

TREMOR VIDEO INC.
Form 10-Q
November 14, 2014
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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 September 30, 2014

OR

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

For the transition period from to

TREMOR VIDEO, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5480343

(I.R.S. Employer Identification Number)

53 West 23rd Street, New York, NY

10010

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(646) 723-5300**

Indicate by check mark whether the registrant (1) 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 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)

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

As of November 11, 2014, there were 51,080,730 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

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TREMOR VIDEO, INC.

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CERTIFICATIONS

Table of Contents**Part I FINANCIAL INFORMATION****Item 1. Financial Statements****Tremor Video, Inc.****Consolidated Balance Sheets***(in thousands, except share and per share data)*

| | September 30, 2014 (unaudited) | December 31, 2013 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 77,909 | \$ 92,691 |
| Accounts receivable, net of allowance for doubtful accounts of \$871 and \$959 as of September 30, 2014 and December 31, 2013, respectively | 46,519 | 41,458 |
| Prepaid expenses and other current assets | 1,614 | 1,912 |
| Total current assets | 126,042 | 136,061 |
| Long-term assets: | | |
| Restricted cash | 600 | 600 |
| Property and equipment, net of accumulated depreciation of \$4,467 and \$3,618 as of September 30, 2014 and December 31, 2013, respectively | 4,730 | 3,388 |
| Intangible assets, net of accumulated amortization of \$18,940 and \$15,313 as of September 30, 2014 and December 31, 2013, respectively | 16,760 | 20,387 |
| Goodwill | 29,719 | 29,719 |
| Deferred tax assets | 189 | 189 |
| Other assets | 249 | 216 |
| Total long-term assets | 52,247 | 54,499 |
| Total assets | \$ 178,289 | \$ 190,560 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 33,157 | \$ 32,312 |
| Deferred rent and security deposits payable, short-term | | 14 |
| Deferred revenue | 314 | 271 |
| Deferred tax liabilities, short-term | 189 | 189 |
| Total current liabilities | 33,660 | 32,786 |
| Deferred rent, long-term | 763 | 742 |
| Total liabilities | 34,423 | 33,528 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Common stock, \$0.0001 par value: 250,000,000 shares authorized as of September 30, 2014 and December 31, 2013, respectively; 51,077,731 and 49,998,274 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively | 5 | 5 |
| Additional paid-in capital | 272,734 | 267,767 |
| Accumulated other comprehensive income | 137 | 195 |
| Accumulated deficit | (129,010) | (110,935) |

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| | | | | |
|--|----|---------|----|---------|
| Total stockholders' equity | | 143,866 | | 157,032 |
| Total liabilities and stockholders' equity | \$ | 178,289 | \$ | 190,560 |

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

Table of Contents**Tremor Video, Inc.****Consolidated Statements of Operations***(in thousands, except share and per share data)**(unaudited)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | \$ 39,039 | \$ 35,267 | \$ 117,609 | \$ 95,497 |
| Cost of revenue | 24,046 | 21,057 | 75,882 | 53,869 |
| Gross profit | 14,993 | 14,210 | 41,727 | 41,628 |
| Operating expenses: | | | | |
| Technology and development | 4,270 | 2,833 | 12,583 | 8,348 |
| Sales and marketing | 10,761 | 9,477 | 31,118 | 28,263 |
| General and administrative | 3,724 | 2,681 | 11,037 | 8,069 |
| Depreciation and amortization | 1,673 | 1,581 | 4,902 | 4,576 |
| Total operating expenses | 20,428 | 16,572 | 59,640 | 49,256 |
| Loss from operations | (5,435) | (2,362) | (17,913) | (7,628) |
| Interest and other income (expense), net: | | | | |
| Interest expense, net | (3) | (14) | (3) | (127) |
| Other income (expense), net | 8 | 153 | (15) | 323 |
| Total interest and other income (expense), net | 5 | 139 | (18) | 196 |
| Loss before income taxes | (5,430) | (2,223) | (17,931) | (7,432) |
| Income tax expense | 44 | 20 | 144 | 243 |
| Net loss | (5,474) | (2,243) | (18,075) | (7,675) |
| Series F preferred stock deemed dividend | | 15,849 | | 15,849 |
| Net loss attributable to common stockholders | \$ (5,474) | \$ (18,092) | \$ (18,075) | \$ (23,524) |
| Net loss attributable to common stockholders per share: | | | | |
| Basic and diluted | \$ (0.11) | \$ (0.37) | \$ (0.36) | \$ (1.08) |
| Weighted-average number of shares of common stock outstanding: | | | | |
| Basic and diluted | 50,751,303 | 49,115,766 | 50,485,734 | 21,686,759 |

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

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Tremor Video, Inc.

Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net loss | \$ (5,474) | \$ (2,243) | \$ (18,075) | \$ (7,675) |
| Series F preferred stock deemed dividend | | 15,849 | | 15,849 |
| Net loss attributable to common stockholders | (5,474) | (18,092) | (18,075) | (23,524) |
| Other comprehensive (loss) gain: | | | | |
| Foreign currency translation adjustments | (63) | 50 | (58) | (100) |
| Comprehensive loss attributable to common stockholders | \$ (5,537) | \$ (18,042) | \$ (18,133) | \$ (23,624) |

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

Table of Contents**Tremor Video, Inc.****Consolidated Statement of Changes in Stockholders Equity***(in thousands, except share and per share data)**(unaudited)*

| | Share | Common Stock Amount | | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Accumulated Deficit | | Total Stockholders Equity |
|--|------------|------------------------|---|----------------------------------|---|------------------------|----|---------------------------------|
| Balance as of December 31, 2013 | 49,998,274 | \$ | 5 | \$ 267,767 | \$ 195 | \$ (110,935) | \$ | 157,032 |
| Exercise of stock options | 745,807 | | | 727 | | | | 727 |
| Stock-based compensation expense | | | | 3,288 | | | | 3,288 |
| Common stock issued for settlement of restricted stock units (RSUs), net of 173,169 shares withheld to satisfy income tax withholding obligations | 333,650 | | | 952 | | | | 952 |
| Net loss | | | | | | (18,075) | | (18,075) |
| Foreign current translation adjustment | | | | | (58) | | | (58) |
| Balance as of September 30, 2014 | 51,077,731 | \$ | 5 | \$ 272,734 | \$ 137 | \$ (129,010) | \$ | (143,866) |

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

Table of Contents**Tremor Video, Inc.****Consolidated Statements of Cash Flows***(in thousands)**(unaudited)*

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net loss | \$ (18,075) | \$ (7,675) |
| Adjustments required to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation of property and equipment | 1,275 | 919 |
| Amortization of intangible assets | 3,627 | 3,657 |
| Bad debt recovery | (36) | (26) |
| Mark-to-market income | | (313) |
| Contingent stock grant to third party vendor | 24 | |
| Stock-based compensation expense | 3,294 | 2,419 |
| Stock-based long-term incentive compensation | 274 | |
| Net changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (5,061) | (3,376) |
| Decrease (increase) in prepaid expenses and other long-term assets | 292 | (835) |
| Increase in accounts payable and accrued expenses | 2,039 | 8,998 |
| Increase in deferred rent and security deposits payable | 7 | 119 |
| Increase (decrease) in deferred revenue | 43 | (16) |
| Net cash (used in) provided by operating activities | (12,297) | 3,871 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,617) | (1,757) |
| Changes in restricted cash | | 621 |
| Net cash used in investing activities | (2,617) | (1,136) |
| Cash flows from financing activities: | | |
| Net proceeds from common stock issuance | | 66,598 |
| Repayment of amount outstanding under credit facility | | (6,000) |
| Proceeds from the exercise of stock options | 727 | 492 |
| Tax withholdings related to net share settlements of restricted stock units (RSUs) | (565) | |
| Net cash provided by financing activities | 162 | 61,090 |
| Net (decrease) increase in cash and cash equivalents | (14,752) | 63,825 |
| Effect of exchange rate changes in cash and cash equivalents | (30) | (100) |
| Cash and cash equivalents at beginning of period | 92,691 | 32,533 |
| Cash and cash equivalents at end of period | \$ 77,909 | \$ 96,258 |
| Supplemental disclosure of cash flow activities: | | |
| Cash paid for income taxes | \$ | \$ 147 |
| Cash paid for interest expense | \$ 3 | \$ 127 |

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Supplemental disclosure of non-cash financing activities:

| | | | |
|---|----|-----|---------|
| Common stock issued in connection with the conversion of preferred stock | \$ | \$ | 162,657 |
| Common stock issued in connection with the Series F preferred stock deemed dividend | \$ | \$ | 15,849 |
| Reclassification of liability warrants to equity warrants | \$ | \$ | 790 |
| Common stock issued for settlement of RSUs | \$ | 952 | \$ |

