquisition to have positive effects on revenue and Adjusted EBITDA in 2018, and to result in an increase in expenses and capital expenditures during the remainder of 2017.

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

We report our financial results as one operating segment. Our consolidated operating results, together with non-GAAP financial measures and the operational performance 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.

### ***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 by matching buyers and sellers and establishing rules and parameters for 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 platform. Sellers use our solution to monetize their inventory. We recognize revenue upon the fulfillment of our contractual obligations in connection with a completed transaction, subject to satisfying all other revenue recognition criteria.

Our revenue recognition policies are discussed in more detail below and in the notes to our condensed consolidated financial statements presented in "Item 1. Notes to Condensed Consolidated Financial Statements."

### ***Expenses***

We classify our expenses into the following five categories:

*Cost of Revenue.* Our cost of revenue consists primarily of 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, facilities-related costs, and for transactions we report on a gross basis, the amounts we pay sellers. 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.

*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, as well as marketing expenses such as brand marketing, travel expenses, trade shows and marketing materials, professional services, and amortization expense associated with client relationships and backlog from our business acquisitions, and to a lesser extent, facilities-related costs and depreciation and amortization. Our sales organization focuses on increasing the adoption of our solution by existing and new buyers and sellers. We amortize acquired intangibles associated with client 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 bonuses, as well as 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

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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 condensed 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 and bonuses, 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.

*Restructuring and other exit costs.* Our restructuring and other exit costs are cash and non-cash charges consisting primarily of employee termination costs and facility closure costs.

### ***Other (Income), Expense***

*Interest Income, 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 six months ended June 30, 2017 and 2016.

*Other Income.* Other income consists primarily of rental income from commercial office space we hold under lease and have sublet to other tenants.

*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 and Euro.

### ***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 the predominant portion of our domestic and 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. Release of the valuation allowance would result in the recognition of certain net deferred tax assets and a decrease to income tax expense or recognition of a benefit 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 achieve.

**Results of Operations**

The following table sets forth our condensed consolidated results of operations:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743
Expenses <sup>(1)(2)</sup> :				
Cost of revenue	13,698	17,540	28,386	34,323
Sales and marketing	12,529	21,966	27,157	43,244
Technology and development	12,044	13,294	24,797	25,737
General and administrative	14,355	16,390	29,435	36,995
Restructuring and other exit costs	1,621	—	5,959	—
Total expenses	54,247	69,190	115,734	140,299
Income (loss) from operations	(11,325)	1,321	(26,797)	(556)
Other (income) expense	84	(906)	77	(739)
Income (loss) before income taxes	(11,409)	2,227	(26,874)	183
Provision for income taxes	146	4,904	521	576
Net loss	\$ (11,555)	\$ (2,677)	\$ (27,395)	\$ (393)

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Cost of revenue	\$ 96	\$ 108	\$ 180	\$ 170
Sales and marketing	974	2,543	2,409	4,657
Technology and development	981	1,800	2,056	3,174
General and administrative	2,628	2,675	5,337	7,516
Restructuring and other exit costs	624	—	1,560	—
Total stock-based compensation expense	\$ 5,303	\$ 7,126	\$ 11,542	\$ 15,517

<sup>(2)</sup> Depreciation and amortization expense included in our expenses was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Cost of revenue	\$ 8,045	\$ 6,720	\$ 16,424	\$ 12,668
Sales and marketing	286	1,970	753	3,562
Technology and development	331	606	997	1,204
General and administrative	193	486	802	974
Total depreciation and amortization expense	\$ 8,855	\$ 9,782	\$ 18,976	\$ 18,408

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

	Three Months Ended *		Six Months Ended *	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	32	25	32	25
Sales and marketing	29	31	31	31
Technology and development	28	19	28	18
General and administrative	33	23	33	26
Restructuring and other exit costs	4	—	7	—
Total expenses	126	98	130	100
Income (loss) from operations	(26)	2	(30)	—
Other (income) expense	—	(1)	—	(1)
Income (loss) before income taxes	(27)	3	(30)	—
Provision for income taxes	—	7	1	—
Net loss	(27)%	(4)%	(31)%	—%

\* Certain figures may not sum due to rounding.

**Comparison of the Three and Six Months Ended June 30, 2017 and 2016**

*Revenue*

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743

Revenue decreased \$27.6 million, or 39%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease is primarily due to a decrease in advertising spend on our platform due to market and competitive pressures, deceleration in traditional desktop display spending, and header bidding dynamics as described above. In addition, we voluntarily implemented certain strategic reductions in our pricing in response to our perception of market conditions and in an effort to increase our competitiveness. Year-over-year revenue was also adversely affected by shifts in our business mix in favor of buyers and sellers and inventory types with lower fee rates. Finally, the decline of our intent marketing solution and the ultimate decision to cease offering our intent marketing solution contributed to the total revenue decrease when compared to prior year.

Revenue decreased \$50.8 million, or 36%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 primarily for the same reasons described above.