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

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Tremor Video, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

1. Organization and Description of Business

Tremor Video, Inc. (the Company) was originally organized as Tremor Media, LLC in November 2005 and converted into a corporation named Tremor Media, Inc. under the laws of the State of Delaware in September 2006. The Company changed its name to Tremor Video, Inc. in June 2011. The Company is an advertising technology company elevating brand performance across all screens for the world's leading brands and publishers. The Company offers brand advertisers and publishers a complete programmatic solution to reach and engage consumers while providing new insights into what drives the success of brand advertising performance across multiple screens, including computers, smartphones, tablets and connected TVs. Through its Tremor Video Network, the Company offers advertisers access to premium and often exclusive streaming video inventory and advanced real-time optimization capabilities at scale across multiple internet-connected devices in brand safe environments. In addition, through its licensed analytics solution, the Company provides advanced video analytic capabilities for advertisers and publishers, to measure, verify and evaluate the performance of video ad campaigns across multiple channels, both within and outside of its Tremor Video Network.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and applicable rules and regulations of the U.S. Securities and Exchange Commissions (the SEC) regarding unaudited interim financial information. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's consolidated balance sheets, statements of operations, comprehensive loss and cash flows for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full year or the results for any future periods due to seasonal and other factors. Certain information and footnote disclosures normally included in the consolidated financial statements in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. Accordingly, these unaudited interim consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company's Form 10-K for the year ended December 31, 2013 filed with the SEC on March 28, 2014.

Principles of Consolidation

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The unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in the accompanying unaudited interim consolidated financial statements.

Concentrations of Credit Risk

Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All of the Company's cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The Company's cash and cash equivalents may exceed federally insured limits at times. The Company has not experienced any losses on cash and cash equivalents to date.

The Company determines collectability by performing ongoing credit evaluations and monitoring its customers' accounts receivable balances. For new customers and their agents, which may be advertising agencies or other third parties, the Company performs a credit check with an independent credit agency and may check credit references to determine creditworthiness. The Company only recognizes revenue when collection is reasonably assured.

During the three and nine months ended September 30, 2014, there were no advertisers that accounted for more than 10% of revenue. During the three and nine months ended September 30, 2013, there was one advertiser that accounted for approximately 10.5% and 10.7% of revenue, respectively.

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Tremor Video, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

2. Summary of Significant Accounting Policies (Continued)

As of September 30, 2014 and December 31, 2013, there were no advertisers that accounted for more than 10% of outstanding accounts receivable.

Recently Issued Accounting Pronouncements

FASB Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (the FASB) issued an accounting standards update that provides a comprehensive model for recognizing revenue with customers. This update clarifies and replaces all existing revenue recognition guidance within U.S. GAAP. This update is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. The Company is currently evaluating the adoption method to apply and the impact that the update will have on its consolidated financial statements and related disclosures.

FASB Accounting Standards Update No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued new accounting guidance on the presentation of unrecognized tax benefits. This new guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists, with limited exceptions. This new guidance is effective for annual and interim periods beginning after December 15, 2013. The Company adopted this guidance in the first quarter of 2014. The adoption of this new accounting guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

3. Fair Value Measurements

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Fair value is defined as 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. The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation. The three-tiers are defined as follows:

- **Level 1.** Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;
- **Level 2.** Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3.** Unobservable inputs for which there is little or no market data requiring the Company to develop its own assumptions.

Table of Contents**Tremor Video, Inc.****Notes to Consolidated Financial Statements***(in thousands, except share and per share data)**(unaudited)***3. Fair Value Measurements (Continued)***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made. The following table summarizes the conclusions reached as of September 30, 2014 and December 31, 2013:

| | September 30, 2014 (unaudited) | | | | December 31, 2013 | | | |
|-----------------------|-----------------------------------|---------|---------|-----------|-------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | | | | |
| Money market funds(1) | \$ 65,562 | \$ | \$ | \$ 65,562 | \$ 89,042 | \$ | \$ | \$ 89,042 |
| | \$ 65,562 | \$ | \$ | \$ 65,562 | \$ 89,042 | \$ | \$ | \$ 89,042 |

(1) Money market funds are included within cash and cash equivalents in the Company's consolidated balance sheets. As short-term, highly liquid investments readily convertible to known amounts of cash, the Company's money market funds have carrying values that approximates its fair value. Amounts above do not include \$12,347 and \$3,649 of operating cash balances as of September 30, 2014 and December 31, 2013, respectively.

4. Property and Equipment, Net

| | September 30, 2014 (unaudited) | December 31, 2013 |
|------------------------|--------------------------------------|----------------------|
| Cost: | | |
| Computer hardware | \$ 5,505 | \$ 3,908 |
| Leasehold improvements | 1,516 | 1,422 |
| Furniture and fixtures | 1,119 | 1,090 |
| Computer software | 881 | 482 |

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| | | | | |
|---|----|---------|----|---------|
| Office equipment | | 176 | | 104 |
| | | 9,197 | | 7,006 |
| Accumulated depreciation | | (4,467) | | (3,618) |
| Total property and equipment, net of accumulated depreciation | \$ | 4,730 | \$ | 3,388 |

The depreciation expense related to property and equipment was \$464 and \$362 for the three months ended September 30, 2014 and 2013, respectively, and \$1,275 and \$919 for the nine months ended September 30, 2014 and 2013, respectively.

The Company recorded a reduction of \$426 and \$654 to the cost and accumulated depreciation of fully depreciated equipment and leasehold improvements no longer in use for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents**Tremor Video, Inc.****Notes to Consolidated Financial Statements***(in thousands, except share and per share data)**(unaudited)***5. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consisted of:

| | September 30, 2014 (unaudited) | December 31, 2013 |
|---|---|------------------------------|
| Trade accounts payable | \$ 24,991 | \$ 24,121 |
| Accrued compensation, benefits and payroll taxes(1) | 5,243 | 5,612 |
| Accrued cost of sales | 1,416 | 1,267 |
| Other payables and accrued expenses | 1,507 | 1,312 |
| Total accounts payable and accrued expenses | \$ 33,157 | \$ 32,312 |

(1) At September 30, 2014 and December 31, 2013, accrued compensation, benefits and payroll taxes includes \$367 and \$1,614 of stock-based long-term incentive compensation expense, respectively, related to the Company's long-term sales incentive compensation plan. Payments earned under the long-term sales incentive compensation plan for the 2013 plan year were paid in stock-based awards in August 2014. The Company issued an aggregate total of 293,650 shares to employees under its 2013 Plan on account of such payments, net of 173,169 shares withheld to satisfy income tax withholding obligations in the amount of \$565, which were remitted to tax authorities. Payments earned under the plan for the 2014 plan year will be made in stock-based awards to participants that remain employed with the Company through June 30, 2015, which will be paid in August 2015.

6. Changes in Accumulated Other Comprehensive Income

The following tables provide the components of accumulated other comprehensive income:

| | Foreign Currency Translation Adjustment |
|---|--|
| Beginning balance at July 1, 2014 | \$ 200 |
| Other comprehensive loss before reclassifications | (63) |

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| | | |
|--|----|--|
| Amounts reclassified from accumulated other comprehensive income | | |
| Ending balance at September 30, 2014 | \$ | 137 |
| | | |
| | | Foreign Currency Translation Adjustment |
| Beginning balance at July 1, 2013 | \$ | 195 |
| Other comprehensive gain before reclassifications | | 50 |
| Amounts reclassified from accumulated other comprehensive income | | |
| Ending balance at September 30, 2013 | \$ | 245 |

Table of Contents**Tremor Video, Inc.****Notes to Consolidated Financial Statements***(in thousands, except share and per share data)**(unaudited)***6. Changes in Accumulated Other Comprehensive Income (Continued)**

| | | Foreign Currency Translation Adjustment |
|--|----|--|
| Beginning balance at January 1, 2014 | \$ | 195 |
| Other comprehensive loss before reclassifications | | (58) |
| Amounts reclassified from accumulated other comprehensive income | | |
| Ending balance at September 30, 2014 | \$ | 137 |

| | | Foreign Currency Translation Adjustment |
|--|----|--|
| Beginning balance at January 1, 2013 | \$ | 345 |
| Other comprehensive loss before reclassifications | | (100) |
| Amounts reclassified from accumulated other comprehensive income | | |
| Ending balance at September 30, 2013 | \$ | 245 |

7. Stock-Based Compensation

The Company included stock-based compensation expense related to all of its stock-based awards in various operating expense categories for the three months ended September 30, 2014 and 2013 and for the nine months ended September 30, 2014 and 2013 as follows:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|---|-------|-------------|--|----|--------------------|
| | 2014 | | 2013 | 2014 | | 2013 |
| | | | | | | (unaudited) |
| Technology and development | \$ | 239 | \$ | 142 | \$ | 653 |
| Sales and marketing | | 342 | | 317 | | 1,063 |
| General and administrative | | 607 | | 459 | | 1,578 |
| Total stock-based compensation expense | \$ | 1,188 | \$ | 918 | \$ | 3,294 |
| | | | | | | 2,419 |

Stock-Based Incentive Plans

On June 26, 2013, the Company adopted the 2013 Equity Incentive Plan (the 2013 Plan). The Company has stock option awards outstanding under five stock-based incentive plans as of September 30, 2014 and December 31, 2013, including, in each case, two plans that were assumed as part of the acquisition of ScanScout, Inc. The Company has restricted stock unit awards outstanding under its 2013 Plan.

Table of Contents**Tremor Video, Inc.****Notes to Consolidated Financial Statements***(in thousands, except share and per share data)**(unaudited)***7. Stock-Based Compensation (Continued)***Stock Option Awards Outstanding*

The following table presents a summary of the Company's stock option award activity under all plans and related information for the nine months ended September 30, 2014:

| | Number of Stock Option Awards Outstanding | Weighted-Average Exercise Price Per Share |
|---|--|--|
| Stock option awards outstanding as of December 31, 2013 | 7,302,761 | \$ 3.96 |
| Stock option awards granted | 1,006,094 | \$ 3.88 |
| Stock option awards forfeited | (614,013) | \$ 5.27 |
| Stock option awards exercised | (745,807) | \$ 0.97 |
| Stock option awards outstanding as of September 30, 2014 | 6,949,035 | \$ 4.16 |
| Stock option awards vested and exercisable as of September 30, 2014 | 4,446,692 | \$ 3.66 |

Stock option awards are generally granted at the fair market value of the Company's common stock on the date of grant, generally vest over periods up to four years, have a one year cliff with monthly vesting thereafter, and have terms not to exceed 10 years. The weighted-average grant date fair value of stock option awards granted during the nine months ended September 30, 2014 was \$1.84 per share. The total intrinsic value of stock option awards exercised during the nine months ended September 30, 2014 and 2013 was \$2,378 and \$993, respectively. Cash proceeds received from stock option awards exercised for the nine months ended September 30, 2014 and 2013 was \$727 and \$492, respectively.

There was \$5,691 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's equity incentive plans as of September 30, 2014. This cost is expected to be recognized over a weighted-average period of 2.87 years.

Non-vested Restricted Stock Units (RSU)

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The following table presents a summary of the Company's non-vested restricted stock unit award activity under all plans and related information for the nine months ended September 30, 2014:

| | Number of Shares of Restricted Stock Unit Awards | Weighted-Average Grant Date Fair Value Per Share |
|--|---|---|
| Non-vested restricted stock unit awards outstanding as of December 31, 2013 | 70,119 | \$ 9.63 |
| Restricted stock unit awards granted | 1,499,405 | \$ 3.94 |
| Restricted stock unit awards forfeited | (137,347) | \$ 5.37 |
| Restricted stock unit awards exercised | (506,819) | \$ 3.78 |
| Non-vested restricted stock unit awards outstanding as of September 30, 2014 | 925,358 | \$ 4.25 |

As of September 30, 2014, there was \$3,346 of total unrecognized compensation cost related to non-vested restricted stock unit awards. This cost is expected to be recognized over a weighted-average period of 3.55 years.

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Tremor Video, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

7. Stock-Based Compensation (Continued)

Employee Stock Purchase Plan

On April 22, 2014, the Company's board of directors adopted the 2014 Employee Stock Purchase Plan (2014 ESPP), which was approved by the Company's stockholders at the 2014 annual meeting of stockholders on June 16, 2014. The 2014 ESPP allows eligible participants to purchase shares of the Company's common stock generally at six-month intervals, or offering periods, at a price equal to 85% of the lower of (i) the fair market value at the beginning of the offering period or (ii) the fair market value at the end of the offering period, or the purchase date.

Employees purchase shares of common stock through payroll deductions, which may not exceed 15% of their total base salary. The 2014 ESPP imposes certain limitations upon an employee's right to purchase shares, including the following: (1) no employee may purchase more than 5,000 shares on any one purchase date and (2) no employee may purchase shares with a fair market value in excess of \$25 in any calendar year.

No more than 2,000,000 shares of common stock are reserved for future issuance under the 2014 ESPP.

The Company began its first offering period in August 2014 and will end in February 2015.

The fair value for each award under the 2014 ESPP was estimated at the beginning of the offering period using a Black-Scholes option pricing model and requires subjective assumptions, including, but not limited to, the expected term of the award and stock price volatility. The Company estimates the expected term of the shares of common stock granted under the 2014 ESPP based on the duration of the offering periods, which is six months. The Company estimates the volatility of its common stock on the date of grant based on the historic volatility of comparable companies in its industry. The Company selected the risk-free interest rate based on yields from United States Treasury zero-coupon issues with a term consistent with the expected term of the awards in effect at the time of grant. The Company has never declared or paid any cash dividends and has no current plan to do so. Consequently, it used an expected dividend yield of zero. For the nine months ended September 30, 2014, the following assumptions were used for awards issued under the 2014 ESPP:

2014
(unaudited)

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| | |
|--------------------------|--------|
| Volatility | 33.82% |
| Risk-free interest rate | 0.05% |
| Expected term (in years) | 0.50% |
| Dividend yield | 0.00% |

As of September 30, 2014, there was \$122 of total unrecognized compensation cost related to awards under the 2014 ESPP. This cost is expected to be recognized over a weighted-average period of less than one year.

8. Net Loss Attributable to Common Stockholders Per Share

Basic net loss attributable to common stockholders per share is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

Diluted net loss attributable to common stockholders per share is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, adjusted to reflect potentially dilutive securities using the treasury stock method for warrants to purchase mandatorily redeemable convertible preferred stock (preferred stock), warrants to purchase common stock, preferred stock, stock option awards and restricted stock unit awards. Due to the Company's net loss attributable to common stockholders: (i) warrants to purchase preferred stock; (ii) warrants to purchase common stock; (iii) preferred stock; (iv) stock option awards; and (v) restricted stock unit awards were not included in the computation of diluted net loss attributable to common stockholders per share, as the effects would be anti-dilutive. Accordingly, basic and diluted net loss attributable to common stockholders per share is equal for the following periods presented:

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Tremor Video, Inc.

Notes to Consolidated Financial Statements

*(in thousands, except share and per share data)**(unaudited)*

8. Net Loss Attributable to Common Stockholders Per Share (Continued)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (unaudited) | | | |
| Numerator: | | | | |
| Net loss | \$ (5,474) | \$ (2,243) | \$ (18,075) | \$ (7,675) |
| Series F preferred stock deemed dividend(1) | | 15,849 | | 15,849 |
| Net loss attributable to common stockholders | \$ (5,474) | \$ (18,092) | \$ (18,075) | \$ (23,524) |
| Denominator: | | | | |
| Weighted-average number of shares of common stock outstanding for basic and diluted net loss attributable to common stockholders per share(1) | 50,751,303 | 49,115,766 | 50,485,734 | 21,686,759 |
| Basic and diluted net loss attributable to common stockholders per share | \$ (0.11) | \$ (0.37) | \$ (0.36) | \$ (1.08) |

(1) On July 2, 2013, the Company closed its initial public offering (IPO) of common stock in which the Company issued and sold 7,500,000 shares of common stock. Upon closing of the IPO, all of the Company's outstanding preferred stock automatically converted into 34,172,316 shares of common stock, which included a one-time \$15,849 non-cash preferred stock deemed dividend related to 1,584,863 of additional shares of common stock issued to holders of the Company's Series F preferred stock, in connection with the conversion terms of such preferred stock.

The following securities were outstanding during the periods presented below and have been excluded from the calculation of diluted net loss attributable to common stockholders per share because the effect is anti-dilutive:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Warrants to purchase preferred stock(1) | | 140,933 | | 140,933 |
| Warrants to purchase common stock | 39,824 | 39,824 | 39,824 | 39,824 |
| Preferred stock(1) | | 32,563,192 | | 32,563,192 |
| Stock option awards | 6,949,035 | 7,170,783 | 6,949,035 | 7,170,783 |
| Restricted stock unit awards | 925,358 | 70,119 | 925,358 | 70,119 |
| Total anti-dilutive securities | 7,914,217 | 39,984,851 | 7,914,217 | 39,984,851 |

(1) On July 2, 2013, upon closing of the IPO, all of the Company's outstanding preferred stock automatically converted into shares of common stock. In addition, the outstanding warrants to purchase preferred stock automatically converted into warrants to purchase common stock.