Revenue may be impacted by shifts in the mix of advertising spend by transaction type and channel, changes in the fees we charge buyers and sellers for our services (which drive take rate), and other factors such as changes in the market, our execution of the business, and competition. Additionally, our business is somewhat seasonal in nature, typically generating higher ad spend during the fourth quarter of the year.

Industry dynamics are challenging due to market and competitive pressures and make it difficult to predict the near-term effect of our growth initiatives. Consequently, while we anticipate long-term benefits from these initiatives, in 2017 we expect a decrease in revenue compared to 2016 resulting from the cessation of our intent marketing solution, a decreasing overall take rate, increased competition for inventory partially due to continued industry-wide growth in header bidding, and increased competition for demand, including from large providers of owned and operated inventory. Most of the strategic pricing reductions we implemented in the first half of the year did not take effect until part way through the second quarter, so they will have a more significant effect on the second half of the year unless counterbalanced by positive effects from these reductions or other growth initiatives. Further, we expect to implement additional pricing reductions or lower-fee alternative pricing structures during the second half of the year in response to market pressures and in an effort to be more competitive in attracting demand and capturing inventory. Lower pricing may result in higher advertising spend growth, but it is not clear that resulting advertising spend increases would offset the revenue decreases resulting from pricing reductions. We also expect an ongoing increase in Orders as a percentage of the transactions on our platform to contribute to lower take rates because Orders carry lower fees than RTB transactions.

### Cost of Revenue

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands, except percentages)			
Cost of revenue	\$ 13,698	\$ 17,540	\$ 28,386	\$ 34,323
Percent of revenue	32%	25%	32%	25%

Cost of revenue decreased by \$3.8 million, or 22%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily due to a decrease of \$5.2 million in the amounts we paid sellers. The decrease in amounts paid to sellers reflects the impact of the discontinuation of our intent marketing solution during the quarter ended March 31, 2017. This decrease was offset by increases of \$1.3 million in depreciation and amortization expense as a result of increases in depreciation of computer equipment and network hardware, and amortization of capitalized internal use software, as we continued to enhance the functionality of our existing products and build new solutions to expand our offerings.

Cost of revenue decreased by \$5.9 million, or 17%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease is primarily driven by a decrease of \$10.1 million in amounts paid to sellers due to the same reasons described above, offset by increases of \$3.8 million in depreciation and amortization as a result of our continued efforts in enhancing functionality of our existing product and building new solutions to expand our offerings.

We expect quarterly cost of revenue to be higher in absolute dollars in the remaining half of 2017 compared to the first half of 2017. We expect to have increased spending in 2017 on data centers, personnel to build and maintain our technology and systems, as well as investments in developed technology to support our strategic growth initiatives, which will eventually outweigh the elimination of amounts paid to sellers. In addition, we expect to incur incremental expenses related to the absorption of nToggle operations. Cost of revenue may fluctuate from quarter to quarter and period to period, on an absolute dollar basis and as a percentage of revenue, depending on revenue levels and the volume of transactions we process supporting those revenues, the timing and amounts of investments, and the amounts we pay sellers related to transactions we may report on a gross basis.

### Sales and Marketing

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands, except percentages)			
Sales and marketing	\$ 12,529	\$ 21,966	\$ 27,157	\$ 43,244
Percent of revenue	29%	31%	31%	31%

Sales and marketing expense decreased \$9.4 million or 43% for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily due to a decrease of \$5.9 million in sales and marketing personnel costs as a result of our operating cost control initiatives. Sales and marketing depreciation and amortization costs decreased by \$1.7 million primarily due to lower amortization of acquired client relationships.

Sales and marketing expense decreased by \$16.1 million, or 37%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, primarily for the same reasons described above.

We expect quarterly sales and marketing expenses to be higher in absolute dollars in the remaining half of 2017 compared to the first half of 2017, partially due to the absorption of nToggle operations. Sales and marketing expense may fluctuate quarter to quarter and period to period, on an absolute dollar basis and as a percentage of revenue, based on revenue levels, the timing of our investments and seasonality in our industry and business.

**Technology and Development**

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands, except percentages)			
Technology and development	\$ 12,044	\$ 13,294	\$ 24,797	\$ 25,737
Percent of revenue	28%	19%	28%	18%

Technology and development expense decreased by \$1.3 million, or 9%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily due to a decrease in headcount and related personnel costs of \$1.0 million as a result of our operating cost control initiatives.

Technology and development expense decreased by \$0.9 million, or 4%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, primarily due to a decrease in headcount and related personnel costs of \$1.6 million due to the same reasons as described above, partially offset by an increase in software licenses due to annual increases in our existing licenses to maintain and support our technology and development efforts.