9. Employee Benefit Plan

The Company maintains a defined contribution retirement plan available to all eligible U.S. employees pursuant to Section 401(k) of the U.S. Internal Revenue Code (the "401(k) Plan"). Pursuant to the Company's 401(k) Plan, participating U.S. employees may defer a portion of their pre-tax earnings, subject to annual IRS contribution limits. The Company began a

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Tremor Video, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share data)

(unaudited)

9. Employee Benefit Plan (Continued)

discretionary contribution matching of employee's contributions in February 2014. The Company will match 50% of each participant's eligible contributions, up to a maximum employer matching contribution of 3% of each participant's eligible base salary. Participants will vest in such discretionary employer matching contributions over a three-year graded vesting period.

Total employer matching contributions to the Company's 401(k) Plan for the three and nine months ended September 30, 2014 were \$133 and \$340, respectively.

10. Segment and Geographic Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, in deciding how to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company has concluded that its operations constitute one operating and reportable segment.

Substantially all assets were held in the United States as of September 30, 2014 and December 31, 2013 and substantially all revenue was generated through sales personnel in the United States for the three and nine months ended September 30, 2014 and 2013.

11. Subsequent Events

Credit Facility

On October 20, 2014, the Company amended its existing Loan and Security Agreement, dated as of June 7, 2007, as amended (Loan Agreement), with Silicon Valley Bank (SVB). The Loan Agreement was amended to, among other things: (i) increase the Company's revolving

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credit facility from \$25,000 to \$32,500; (ii) add a letter of credit, foreign exchange and cash management facility in an aggregate amount of \$2,500; (iii) reduce the Company's interest rate from SVB's prime rate plus 0.50% to SVB's prime rate; (iv) increase the fee for unused capacity from 0.20% to 0.25% per year; (v) adjust the quick ratio financial covenant from 1.50 to 1.00 to 1.25 to 1.00; and (vi) extend the maturity date to December 30, 2016. The Company had no outstanding borrowings under the Loan Agreement and was in compliance with all covenants as of September 30, 2014 and through October 20, 2014.

Office Lease

On October 28, 2014, the Company entered into a new lease (Lease) for its principal executive offices in New York, New York. The Lease is for approximately 51,000 square feet of office space. The initial 10 year term of the Lease is estimated to commence on December 1, 2014, which is the date the Company expects to take possession of the leased premises. Pursuant to the Lease, the Company has the option to extend the Lease for one additional five-year term.

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with (1) the unaudited interim consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2013 included in the Annual Report on Form 10-K filed with the SEC on March 28, 2014. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as anticipate, believe, continue, could, estimate, expect, intend, may, plan, project, will, would or the negative or plural of these words or similar expressions or variations. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled Risk Factors, set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings, including our Annual Report on Form 10-K filed with the SEC on March 28, 2014. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. We will disclose material non-public information through one or more of the following channels: our investor relations website (<http://investor.tremorvideo.com>), the social media channels identified on our investor relations website, press releases, SEC filings, public conference calls and webcasts.

Overview

Tremor Video, Inc., we or us, is an advertising technology company elevating brand performance across all screens for the world's leading brands and publishers. We offer brand advertisers and publishers a complete programmatic solution to reach and engage consumers while providing new insights into what drives the success of brand advertising performance across multiple devices, including computers, smartphones, tablets and connected TVs. Our proprietary technology, VideoHub, analyzes in-stream video content, detects viewer and system attributes, and leverages our large repository of stored data to optimize video ad campaigns across screens to achieve brand performance goals, while providing access to advanced analytics and measurement tools in real-time. Our clients include some of the largest brand advertisers in the world including all of the top 10 automakers and top 10 consumer packaged goods companies. Our relationships with leading brand advertisers and their agencies have helped us create a robust online video ecosystem of premium websites and mobile applications, many of which partner with us on an exclusive basis.

Our VideoHub technology is the backbone of the Tremor Video Network through which we offer advertisers access to engaged consumers at scale in brand safe environments across multiple devices. We generally offer the Tremor Video Network as a managed service, with our team of experts managing the execution and delivery of an advertising campaign according to specific campaign parameters and brand performance goals set by the advertiser. These managed services are primarily contracted through insertion orders that we enter into with agencies and agency holding companies on behalf of their advertiser clients. Advertisers are also able to access the Tremor Video Network through programmatic demand sources such as agency trading desks and DSPs that are either integrated directly with our technology or transact through an integrated exchange. These programmatic demand sources often transact through master services agreements that govern the purchasing of inventory, eliminating the need for campaign-specific insertion orders. We derive substantially all of our revenue by delivering in-stream video advertising on behalf of a diversified base of brand advertisers in the United States through the Tremor Video Network on a managed service basis.

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We are continuing to develop and invest in a complete programmatic solution for brand advertisers and premium publishers, including a self-service platform. In the second quarter of 2014, we introduced to market a demand side platform, or DSP, for brand performance. Through our DSP, advertisers and agencies are able to set campaign parameters and goals on a self-service basis through an intuitive and customizable interface, and our Videohub technology optimizes delivery of the campaign across inventory sources, while providing advanced analytics and measurement tools that track campaign performance. We also recently introduced a self-service supply side platform, or SSP, for premium publishers, which helps publishers maximize the value of their video inventory by enabling their direct programmatic sales efforts and automating workflow. We are continuing to integrate our technology with third party exchanges, SSPs and DSPs to bring additional demand sources to our publisher SSP clients and enable advertisers and agencies to programmatically connect with engaged consumers across a broad inventory pool.

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In addition, we license VideoHub analytics to advertisers, agencies and publishers through our self-service platform. This solution affords advertisers transparency and analytical tools to measure the effectiveness of video ad campaigns across all of their video ad buys, and provides Publishers with valuable insights into what is driving the performance of ad campaigns running on their content. We generated \$0.4 million and \$0.9 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.2 million and \$2.4 million for the nine months ended September 30, 2014 and 2013, respectively, of revenue from licensed analytics solutions.

To further align our solutions with the needs of brand advertisers, we offer a number of performance-based pricing models for in-stream video advertisements where we are compensated only when viewers take certain actions, such as engaging with an ad, or when certain campaign results are achieved, such as a positive shift in the consumer's favorability or intent towards a brand. We believe our performance-based pricing models have higher gross margins than traditional CPM pricing models, which are based solely on the number of ad impressions delivered, because we are often able to serve our advertisers' performance goals with a lower number of purchased impressions. As a percentage of total revenue, revenue attributable to performance-based pricing was 28.4% and 26.1% for the three months ended September 30, 2014 and 2013, respectively, and 26.1% and 31.5% for the nine months ended September 30, 2014 and 2013, respectively. We continue to focus on increasing the sales of video ad campaigns with performance-based pricing to drive revenue growth and increase margins.

In addition to our performance-based pricing models, we also offer advertisers the ability to purchase campaigns on a CPM-basis with a guaranteed demographic reach, or demo guarantees, where an advertiser pays based on the number of impressions that are delivered to a target demographic. For the three and nine months ended September 30, 2014, campaigns sold with demo guarantees had lower gross margins than CPM-priced campaigns that were sold without demo guarantees.

As viewers increase time spent viewing video on smartphones and tablets, we expect brand advertisers to devote increasing amounts of advertising spend to these channels. Smartphones and tablets are inherently interactive and we believe that our in-stream advertising capabilities and higher margin performance based pricing models are well suited to address the growing market for mobile video ads. In April 2014, we announced the launch of an all-screen automated optimization solution for in-stream video advertising. Using this solution, brand advertisers can select a single campaign goal and VideoHub will optimize delivery of the campaign to find the right viewer wherever they may be watching video, whether on computers, tablets, smartphones or connected TVs, thus eliminating the need to allocate campaign budgets to a specific device.

For the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, our revenue increased to \$39.0 million from \$35.3 million, or 10.7%. Over the same period, our gross margin declined to 38.4% from 40.3% due primarily to our increased investment in premium video inventory and a decrease in revenue from our licensed analytics solutions. Our net loss increased to \$5.5 million from \$2.2 million. Our adjusted EBITDA (refer to Key Metrics) decreased to a loss of \$2.3 million from a gain of \$0.1 million, reflecting the decrease in gross margin described above as well as continued investment in our technology and development efforts, in particular as relates to our programmatic solutions.

For the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, our revenue increased to \$117.6 million from \$95.5 million, or 23.2%. Over the same period, our gross margin declined to 35.5% from 43.6% due in part to a decrease in the percentage of revenue derived from our performance based pricing models and an increase in the percentage of revenue derived from CPM-priced campaigns sold with demo guarantees, our increased investment in premium video inventory, and a decline in the effective CPM for campaigns running on the Tremor Video Network. Our net loss increased to \$18.1 million from \$7.7 million. Our adjusted EBITDA increased to a loss of \$9.2 million from a loss of \$0.6 million, reflecting the decrease in gross margin described above as well as continued investment in our technology and development efforts, in particular as relates to our programmatic solutions.

Key Metrics

We monitor the key metrics set forth in the table below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess our operational efficiencies.

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (dollars in thousands) | | | |
| Revenue | \$ 39,039 | \$ 35,267 | \$ 117,609 | \$ 95,497 |
| Gross margin | 38.4% | 40.3% | 35.5% | 43.6% |
| Net loss | \$ (5,474) | \$ (2,243) | \$ (18,075) | \$ (7,675) |
| Adjusted EBITDA | \$ (2,282) | \$ 137 | \$ (9,164) | \$ (633) |

Gross margin is our gross profit expressed as a percentage of our total revenue. Our gross margin is primarily impacted by video advertising inventory costs associated with delivering our advertisers campaigns relative to the revenue we generate from delivering such campaigns. Historically, our gross margin has been positively affected by campaigns priced on a performance basis, while campaigns sold with demo guarantees have had lower overall gross margins than CPM-priced campaigns that were sold without demo guarantees. If the relative mix of CPM-priced campaigns sold with demo guarantees increases, or the relative mix of campaigns priced on a performance basis decreases in future periods, our gross margin may be negatively affected.

Adjusted EBITDA represents our net loss before interest and other (income) expense, net, income tax expense, depreciation and amortization expense, and adjusted to eliminate the impact of stock-based compensation expense and stock-based long-term incentive compensation, both of which are non-cash items, and litigation costs associated with pending class action securities litigation. Adjusted EBITDA is a key measure used by management to evaluate operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis and, in the case of the exclusion of the impact of non-cash stock-based compensation expense, non-cash stock-based long-term incentive compensation and litigation costs associated with pending class action securities litigation, excludes items that we do not consider to be indicative of our core operating performance.

Adjusted EBITDA is a non-GAAP financial measure. Our use of adjusted EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under U.S. GAAP. Some of these limitations are: (a) although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash and capital expenditure requirements for such replacements or for new capital expenditure requirements; (b) adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (c) adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; (d) adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; (e) adjusted EBITDA does not reflect litigation costs associated with pending class action securities litigation; and (f) other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure. Because of these and other limitations, you should consider adjusted EBITDA alongside our other GAAP-based financial performance measures, net loss and our other GAAP financial results. The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP measure, for each of the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (dollars in thousands) | | | |
| Net loss | \$ (5,474) | \$ (2,243) | \$ (18,075) | \$ (7,675) |
| Adjustments: | | | | |
| Interest and other (income) expense, net | (5) | (139) | 18 | (196) |
| Income tax expense | 44 | 20 | 144 | 243 |
| Depreciation and amortization expense | 1,673 | 1,581 | 4,902 | 4,576 |
| Stock-based compensation expense | 1,188 | 918 | 3,294 | 2,419 |
| Stock-based long-term incentive compensation(1) | 160 | | 274 | |

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| | | | | | | | | |
|-----------------------|----|---------|----|-------|----|---------|----|-------|
| Litigation costs | | 132 | | | | 279 | | |
| Total net adjustments | | 3,192 | | 2,380 | | 8,911 | | 7,042 |
| Adjusted EBITDA | \$ | (2,282) | \$ | 137 | \$ | (9,164) | \$ | (633) |

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- (1) Reflects amounts accrued for the 2014 plan year, net of forfeitures from the 2013 plan year.

Components of Operating Results

We operate in one segment, online video advertising services. The key elements of our operating results include:

Revenue

We generate revenue primarily by delivering in-stream video advertisements for brand advertisers and agencies through the Tremor Video Network on a managed service basis. We also license our VideoHub analytics to advertisers, agencies and publishers through a self-service platform.

We generally price delivery of our video ads through the Tremor Video Network on a CPM, CPE (cost per engagement), CPVC (cost per video completed), CPS (cost per brand-shift), CPQ (cost per conquest), or CPV&C (cost per ad completed and viewable) basis. We recognize revenue for video ad delivery through the Tremor Video Network upon: (i) delivery of impressions served for CPM-priced ad campaigns without demo guarantees; (ii) delivery of each impression served to a target demographic for CPM-priced ad campaigns with demo guarantees; (iii) engagement by the consumer with a video ad for CPE-priced ad campaigns; (iv) completion of a video ad by the consumer for CPVC-priced ad campaigns; (v) positive shift in a consumer's favorability towards a brand for CPS-priced ad campaigns; (vi) shift of a consumer's intent away from a competing brand for CPQ-priced ad campaigns; and (vii) completion of a video ad by a consumer, which video ad is viewable for its duration, for CPV&C-priced ad campaigns. The prices we charge our clients also vary depending upon the source of inventory, ad format chosen and the device type through which the campaign runs, but are generally consistent across computers, smartphones and tablets. We primarily offer our Tremor Video Network solution to advertisers by entering into insertion orders with ad agencies on behalf of advertisers. These insertion orders are generally cancellable upon short notice and without penalty consistent with standard terms and conditions for the purchase of internet advertising for media buys one year or less published by the Interactive Advertising Bureau. For programmatic campaigns purchased on the Tremor Video Network by advertisers and agencies through third party DSPs or exchanges, we often enter into master services agreements with such DSPs or exchanges governing the purchase of inventory, eliminating the need for campaign-specific insertion orders.

We also generate revenue from licensing our VideoHub analytics through a self-service platform to advertisers, agencies and publishers. The license fee varies depending upon the level of access to our video advertising analytics and the volume of impressions being analyzed by VideoHub. We recognize revenue with respect to this solution on a CPM basis based upon the number of impressions being analyzed in a given month. In limited cases, we may charge a minimum monthly fee. Typically, our license terms are for one year periods.

Cost of Revenue

Our cost of revenue primarily represents the video advertising inventory costs under our publisher contracts, research costs, third party hosting fees, licensing costs of third party data providers, and third party serving fees incurred to deliver ad campaigns. Substantially all of our cost of revenue is attributable to video advertising inventory costs under our publisher contracts. We recognize cost of revenue on a

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publisher-by-publisher basis at the same time as we recognize the associated advertising revenue. Substantially all of our exclusive publisher contracts contain minimum percentage fill rates on qualified video ad requests, which effectively means that we must purchase this inventory from our exclusive publishers even if we lack a video advertising campaign to deliver. We recognize the difference between our contractually required fill rate and the number of video ads actually delivered by us on the publisher's website, if any, as a cost of revenue as of the end of each applicable monthly period. Costs owed to publishers but not yet paid are recorded in our consolidated balance sheets as accounts payable and accrued expenses.

Operating Expenses

Operating expenses consist of technology and development, sales and marketing, general and administrative and depreciation and amortization expenses. Salaries, incentive compensation, stock-based compensation and other personnel-related costs are the most significant components of each of these expense categories other than depreciation and amortization expenses. We include stock-based compensation expense in connection with the grant of stock option awards or restricted stock unit awards in the applicable operating expense category based on the respective equity award recipient's function.

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Technology and Development Expense. Technology and development expense primarily consists of salaries, incentive compensation, stock-based compensation and other personnel-related costs for development, network operations and engineering personnel. Additional expenses in this category include costs related to the development, quality assurance and testing of new technology and maintenance and enhancement of existing technology and infrastructure as well as consulting, travel and other related overhead. We engage third-party consulting firms for various technology and development efforts, such as documentation, quality assurance and support. Due to the rapid development and changes in our business, we have expensed technology and development expenses in the same period that the costs are incurred. We intend to continue to invest in our technology and development efforts, in particular as relates to our self-service platform, by hiring additional personnel and by using outside consulting firms for various initiatives. We believe continuing to invest in technology and development efforts is essential to maintaining our competitive position.