We expect technology and development expense to be higher in absolute dollars in future periods as we continue to invest in our engineering and technology teams to support our technology and development efforts, including the absorption of nToggle operations. The timing and amount of our capitalized development and enhancement projects may affect the amount of development costs expensed in any given period. As a percentage of revenue, technology and development expense may fluctuate from quarter to quarter and period to period based on revenue levels, the timing and amounts of these investments, the timing and the rate of the amortization of capitalized projects and the timing and amounts of future capitalized internal use software development costs.

**General and Administrative**

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands, except percentages)			
General and administrative	\$ 14,355	\$ 16,390	\$ 29,435	\$ 36,995
Percent of revenue	33%	23%	33%	26%

General and administrative expense decreased by \$2.0 million, or 12%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily due to a decrease in headcount and related personnel costs of \$1.3 million as a result of our cost control initiatives.

General and administrative expense decreased by \$7.6 million, or 20%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, primarily due to a decrease in headcount and related personnel costs for the same reasons as described above and a decrease in professional services costs of \$0.8 million primarily due to decreased legal and consulting costs.

We expect quarterly general and administrative expense to be higher in absolute dollars in the remaining half of 2017 compared to the first half of 2017. General and administrative expenses may fluctuate from quarter to quarter and period to period based on the timing and amounts 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.

**Restructuring and other exit costs**

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands, except percentages)			
Restructuring and other exit costs	\$ 1,621	\$ —	\$ 5,959	\$ —
Percent of revenue	4%	—%	7%	—%

Restructuring and other exit costs increased by \$1.6 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, as a result of the management restructuring in which seven senior leaders left the Company and the costs associated with the shut-down of our intent marketing services. Restructuring and other exit costs increased by \$6.0 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 for the same reasons as described above.

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The annualized cash basis employee-related costs for the departed intent marketing, senior leadership and related employees is approximately \$9.0 million, and additional savings from non-headcount and non-media intent marketing costs are estimated at an annualized \$4.0 million.

**Other (Income) Expense, Net**

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Interest income, net	\$ (228)	\$ (131)	\$ (395)	\$ (225)
Other income	(167)	(197)	(379)	(197)
Foreign exchange (gain) loss, net	479	(578)	851	(317)
Total other (income) expense, net	\$ 84	\$ (906)	\$ 77	\$ (739)

Other income primarily consists of revenue generated by our sub-leasing activity.

Foreign exchange 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 and six months ended June 30, 2017 were primarily attributable to the weakening of the U.S. Dollar in relation to the British Pound and Euro for foreign currency denominated transactions. The foreign currency gain, net during the three and six months ended June 30, 2016 was primarily attributable to the strengthening of the U.S. Dollar in relation to the British Pound and Euro for foreign currency denominated transactions.

**Provision (Benefit) for Income Taxes**

We recorded an income tax provision of \$0.1 million and \$0.5 million for the three and six months ended June 30, 2017 and an income tax provision of \$4.9 million and \$0.6 million for the three and six months ended June 30, 2016. The tax expense for the three months ended June 30, 2017 is the result of domestic and certain international valuation allowances and the geographical mix of income and losses.

**Non-GAAP Financial Measures and Operational Performance Measures**

In addition to our GAAP results, we review certain non-GAAP financial measures 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 advertising spend, 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".

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
<b>Financial Measures and non-GAAP Financial Measures:</b>				
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743
Advertising spend	\$ 204,391	\$ 257,413	\$ 395,931	\$ 505,910
Non-GAAP net revenue	\$ 42,922	\$ 65,108	\$ 88,304	\$ 128,668
Net loss	\$ (11,555)	\$ (2,677)	\$ (27,395)	\$ (393)
Adjusted EBITDA	\$ 3,000	\$ 18,439	\$ 4,100	\$ 33,897
<b>Operational Measure:</b>				
Take Rate	21.0%	25.3%	22.3%	25.4%

**Advertising Spend**

We define advertising spend as the buyer spending on advertising transacted on our platform. Advertising spend does not represent revenue reported on a GAAP basis. Tracking our advertising spend facilitates comparison of our results to the results of companies in our industry that report GAAP revenue on a gross basis. We also use advertising spend for internal management purposes to assess market share of total advertising spending.

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Our advertising spend may be influenced by demand for our services, the volume and characteristics of paid impressions, average CPM, the nature and amount of fees we charge, and other factors such as changes in the market, our execution of the business, and competition.

Advertising spend may fluctuate due to seasonality and increases or decreases in average CPM and paid impressions. In addition, we generally experience higher advertising spend during the fourth quarter of a given year resulting from higher advertiser budgets and more bidding activity on our platform, which may drive higher volumes of paid impressions or average CPM. Advertising spend during the six months ended June 30, 2017 has decreased \$110 million compared to the six months ended June 30, 2016, primarily due to market and competitive pressures, deceleration in traditional desktop display spending, header bidding dynamics and decreases in our fees.