Sales and Marketing Expense. Sales and marketing expense primarily consists of salaries, incentive compensation, stock-based compensation and other personnel-related costs for our marketing and creative employees and our advertiser focused, publisher focused and licensing solution focused sales and sales support employees. Additional expenses in this category include marketing programs, consulting, travel and other related overhead. We expect our sales and marketing expense to increase in the foreseeable future as we continue to grow our managed service business, further increase the number of our self-service platform focused sales and marketing professionals and expand our marketing activities.

General and Administrative Expense. General and administrative expense primarily consists of salaries, incentive compensation, stock-based compensation and other personnel-related costs for business operations, administration, finance and accounting, legal, information systems and human resources employees. Included in general and administrative expenses are consulting and professional fees, including legal, accounting and investor relations fees, insurance, costs associated with compliance with the Sarbanes-Oxley Act and other public company corporate expenses, travel and other related overhead. We expect our general and administrative expenses to increase in absolute dollars as a result of operating as a public company and the continuing growth of our business.

Depreciation and Amortization Expense. Depreciation and amortization expense primarily consists of our depreciation expense related to property, equipment and software as well as the amortization of certain intangible assets.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, primarily consists of interest income, interest expense, foreign exchange transaction gains and losses, and mark-to-market expense. Interest income is derived from interest received on our cash and cash equivalents. Interest expense consists primarily of the interest incurred on our then-outstanding borrowings under our credit facility. As of September 30, 2014 and December 31, 2013, we did not have any outstanding borrowings under our credit facility. Mark-to-market expense consists primarily of expense related to our preferred stock warrant liability in 2013. As of September 30, 2014 and December 31, 2013, we no longer have any preferred stock warrant liability outstanding.

Income Tax Expense

Income tax expense primarily consists of minimum U.S. state and local taxes, income taxes in foreign jurisdictions in which we conduct business and deferred income taxes.

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The following table is a summary of our consolidated statements of operations data for each of the periods indicated. The period-to-period comparisons of the results are not necessarily indicative of our results for future periods.

| Consolidated Statements of Operations Data: | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|-------------------------------------|----------------------------------|----------------|----------------------------------|------------------------------------|----------------------------------|----------------|----------------------------------|
| | 2014 Amount | 2014 Percentage of Revenue | 2013 Amount | 2013 Percentage of Revenue | 2014 Amount | 2014 Percentage of Revenue | 2013 Amount | 2013 Percentage of Revenue |
| | (dollars in thousands) | | | | | | | |
| Revenue | \$ 39,039 | 100.0% | \$ 35,267 | 100.0% | \$ 117,609 | 100.0% | \$ 95,497 | 100.0% |
| Cost of revenue | 24,046 | 61.6 | 21,057 | 59.7 | 75,882 | 64.5 | 53,869 | 56.4 |
| Gross profit | 14,993 | 38.4 | 14,210 | 40.3 | 41,727 | 35.5 | 41,628 | 43.6 |
| Operating expenses: | | | | | | | | |
| Technology and development | 4,270 | 10.9 | 2,833 | 8.0 | 12,583 | 10.7 | 8,348 | 8.7 |
| Sales and marketing | 10,761 | 27.6 | 9,477 | 26.9 | 31,118 | 26.5 | 28,263 | 29.6 |
| General and administrative | 3,724 | 9.5 | 2,681 | 7.6 | 11,037 | 9.3 | 8,069 | 8.5 |
| Depreciation and amortization | 1,673 | 4.3 | 1,581 | 4.5 | 4,902 | 4.2 | 4,576 | 4.8 |
| Total operating expenses | 20,428 | 52.3 | 16,572 | 47.0 | 59,640 | 50.7 | 49,256 | 51.6 |
| Loss from operations | (5,435) | (13.9) | (2,362) | (6.7) | (17,913) | (15.2) | (7,628) | (8.0) |
| Interest and other income (expense), net | 5 | 0.0 | 139 | 0.4 | (18) | 0.0 | 196 | 0.2 |
| Loss before income taxes | (5,430) | (13.9) | (2,223) | (6.3) | (17,931) | (15.2) | (7,432) | (7.8) |
| Income tax expense | 44 | 0.1 | 20 | 0.1 | 144 | 0.2 | 243 | 0.2 |
| Net loss | \$ (5,474) | (14.0)% | \$ (2,243) | (6.4)% | \$ (18,075) | (15.4)% | (7,675) | (8.0)% |

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | |
|---------|-------------------------------------|-----------|---------------------------------|------------|------------------------------------|-----------|---------------------------------|------------|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Revenue | \$ 39,039 | \$ 35,267 | \$ 3,772 | 10.7% | \$ 117,609 | \$ 95,497 | \$ 22,112 | 23.2% |

Revenue

The increase in revenue during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable to a \$4.4 million increase in our video advertising revenue, representing 12.6% growth period-over-period. The increase in revenue was partially offset by a \$0.6 million reduction in revenue from our licensing solutions.

The increase in revenue during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a \$23.3 million increase in our video advertising revenue, representing 25.1% growth period-over-period. The increase

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in revenue was partially offset by a \$1.2 million reduction in revenue from our licensing solutions due, in part, to the discontinuation of certain licensing products that we acquired in January 2012.

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | | |
|-----------------|-------------------------------------|-----------|---------------------------------|------------|------------------------------------|-----------|---------------------------------|------------|--|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage | |
| | (dollars in thousands) | | | | | | | | |
| Cost of revenue | \$ 24,046 | \$ 21,057 | \$ 2,989 | 14.2% | \$ 75,882 | \$ 53,869 | \$ 22,013 | 40.9% | |
| Gross profit | 14,993 | 14,210 | 783 | 5.5 | 41,727 | 41,628 | 99 | 0.2 | |
| Gross margin | 38.4% | 40.3% | | | 35.5% | 43.6% | | | |

Cost of Revenue, Gross Profit and Gross Margin

The increase in cost of revenue during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was driven primarily by \$2.4 million of increased video advertising inventory costs, resulting from our revenue increase, and \$0.6 million of increased data, ad serving, hosting and research costs. The increase in our gross profit during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was driven by a \$3.8 million increase in revenue, partially offset by a \$3.0 million increase in our cost of revenue.

The increase in cost of revenue during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was driven primarily by \$20.3 million of increased video advertising inventory costs, resulting from our

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revenue increase, and \$1.7 million of increased data, ad serving, hosting and research costs. The increase in our gross profit during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was driven by a \$22.1 million increase in revenue, partially offset by a \$22.0 million increase in our cost of revenue.

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | |
|------------------------------------|-------------------------------------|----------|---------------------------------|------------|------------------------------------|----------|---------------------------------|------------|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Technology and development expense | \$ 4,270 | \$ 2,833 | \$ 1,437 | 50.7% | \$ 12,583 | \$ 8,348 | \$ 4,235 | 50.7% |
| % of total revenue | 10.9% | 8.0% | | | 10.7% | 8.7% | | |

Technology and Development Expense

The increase in technology and development expense during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable to a \$1.3 million increase in salaries, incentive compensation, stock-based compensation costs, overhead costs, and other personnel-related costs primarily associated with an increase in headcount and, to a lesser extent, costs associated with existing personnel, and a \$0.1 million increase in consulting fees, professional fees and travel and entertainment costs.

The increase in technology and development expense during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a \$4.0 million increase in salaries, incentive compensation, stock-based compensation, overhead costs, and other personnel-related costs primarily associated with an increase in headcount and, to a lesser extent, costs associated with existing personnel, and a \$0.2 million increase in consulting fees, professional fees and travel and entertainment costs.

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | |
|-----------------------------|-------------------------------------|----------|---------------------------------|------------|------------------------------------|-----------|---------------------------------|------------|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Sales and marketing expense | \$ 10,761 | \$ 9,477 | \$ 1,284 | 13.5% | \$ 31,118 | \$ 28,263 | \$ 2,855 | 10.1% |
| % of total revenue | 27.6% | 26.9% | | | 26.5% | 29.6% | | |

Sales and Marketing Expense

The increase in sales and marketing expense during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable to a \$1.2 million increase in salaries, incentive compensation, stock-based compensation, overhead costs and other personnel-related costs, primarily associated with an increase in the number of sales and marketing personnel to support our expanding advertiser base and, to a lesser extent, costs associated with existing personnel, and a \$0.2 million increase in consulting fees, professional fees, and travel and entertainment costs. These increases were partially offset by a \$0.1 million decrease in marketing costs.

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The increase in sales and marketing expense during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a \$2.9 million increase in salaries, incentive compensation, stock-based compensation, overhead costs and other personnel-related costs, primarily associated with an increase in the number of sales and marketing personnel to support our expanding advertiser base and, to a lesser extent, costs associated with existing personnel, and a \$0.5 million increase in sales management software costs, consulting fees, professional fees, and travel and entertainment costs. These increases were partially offset by \$0.5 million decrease in marketing costs.