The following table presents the reconciliation of revenue to advertising spend:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743
Plus amounts paid to sellers <sup>(1)</sup>	161,469	186,902	306,994	366,167
Advertising spend	\$ 204,391	\$ 257,413	\$ 395,931	\$ 505,910

<sup>(1)</sup> Amounts paid to sellers for the portion of our revenue reported on a net basis for GAAP purposes.

Our solution enables buyers and sellers to transact through desktop and mobile channels. The following table presents revenue and advertising spend by channel in dollar terms and as a percentage of total revenue or advertising spend for the three and six months ended June 30, 2017 and 2016.

Channel:	Revenue				Advertising Spend			
	Three Months Ended							
	June 30, 2017		June 30, 2016		June 30, 2017		June 30, 2016	
	(in thousands, except percentages)							
Desktop	\$ 23,746	55%	\$ 46,107	65%	\$ 118,517	58%	\$ 172,453	67%
Mobile	19,176	45	24,404	35	85,874	42	84,960	33
Total	\$ 42,922	100%	\$ 70,511	100%	\$ 204,391	100%	\$ 257,413	100%

  

Channel:	Revenue				Advertising Spend			
	Six Months Ended							
	June 30, 2017		June 30, 2016		June 30, 2017		June 30, 2016	
	(in thousands, except percentages)							
Desktop	\$ 52,075	59%	\$ 92,988	67%	\$ 242,156	61%	\$ 347,119	69%
Mobile	36,862	41	46,755	33	153,775	39	158,791	31
Total	\$ 88,937	100%	\$ 139,743	100%	\$ 395,931	100%	\$ 505,910	100%

**Non-GAAP Net Revenue**

We define non-GAAP net revenue as GAAP revenue less amounts we paid to sellers that are included within cost of revenue for the portion of our revenue reported 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. Non-GAAP net revenue is one useful measure in assessing the performance of our business in periods for which our revenue includes revenue reported on a gross basis, 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, and facilitates comparison of our results to the results of companies that report all of their revenue on a net basis. A potential limitation of non-GAAP net revenue is that other companies may define non-GAAP net revenue differently, which may make comparisons difficult.

The GAAP revenue we have reported on a gross basis was associated with our intent marketing solution, which we ceased providing in the first quarter of 2017. Because we ceased providing that service in the first quarter of 2017, we do not expect any

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difference between revenue and non-GAAP net revenue in subsequent periods unless and until changes in our business or applicable accounting standards require gross reporting for at least some of our revenue. Decreases are primarily due to the reasons for the change in revenue as described under the heading "Results of Operations".

The following table presents a reconciliation of revenue to non-GAAP net revenue for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Revenue	\$ 42,922	\$ 70,511	\$ 88,937	\$ 139,743
Less amounts paid to sellers <sup>(1)</sup>	—	5,403	633	11,075
Non-GAAP net revenue	\$ 42,922	\$ 65,108	\$ 88,304	\$ 128,668

- (1) Amounts paid to sellers for the portion of our revenue reported on a gross basis for GAAP purposes. Because we ceased offering the intent marketing solution in the first quarter of 2017, we do not expect to report revenue on a gross basis, unless required going forward based on changes in our business or applicable accounting standards.

**Adjusted EBITDA**

We define Adjusted EBITDA as net income (loss) adjusted to exclude stock-based compensation expense, depreciation and amortization, amortization of acquired intangible assets, impairment charges, interest income or expense, and other cash and non-cash based income or expenses that we do not consider indicative of our core operating performance, including, but not limited to foreign exchange gains and losses, acquisition and related items, and provision (benefit) for income taxes. 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. Adjusted EBITDA may also be used as a metric for determining payment of cash incentive compensation.
- Adjusted EBITDA provides a measure of consistency and comparability with our past performance that many investors find useful, 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 should not be considered 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 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.
- Impairment charges are non-cash charges related to goodwill, intangible assets and/or long-lived assets.
- 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 cash and non-cash charges and changes in, or cash requirements for, acquisition and related items, such as certain transaction expenses and expenses associated with earn-out amounts.
- 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.
- Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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Our Adjusted EBITDA is influenced by fluctuation in our revenue and the timing and amounts of our investments in our operations.

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. The following table presents a reconciliation of net income (loss), the most comparable GAAP measure, to Adjusted EBITDA for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(in thousands)			
Net loss	\$ (11,555)	\$ (2,677)	\$ (27,395)	\$ (393)
Add back (deduct):				
Depreciation and amortization expense, excluding amortization of acquired intangible assets	8,076	5,190	16,612	9,759
Amortization of acquired intangibles	779	4,592	2,364	8,649
Stock-based compensation expense	5,303	7,126	11,542	15,517
Acquisition and related items	—	13	—	331
Interest income, net	(228)	(131)	(395)	(225)
Foreign currency (gain) loss, net	479	(578)	851	(317)
Provision for income taxes	146	4,904	521	576
Adjusted EBITDA	<u>\$ 3,000</u>	<u>\$ 18,439</u>	<u>\$ 4,100</u>	<u>\$ 33,897</u>

Adjusted EBITDA decreased due to the decrease in revenue, offset by cost reductions, as noted above.

## Operational Performance Measures

### Take Rate

Take rate is an operational performance measure calculated as (i) revenue (or for periods in which we have revenue reported on a gross basis, non-GAAP net revenue) divided by (ii) advertising spend. We review take rate for internal management purposes to assess the development of our marketplace with buyers and sellers.

Our take rate (and our fees, which drive 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 or transaction types; the implementation of new products, platforms and solution features; auction dynamics; negotiations with clients; header bidding; competitive factors and our strategic pricing decisions, including strategic fee reductions we have implemented and additional fee reductions or alternative pricing models we may implement in the future; and the overall development of the digital advertising ecosystem.

## Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, marketable securities, the cash flow that we may generate from our operations, and our credit facility with Silicon Valley Bank, or SVB. At June 30, 2017, we had cash and cash equivalents of \$165.2 million, of which \$23.1 million was held in foreign currency cash accounts, and we had additional marketable securities of \$27.4 million. Subsequent to June 30, 2017, we used \$38.5 million of our cash in connection with the nToggle acquisition. At June 30, 2017, we had no amounts outstanding under our credit facility with SVB, and \$40.0 million was available for borrowing. An additional \$30.0 million may be available for borrowing in SVB's discretion at our request.

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 \$3.0 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.

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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 June 30, 2017, our fixed charge coverage ratio was 55.2 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 June 30, 2017.

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 additional acquisitions or other strategic investment and if we are unable to generate cash from operations due to our strategic fee reduction, or other reasons. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in Item 1A: "Risk Factors."

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 incurring indebtedness, we will be subject to increased fixed payment obligations and could also be subject to additional 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, and an inability to raise additional capital could 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:

	Six Months Ended	
	June 30, 2017	June 30, 2016
	(in thousands)	
Cash flows provided by operating activities	\$ 12,805	\$ 33,250
Cash flows provided by (used in) investing activities	4,095	(11,849)
Cash flows provided by (used in) financing activities	(1,220)	9,110
Effects of exchange rate changes on cash, cash equivalents and restricted cash	140	(78)
Change in cash, cash equivalents and restricted cash	<u>\$ 15,820</u>	<u>\$ 30,433</u>

### **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 our business. Our future cash flows may be diminished if we cannot sustain our revenue levels and manage costs appropriately. 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. Increases in revenue earned directly from advertisers and agencies may cause the amount of receipts from buyers collected in advance of payments to sellers to decrease, because advertisers and agencies may pay slowly.

For the six months ended June 30, 2017, cash provided by operating activities of \$12.8 million resulted from our net loss of \$27.4 million adjusted for non-cash expenses of \$32.8 million, offset by net changes in our working capital of \$7.4 million. The net change in operating working capital was primarily related to a decrease in accounts payable and accrued expenses of \$44.6 million and an increase in prepaid expenses and other assets of \$0.5 million, offset by a decrease in accounts receivable of \$52.9 million. The changes in accounts payable, accrued expenses and accounts receivable were primarily due to the timing of cash receipts from buyers and the timing of payments to sellers driven by seasonality. The change in prepaid expenses and other assets was primarily due to increases in insurance rates and other receivables.

For the six months ended June 30, 2016, cash provided by operating activities of \$33.3 million resulted from our net loss of \$0.4 million, adjusted for non-cash expenses of \$33.9 million, and net changes in our working capital of \$0.3 million. The net

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change in operating working capital was primarily related to a decrease in accounts receivable of approximately \$59.0 million, offset by a decrease in accounts payable and accrued expenses 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.

As a result of reduced revenue attributable to the factors described above in the comparison of our results for the three and six months ended June 30, 2017 and 2016, which we expect to continue to affect our business in the second half of 2017, and continued investment in our business in 2017, we expect that our cash balance will decline over the remainder of the year. Our ability to avoid consumption of cash in our operations and to generate positive operating cash flows in the future will depend upon the success of our strategic initiatives and our ability to manage and perhaps reduce our costs.

### ***Investing Activities***

Our primary investing activities have consisted of investments in, and 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 evolves, we expect our capital expenditures and our investment activity to evolve as well, and generally to continue to increase over time. Investments in, and maturities of, available-for-sale securities and acquisitions of businesses vary from period-to-period.

During the six months ended June 30, 2017, we provided \$4.1 million of cash for investing activities, consisting primarily of \$45.1 million due to maturities of available-for-sale securities. The cash inflows were offset by \$31.8 million of investments in available-for-sale securities, \$4.8 million in purchases of property and equipment, net of amounts reflected in accounts payable and accrued expenses at June 30, 2017, and \$4.3 million of investments in our internal use software.

During the six months ended June 30, 2016, we used \$11.8 million of cash in investing activities, consisting primarily of \$15.7 million of investments in available-for-sale securities, \$5.0 million of investments in our internal use software, and \$3.9 million in investments in property and equipment, net of amounts reflected in accounts payable and accrued expenses at June 30, 2016. These cash outflows were offset by inflows of \$12.8 million due to maturities of available-for-sale securities.