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|------------------------------------|------------------------|----------|---------------------------------|------------|-----------------------|----------|---------------------------------|------------|
| | September 30, 2014 | 2013 | Increase / (Decrease) Amount | Percentage | September 30, 2014 | 2013 | Increase / (Decrease) Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| General and administrative expense | \$ 3,724 | \$ 2,681 | \$ 1,043 | 38.9% | \$ 11,037 | \$ 8,069 | \$ 2,968 | 36.8% |
| % of total revenue | 9.5% | 7.6% | | | 9.4% | 8.5% | | |

General and Administrative Expense

The increase in general and administrative expense during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable to a \$0.5 million increase in salaries, incentive

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compensation, stock-based compensation and other personnel-related costs, and a \$0.5 million increase in legal fees, accounting fees, recruiting fees, professional fees, administrative software costs and other franchise taxes.

The increase in general and administrative expense during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a \$1.2 million increase in salaries, incentive compensation, stock-based compensation costs and other personnel-related costs, and a \$2.1 million increase in costs associated with becoming a public company, legal and accounting fees, recruiting fees, consulting fees, professional fees, administrative software costs and software support costs. These increases were partially offset by \$0.3 million decrease in other franchise taxes.

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | |
|---------------------------------------|-------------------------------------|----------|---------------------------------|------------|------------------------------------|----------|---------------------------------|------------|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Depreciation and amortization expense | \$ 1,673 | \$ 1,581 | \$ 92 | 5.8% | \$ 4,902 | \$ 4,576 | \$ 326 | 7.1% |
| % of total revenue | 4.3% | 4.5% | | | 4.2% | 4.8% | | |

Depreciation and Amortization Expense

The increase in depreciation and amortization expense during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, and the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to the increase in depreciation related to additional leasehold improvements to our office spaces, purchases of computer hardware as a result of an increase in headcount and purchases of computer hardware and software related to our third party data center hosting facilities.

| | Three Months Ended September 30, | | Change Increase / (Decrease) | | Nine Months Ended September 30, | | Change Increase / (Decrease) | |
|--|-------------------------------------|--------|---------------------------------|------------|------------------------------------|--------|---------------------------------|------------|
| | 2014 | 2013 | Amount | Percentage | 2014 | 2013 | Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Interest and other income (expense), net | \$ 5 | \$ 139 | \$ (134) | N/A | \$ (18) | \$ 196 | \$ (214) | N/A |
| % of total revenue | 0.0% | 0.4% | | | 0.0% | 0.2% | | |

Interest and Other Income (Expense), Net

The decrease in interest and other income (expense), net, during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable a \$0.1 million reduction in mark-to-market gains related to our preferred stock warrant liability.

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The decrease in interest and other income (expense), net, during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a \$0.3 million reduction in mark-to-market gains related to our preferred stock warrant liability in 2013, partially offset by \$0.1 million decrease in interest expense in connection with the repayment of amounts outstanding under our credit facility.

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|--------------------|------------------------|-------|---------------------------------|------------|-----------------------|--------|---------------------------------|------------|
| | September 30, 2014 | 2013 | Increase / (Decrease) Amount | Percentage | September 30, 2014 | 2013 | Increase / (Decrease) Amount | Percentage |
| | (dollars in thousands) | | | | | | | |
| Income tax expense | \$ 44 | \$ 20 | \$ 24 | 120.0% | \$ 144 | \$ 243 | \$ (99) | (40.7)% |
| % of total revenue | 0.1% | 0.1% | | | 0.1% | 0.2% | | |

Income Tax Expense

During interim periods, our income tax expense, which consists of minimum U.S. state and local taxes and income taxes in foreign jurisdictions in which we conduct business, is determined using an estimate of our annual effective tax rate and is applied to our pre-tax loss. Our quarterly tax provision is subject to significant volatility due to several factors that includes, among other factors, our ability to accurately predict our income (loss) before income taxes and the basis of taxable amounts in multiple jurisdictions.

The increase in income tax expense during the three months ended September 30, 2014, compared to the three months ended September 30, 2013, was primarily attributable to an increase in pre-tax loss incurred during the quarter when applying the estimated annual effective tax rate.

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The decrease in income tax expense during the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013, was primarily attributable to a decrease in our estimated annual effective tax rate.

Liquidity and Capital Resources*Working Capital*

The following table summarizes our cash and cash equivalents, accounts receivable, net of allowance for doubtful accounts and working capital for the periods indicated:

| | 2014 | As of September 30, (dollars in thousands) | 2013 |
|---|------|--|-----------|
| Cash and cash equivalents | \$ | 77,909 | \$ 96,258 |
| Accounts receivable, net of allowance for doubtful accounts | | 46,519 | 39,413 |
| Working capital | | 92,382 | 104,745 |

Our cash and cash equivalents at September 30, 2014 were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide liquidity. Accordingly, our cash and cash equivalents are invested primarily in demand deposit accounts and money market funds that are currently providing only a minimal return.

Sources of Liquidity

To date, we have funded our operations principally through private placements of our capital stock, bank borrowings and our initial public offering (IPO), which closed on July 2, 2013.

Credit Facility

We are party to a loan and security agreement, which we refer to as our credit facility, with Silicon Valley Bank, which we refer to as our lender. Pursuant to the credit facility, which was recently amended in October 2014, we can incur revolver borrowings up to the lesser of \$32.5 million and a borrowing base equal to 80.0% of eligible accounts receivable. Any outstanding principal amount must be paid at maturity. Interest accrues at a floating rate equal to the lender's prime rate and is payable monthly. We are charged a fee of 0.25% of any unused borrowing capacity. This fee is payable quarterly but no fee is charged for a particular quarter if the average principal amount of borrowings during such quarter is more than \$10.0 million. The credit facility also includes a letter of credit, foreign exchange and cash management

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facility in an aggregate amount of \$2.5 million. The credit facility matures in December 2016. As of September 30, 2014 and December 31, 2013, we had no outstanding borrowings under the credit facility.

The credit facility contains customary conditions to borrowings, events of default and negative covenants, including covenants that restrict our ability to dispose of assets, merge with or acquire other entities, incur indebtedness, incur encumbrances, make distributions to holders of our capital stock, make investments or engage in transactions with our affiliates. We are also subject to a financial covenant with respect to minimum monthly working capital levels. Our obligations under the credit facility are secured by substantially all of our assets other than our intellectual property, although we have agreed not to encumber any of our intellectual property without the lender's prior written consent. We were in compliance with all covenants as of September 30, 2014 and through the date of this filing.

Operating and Capital Expenditure Requirements

We believe our existing cash balances will be sufficient to meet our anticipated cash requirements through at least the next 12 months. If our available cash balances and available borrowings under our credit facility are insufficient to satisfy our liquidity requirements, we will need to raise additional funds to support our operations, and such funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed, our operations and ability to execute our business strategy could be adversely affected. We may seek to raise additional funds through equity, equity-linked or debt financings. If we raise additional funds through the incurrence of indebtedness, such indebtedness would have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. Any additional equity financing may be dilutive to our stockholders.

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The following table summarizes our historical cash flows for the periods indicated:

| | 2014 | Nine Months Ended September 30, (dollars in thousands) | 2013 |
|---------------------------------|------|--|----------|
| Net cash (used in) provided by: | | | |
| Operating activities | \$ | (12,297) | \$ 3,871 |
| Investing activities | | (2,617) | (1,136) |
| Financing activities | | 162 | 61,090 |

Operating Activities

Net cash (used in) provided by operating activities is primarily influenced by the revenue our business generates, video advertising inventory costs and amounts of cash we invest in personnel and infrastructure to support the anticipated growth of our business and the increase in the number of clients using our solutions. Net cash (used in) provided by operating activities has been used to fund operations through changes in working capital, particularly in the areas of accounts receivable, accounts payable and accrued expenses, adjusted for non-cash expense items such as depreciation, amortization and stock-based compensation expenses.

For the nine months ended September 30, 2014, our net cash used in operating activities was \$12.3 million and consisted of a net loss attributable to common stockholders of \$18.1 million and \$2.7 million of cash used in working capital offset by \$8.5 million in adjustments for non-cash items. Net loss attributable to common stockholders was primarily driven by expansion of our operations, our investment in technology and development personnel to facilitate our growth and non-cash charges. Non-cash charges primarily consisted of depreciation and amortization expense of \$4.9 million, non-cash stock-based compensation expense of \$3.3 million and \$0.3 million in non-cash stock-based long-term incentive compensation and other other-cash adjustments. The decrease in cash resulting from changes in working capital primarily consisted of a decrease in operating cash flow due to a \$5.1 million increase in accounts receivable. This decrease was partially offset by a \$2.0 million increase in accounts payable and accrued expenses and a \$0.4 million net increase in other working capital.