Subsequent to June 30, 2017, we used \$38.5 million of cash in connection with the nToggle acquisition.

### ***Financing Activities***

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

For the six months ended June 30, 2017, cash used by financing activities of \$1.2 million was primarily due to \$2.0 million in income tax deposits paid in respect of vesting of stock-based compensation awards that were reimbursed by the award recipients through surrender of shares, offset by issuance of common stock under the employee stock purchase plan of \$0.4 million and proceeds of \$0.4 million from stock option exercises.

For the six months ended June 30, 2016, cash provided by financing activities of \$9.1 million was primarily due to proceeds of \$12.9 million from stock option exercises and proceeds of \$1.1 million from issuance of common stock under the employee stock purchase plan, offset by \$4.9 million in income tax deposits paid in respect of vesting of stock-based compensation awards that were reimbursed by the award recipients through surrender of shares.

### **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 June 30, 2017 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 2024. At June 30, 2017, future non-cancelable minimum commitments relating to operating leases were \$26.7 million. In certain cases, the terms of the lease agreements provide for rental payments on a graduated basis. We received rental income from subleases totaling \$0.4 million as of June 30, 2017.

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There were no significant changes to our unrecognized tax benefits in the six months ended June 30, 2017 and we do not expect to have any significant changes to unrecognized tax benefits through December 31, 2017.

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. No demands for indemnification have been made as of June 30, 2017.

### **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 following assumptions and estimates have the greatest potential impact on our condensed consolidated financial statements: (i) the determination of revenue recognition as net versus gross in our revenue arrangements, (ii) internal-use software development costs, (iii) goodwill and intangible asset impairment analysis, (iv) assumptions used in the valuation models to determine the fair value of stock options and stock-based compensation expense, (v) the assumptions used in the valuation of acquired assets and liabilities in business combinations, and (vi) income taxes, including the realization of tax assets and estimates of tax liabilities. 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, 2016 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.

#### ***Revenue Recognition***

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 recognize revenue when four basic criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fees are fixed or determinable, and (iv) collectibility is reasonably assured. 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 the completion of a transaction, that is, when an impression has been delivered to the consumer viewing a website or mobile application. We assess whether fees are fixed or determinable based on impressions delivered and 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, as those terms are used in the applicable accounting rules. 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.

As a result of the acquisition of Chango (which comprised our intent marketing solution) in April 2015, we began entering into arrangements for which we managed advertising campaigns on behalf of buyers. We were the principal in these arrangements as we: (i) were the primary obligor in the advertising inventory purchase transaction; (ii) established the purchase prices paid by the buyer; (iii) performed all billing and collection activities including the retention of credit risk; (iv) had latitude in selecting suppliers; (v) negotiated the price we pay to suppliers of inventory; and (vi) made all inventory purchasing decisions. Accordingly, for these arrangements we reported revenue on a gross basis. Because we ceased offering the intent marketing solution in the first quarter of 2017, we do not expect to report revenue on a gross basis after the first quarter of 2017 unless and until changes in our business or applicable accounting standards require gross reporting for at least some of our revenue.

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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.

### ***Goodwill***

Goodwill represents the excess of the aggregate fair value of the consideration transferred in a business combination over the fair value of the assets acquired, net of liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test. The Company tests for impairment of goodwill annually during the fourth quarter or more frequently if events or changes in circumstances indicate that goodwill may be impaired. For purposes of goodwill impairment testing, the Company operates as a single operating segment and has identified a single reporting unit. Events or changes in circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, or significant under performance relative to expected historical or projected future results of operations.

Testing goodwill for impairment involves a quantitative analysis whereby the estimated fair value of the reporting unit is compared with its respective carrying amount, including goodwill. However, prior to performing this quantitative goodwill impairment test, the Company has the option to first assess qualitative factors to determine whether or not it is necessary to perform the quantitative goodwill impairment test. If the Company chooses the qualitative option, the Company is not required to perform the quantitative goodwill impairment test unless it has determined, based on the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the quantitative impairment test is required or chosen, the impairment test involves comparing the estimated fair value of the reporting unit with its respective carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, including goodwill, goodwill is considered not to be impaired and no additional steps are necessary.

In March 2017, we experienced a drop in the trading price of our common stock. As a result, our public market capitalization, calculated by multiplying the share price by outstanding shares, is lower than the carrying value of our net assets. We considered this an indicator triggering the need to assess the carrying value of goodwill for potential impairment at March 31, 2017 and June 30, 2017. As a result, we performed a quantitative goodwill impairment assessment. We considered multiple factors including, amongst others, our current business condition, product and business plans, market perceptions, valuation considerations, and the timing of these factors. As a result, we determined that no impairment of goodwill was indicated at both March 31, 2017 and June 30, 2017.

Given the lack of significant headroom in our goodwill impairment assessment, we may be required to perform another interim goodwill impairment assessment in the third quarter of 2017 prior to our annual test. Based on the outcome of these future impairment assessments, we may be required to take a non-cash impairment charge if there is a future negative change in the factors considered above.

### **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.

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

Our cash and cash equivalents consist of cash, money market funds, commercial paper and treasury and debt securities with original maturities of three months or less. 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 June 30, 2017. 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 June 30, 2017, including intercompany balances, would result in a foreign currency loss of approximately \$1.4 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 June 30, 2017, 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 June 30, 2017 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.

## **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 June 30, 2017. However, based on our knowledge as of June 30, 2017, 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 condensed consolidated financial position, results of operations or cash flows.

On March 31, 2017, Guardian News & Media Limited (Guardian) issued proceedings (the Complaint) against us in the Chancery Division of the High Court of Justice in England & Wales. The Complaint alleges that we underpaid Guardian for inventory sold by Guardian through our platform as a result of the fact that we charged fees to buyers of that inventory. Guardian claims we were precluded from charging buyer fees as a result of our contractual arrangements with Guardian and English agency law principles, as well as representations we allegedly made to Guardian. The Complaint claims damages including loss of revenue, interest, and costs, without specifying the amount of damages sought. We dispute Guardian's claims and are defending them vigorously, but the Complaint involves disputed facts and complex legal questions, and its outcome is therefore uncertain. Even if Guardian were to prevail in this action, we do not believe our payment of the damages we think could be recoverable by Guardian would have a material adverse effect upon our condensed consolidated financial position, results of operations, or cash flows. However, pending or in response to the outcome of this action, if we face similar claims from other

clients or as a preventative measure, we might decide to implement fee reductions or make other changes to our business practices that could have such material adverse effects.

#### **Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. We describe risks associated with our business in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 (the "Risk Factors"). Each of the risks described in our Risk Factors may be relevant to decisions regarding an investment in or ownership of our stock. The occurrence of any such 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 such risks and the other information contained in this report, including our condensed 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. Except as described below, there are no material changes to the Risk Factors of which we are currently aware; but our Risk Factors cannot anticipate and fully address all possible risks of investing in our common stock, the risks of investing in our common stock may change over time, and additional risks and uncertainties that we are not aware of, or that we do not consider to be material, may emerge. Accordingly, you are advised to consider additional sources of information and exercise your own judgment in addition to the information we provide.

##### ***Failure to integrate our recently-acquired business into our operations successfully could adversely affect our business.***

nToggle's technology is relatively new, and successful integration of the technology into our platform and implementation of the technology at scale in our services to our clients will require significant efforts. We may need to allocate more resources to integration and product development activities than originally anticipated, and these efforts could delay implementation of the technology. While we believe that the acquisition will give us a significant advantage in filtering capabilities over our competitors, further development is still needed and some of our competitors are larger and better funded than we are, can devote more resources to development of technologies like filtering than we can, and thus might develop similar or better capabilities faster than we can. Moreover, the results we expect from the nToggle technology, including more efficient inventory identification and purchasing for our buyer clients, more monetization for our sellers, and more efficient processing of ad requests and higher fill rates, might not materialize, and we may not be able to recoup our investment. Exchanges that compete with us and that previously agreed to integrate with nToggle so that their mutual DSP clients could use the nToggle technology may be unwilling to do business with us for various reasons, including concerns about providing us with access to their bid stream information, and that could make it more difficult to sell filtering services to DSPs for use on other exchanges, if we chose to do that. nToggle's revenue was small before the acquisition and we intend to provide nToggle's technology to our DSPs without charging separately for it, so even if we retain all of nToggle's clients and exchange relationships, we do not currently expect to generate revenue directly from sale of filtering services based upon nToggle's technology. Instead, we plan to rely upon positive effects from integration of nToggle's technology into our operations, as described above, to recover our investment in the acquisition. We also could experience negative effects on our results of operations, cash flows, and financial condition from acquisition-related charges, amortization of intangible assets and asset impairment charges.

##### ***We are shifting to a higher volume, lower cost business model, which involves risks and may not succeed.***

We believe the market is demanding more efficiency and lower cost from ad tech intermediaries like us. As a result, a critical part of our plan to return to growth is to operate at higher volumes and with improved efficiency that will support lower margins. To achieve this, we need significant increases in ad requests coming from our seller clients, which represent inventory available for purchase on our platform. Our plans for increasing our inventory volumes include active pursuit of more direct relationships with sellers, particularly of mobile, video, and Orders impressions, and utilization of emerging server-side header bidding technologies, including our own proprietary prebid solution as well as third-party wrappers, which we will rely upon to access ad requests that might not otherwise be accessible to us. In addition, our acquisition of nToggle is intended to support higher volumes by providing more efficient inventory identification and purchasing for our buyer clients and more monetization for our sellers, as well as reduced processing costs associated with higher volumes of ad requests. Our strategic pricing reductions are intended to address the market's demand for lower costs and to attract more inventory and spending to our platform.