For the nine months ended September 30, 2013, our net cash provided by operating activities was \$3.9 million and consisted of a net loss attributable to common stockholders of \$23.5 million, more than offset by \$22.5 million in adjustments for non-cash items and \$4.9 million of cash provided by working capital. Net loss attributable to common stockholders was primarily driven by expansion of our operations, our investment in technology and development personnel to facilitate our growth, and non-cash charges. Non-cash charges primarily consisted of the Series F preferred stock deemed dividend of \$15.8 million (refer to Note 8 to Notes to Consolidated Financial Statements), depreciation and amortization expenses of \$4.6 million, and non-cash stock-based compensation expense of \$2.4 million, partially offset by a \$0.3 million net decrease in other non-cash items. The \$4.9 million increase in cash resulting from changes in working capital primarily consisted of an increase in operating cash flow due to a \$9.0 million increase in accounts payable and accrued expenses, partially offset by a \$3.4 million increase in accounts receivable and \$0.7 million net increase resulting from changes in other working capital.

Investing Activities

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For the nine months ended September 30, 2014, our net cash used in investing activities was \$2.6 million used to purchase property and equipment.

For the nine months ended September 30, 2013, our net cash used in investing activities was \$1.1 million and consisted of \$1.7 million used to purchase property and equipment, partially offset by a \$0.6 million decrease in restricted cash.

Financing Activities

For the nine months ended September 30, 2014, our net cash provided by financing activities was \$0.2 million and consisted of \$0.7 million received from the exercise of stock option awards, partially offset by \$0.5 million of tax withholdings related to net share settlements of restricted stock units.

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For the nine months ended September 30, 2013, our net cash provided by financing activities was \$61.1 million and consisted of \$66.6 million received from the net proceeds of our IPO and \$0.5 million received upon the exercise of stock option awards, partially offset by \$6.0 million used to repay outstanding borrowings under our credit facility.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Significant Judgments and Estimates

We prepare our unaudited interim consolidated financial statements in accordance with U.S. GAAP. The preparation of unaudited interim consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe the estimates, assumptions and judgments involved in revenue recognition and deferred revenue, stock-based compensation expense, and accounting for income taxes have the greatest potential impact on our consolidated financial statements, and consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the U.S. Securities and Exchange Commission on March 28, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk primarily related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into hedging arrangements to manage the risks described below.

Interest Rate Risk

Our cash and cash equivalents consist of cash and a short-term investment portfolio consisting mainly of highly liquid, short-term money market funds, which we consider to be cash equivalents. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash and cash equivalents have a relatively short maturity, our portfolio's fair value is

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relatively insensitive to interest rate changes. These investments earn interest at variable rates and, as a result, decreases in market interest rates would generally result in decreased interest income. A 10% decline in interest rates occurring January 1, 2014 and sustained through the period ended September 30, 2014 would not be material to our financial results. We do not enter into investments for trading or speculative purposes. In future periods, we will continue to evaluate our investment policy relative to our overall objectives.

We were exposed to market risks related to fluctuations in interest rates related to our \$32.5 million credit facility, as amended. We currently do not have any outstanding borrowings under our credit facility. Interest on our credit facility is tied to the lender's prime rate and fluctuates periodically. As a result, the interest rates on any of our outstanding debt obligations may fluctuate from time to time. A sensitivity analysis was previously performed on our then-outstanding portion of our debt obligations in 2013. Based on this analysis, we concluded that should the interest rate on our credit facility increase by 10.0%, the increase in our interest expense would not have been material to our financial results for the relevant period.

Foreign Currency Exchange Risk

Due to our international operations, we are exposed to foreign exchange risk related to foreign denominated revenues and costs, which must be translated into U.S. dollars. Historically, our primary exposures have been related to non-U.S. dollar denominated operating expenses in Canada, Singapore and the United Kingdom. The effect of a 10% adverse change in exchange rates on foreign denominated cash, receivables and payables would not have been material for the periods presented. Substantially all of our advertiser contracts are currently denominated in U.S. dollars. Therefore, we have minimal foreign currency exchange risk with respect to our revenue. These exposures may change over time as our business practices evolve

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and if our exposure increases, adverse movements in foreign currency exchanges rates could have a material adverse impact on our financial results.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may 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

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at a reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived 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 the benefits of controls must be considered 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, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

In November 2013, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York against us, our directors, and certain of our executive officers. The lawsuit alleges certain misrepresentations by us in connection with our IPO concerning our business and prospects. The lawsuit seeks unspecified damages. On February 7, 2014, the Court entered an order appointing lead plaintiffs and lead counsel. On April 22, 2014, lead plaintiffs filed an amended complaint. On July 14, 2014, we filed a motion to dismiss the amended complaint. On August 28, 2014, lead plaintiffs filed their opposition to the motion to dismiss. On September 18, 2014, we filed a reply in support of the motion to dismiss the amended complaint. We intend to vigorously defend against these claims. Due to the early stage of these proceedings, we cannot predict the likely outcome of the lawsuit, and an adverse result could have a material effect on our financial statements.

In addition, from time to time we are involved in legal proceedings or subject to claims arising in the ordinary course of our business, including, but not limited to, certain pending patent and privacy litigation matters. Although the results of litigation and claims cannot be predicted with certainty, except as noted above we do not believe we are a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

Except as described below, there have been no material changes to our risk factors as compared to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on March 28, 2014.

If the market for our all-screen automated optimization solution develops more slowly than we expect, or fails to develop, then our operating results and growth prospects may be adversely affected.

In April 2014, we announced the launch of an all-screen automated optimization solution for in-stream video advertising. Using this solution, brand advertisers can select a single campaign goal and VideoHub will optimize delivery of the campaign to find the right viewer wherever they may be watching video, whether on computers, tablets, smartphones or connected TVs. Because our all-screen solution has only recently been introduced to the market, the future demand and acceptance for this solution is uncertain and will likely depend on its perceived effectiveness by brand advertisers and agencies. If the market for our all-screen solution develops more slowly than we expect, or fails to develop, our operating results and growth prospects could be harmed.

If the market for our programmatic solutions, including our self-service platform, develop more slowly than we expect, or fail to develop, then our operating results and growth prospects may be adversely affected.

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To complement our current offerings, we are continuing to develop and invest in a complete programmatic solution for brand advertisers and premium publishers, including a self-service platform. In the second quarter of 2014, we introduced a demand side platform, or DSP, for brand performance. Through our DSP, advertisers and agencies can leverage VideoHub technology to programmatically bid on and buy video ad inventory for brand-centric metrics both on the Tremor Video Network and through third party supply sources. We are also developing a supply side platform, or SSP, for premium publishers, which will help publishers maximize the value of their video inventory by enabling their direct programmatic sales efforts and automating workflow.

These solutions are still developing, and the future demand and acceptance for these solutions is uncertain and will likely depend on their perceived effectiveness by brand advertisers, agencies and publishers. In addition, the success of our programmatic solutions are dependent, in part, on our ability to integrate our technology with third party SSPs, DSPs and exchanges that either provide inventory or serve as demand sources through which advertisers and agencies transact. These integration efforts are often costly and time consuming, and can present technological challenges. In addition, many of these third parties also compete with us for advertising spend. If we fail to integrate our technology with these third parties or if there is a delay in our integration efforts it could negatively impact the effectiveness of and market for our solutions. If the market for our programmatic solutions, including our self-service platform, develops more slowly than we expect, or fails to develop, our operating results and growth prospects could be harmed.

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

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds

None.

(c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

(a) List of Exhibits

| Exhibit Number | Exhibit Description |
|----------------|--|
| 31.1+ | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2+ | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1++ | Certification Pursuant of Principal Executive Officer to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2++ | Certification Pursuant of Principal Financial Officer 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 Extension Schema. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. |

+ Exhibits marked with a plus sign (+) are filed herewith.

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++ In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed filed for purpose of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under this section.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

TREMOR VIDEO, INC.

By: */s/ William Day*
William Day
President and Chief Executive Officer

Date: November 14, 2014

TREMOR VIDEO, INC.

By: */s/ Todd Sloan*
Todd Sloan
Senior Vice President, Chief Financial Officer and Treasurer

Date: November 14, 2014