We may not succeed in increasing the inventory on our platform to the levels we expect for various reasons, including decisions by sellers to reduce the number of exchanges with which they integrate, including through header bidding, prohibitive terms imposed by providers of third-party header bidding solutions, or more compelling offerings by competitors. Even if we increase inventory on our platform as expected, we must compete effectively in header bidding auctions to purchase that inventory, which may be difficult if competitors have more robust demand or more effective technology or offer better pricing or service. Operating at higher volumes with lower margins requires scale and efficiency. We believe we are better suited to operate in such an environment than many of our competitors, but we could have difficulty competing successfully with our largest competitors if the market evolves to aggressive price-cutting. If we are not able to succeed with our higher volume, lower cost strategy for these or other reasons, we may not be able to grow or operate profitably.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*(a) Recent Sales of Unregistered Securities*

None.

*(b) Use of Proceeds*

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-193739), which was declared effective on April 1, 2014. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) of the Securities Act and other periodic reports previously filed with the SEC.

*(c) Purchases of Equity Securities by the Company and Affiliated Purchasers*

We currently have no publicly announced repurchase plan or program.

Upon vesting of most restricted stock units or stock awards, we are required to deposit statutory employee withholding taxes on behalf of the holders of the vested awards. As reimbursement for these tax deposits, we have the option to withhold from shares otherwise issuable upon vesting a portion of those shares with a fair market value equal to the amount of the deposits we paid. Withholding of shares in this manner is accounted for as a repurchase of common stock.

Common stock repurchases during the quarter ended June 30, 2017 were as follows (in thousands, except per share amounts):

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of a Publicly Announced Program</b>	<b>Maximum Approximate Dollar Value that May Yet be Purchased Under the Program</b>
April 1 – April 30, 2017	55	\$ 5.67	—	\$ —
May 1 – May 31, 2017	263	\$ 5.81	—	\$ —
June 1 – June 30, 2017	2	\$ 5.27	—	\$ —

**Item 6. Exhibits**

See the Exhibit index immediately following the signature page of this Quarterly Report on Form 10-Q.

**SIGNATURES**

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

THE RUBICON PROJECT, INC.  
(Registrant)

/s/ David Day

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David Day

Chief Financial Officer and Chief Accounting Officer  
(Principal Financial Officer and Principal Accounting Officer)

Date: August 1, 2017

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## EXHIBIT INDEX

<u>Number</u>	<u>Description</u>
2.1 <sup>(1)</sup>	Agreement and Plan of Merger, dated July 11, 2017, by and among The Rubicon Project, Inc., Caviar Acquisition Corp., nToggle, Inc., Shareholder Representative Services LLC, solely in its capacity as the initial Holder Representative thereunder, and certain persons delivering joinder agreements therewith (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 17, 2017).
3.1	Sixth Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 15, 2014).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 8, 2016).
31.1*	Certification of Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1* <sup>(2)</sup>	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.ins *	XBRL Instance Document
101.sch *	XBRL Taxonomy Schema Linkbase Document
101.cal *	XBRL Taxonomy Calculation Linkbase Document
101.def *	XBRL Taxonomy Definition Linkbase Document
101.lab *	XBRL Taxonomy Label Linkbase Document
101.pre *	XBRL Taxonomy Presentation Linkbase Document

\* Filed herewith

+ Indicates a management contract or compensatory plan or arrangement

- (1) Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Rubicon Project hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the U.S. Securities and Exchange Commission.
- (2) The information in this exhibit is furnished and deemed not filed with the Securities and Exchange Commission for purposes of section 18 of the Exchange Act of 1934, as amended (the "Exchange Act"), and is not to be incorporated by reference into any filing of The Rubicon Project, Inc. under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Certification of Principal Executive Officer  
pursuant to  
Exchange Act Rules 13a-14(a) and 15d-14(a),  
as adopted pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael Barrett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Rubicon Project, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Signature:

/s/ Michael Barrett

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Michael Barrett  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 1, 2017

**Certification of Principal Financial Officer  
pursuant to  
Exchange Act Rules 13a-14(a) and 15d-14(a),  
as adopted pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, David Day, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Rubicon Project, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Signature:

/s/ David Day

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David Day  
Chief Financial Officer and Chief  
Accounting Officer  
(Principal Financial Officer)

Date: August 1, 2017

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), Michael Barrett, President and Chief Executive Officer (Principal Executive Officer) of The Rubicon Project, Inc. (the "Company"), and David Day, Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. Our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, to which this certification is attached as Exhibit 32 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2017

/s/ Michael Barrett

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Michael Barrett  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ David Day

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David Day  
Chief Financial Officer and Chief  
Accounting Officer  
(Principal Financial Officer)

The foregoing certifications are being furnished pursuant to 18 U.S.C. Section 1350. They are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.