Quotient Technology Inc.
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2016

OR

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

Commission File Number: 001-36331

Quotient Technology Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	77-0485123 (I.R.S. Employer Identification No.)
400 Logue Avenue, Mountain View, California (Address of Principal Executive Offices)	94043 (Zip Code)

(650) 605-4600

(Registrant's Telephone Number, Including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by checkmark 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 time 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 3, 2016, the registrant had 88,022,983 shares of common stock outstanding.

QUOTIENT TECHNOLOGY INC.

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REPORT ON

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

PART I FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$92,496	$ 134,947
Short-term investments	69,116	25,000
Accounts receivable, net of allowance for doubtful accounts of $931 and $833 at September 30, 2016 and December 31, 2015, respectively	66,972	63,239
Prepaid expenses and other current assets	8,193	5,297
Total current assets	236,777	228,483
Property and equipment, net	19,282	25,128
Intangible assets, net	50,440	14,880
Goodwill	43,895	43,895
Other assets	1,029	8,685
Total assets	$351,423	$ 321,071
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$6,063	$ 8,187
Accrued compensation and benefits	9,955	15,237
Other current liabilities	17,822	20,170
Deferred revenues	7,750	7,342
Total current liabilities	41,590	50,936
Other non-current liabilities	70	5
Deferred rent	2,215	701
Contingent consideration related to acquisitions	552	1,407
Deferred tax liabilities	2,519	2,532
Total liabilities	46,946	55,581
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.00001 par value—10,000,000 shares authorized and no shares issued or outstanding at September 30, 2016 and December 31, 2015	—	—
Common stock, $0.00001 par value—250,000,000 shares authorized; 97,391,192	1	1

shares issued and 87,755,940 outstanding at September 30, 2016; 89,935,381 shares issued and 81,995,286 outstanding at December 31, 2015		
Additional paid-in capital	643,601	570,588
Treasury stock, at cost	(96,449)	(85,427)
Accumulated other comprehensive loss	(738)	(747)
Accumulated deficit	(241,938)	(218,925)
Total stockholders' equity	304,477	265,490
Total liabilities and stockholders' equity	$351,423	$ 321,071

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues	$66,470	$56,467	$199,768	$167,896
Costs and expenses:				
Cost of revenues	35,126	22,778	85,500	66,767
Sales and marketing	20,415	23,403	67,656	66,321
Research and development	12,414	11,890	38,419	36,671
General and administrative	10,041	8,382	32,394	24,740
Change in fair value of escrowed shares and contingent consideration, net	105	(238)	(963)	1,484
Total costs and expenses	78,101	66,215	223,006	195,983
Loss from operations	(11,631)	(9,748)	(23,238)	(28,087)
Interest expense	—	(126)	—	(288)
Other income (expense), net	398	47	418	26
Gain on sale of a right to use a web domain name	—	—	—	4,800
Loss before income taxes	(11,233)	(9,827)	(22,820)	(23,549)
Provision for (benefit from) income taxes	79	(9)	193	(388)
Net loss	$(11,312)	$(9,818)	$(23,013)	$(23,161)
Net loss per share attributable to common stockholders, basic and diluted	$(0.13)	$(0.12)	$(0.28)	$(0.28)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	84,732	82,831	83,484	83,335

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	$(11,312)	$(9,818)	$(23,013)	$(23,161)
Other comprehensive (income) loss:				
Foreign currency translation adjustments	3	(67)	9	(50)
Comprehensive loss	$(11,309)	$(9,885)	$(23,004)	$(23,211)

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(23,013)	$(23,161)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,252	11,879
Stock-based compensation	21,647	25,513
Amortization of debt issuance costs	—	134
Loss on disposal of property and equipment	245	2
Gain on sale of a right to use a web domain name	—	(4,800)
Allowance for doubtful accounts	237	46
Deferred income taxes	193	(456)
One-time charge for certain distribution fees	7,435	—
Change in fair value of escrowed shares and contingent consideration, net	(963)	1,484
Changes in operating assets and liabilities:		
Accounts receivable	(3,970)	(2,295)
Prepaid expenses and other current assets	(596)	(2,790)
Accounts payable and other current liabilities	(3,720)	2,061
Accrued compensation and benefits	(5,180)	(3,279)
Deferred revenues	408	1,190
Net cash provided by operating activities	8,975	5,528
Cash flows from investing activities:		
Purchases of property and equipment	(5,004)	(9,406)
Purchase of intangible assets	(63)	(283)
Purchase of short-term investments	(69,116)	—
Proceeds from maturity of short-term investment	25,000	—
Proceeds from sale of a right to use a web domain name	—	4,800
Net cash used in investing activities	(49,183)	(4,889)
Cash flows from financing activities:		
Proceeds from issuance of common stock	9,613	4,656
Repurchases of common stock	(11,819)	(8,852)
Repayment of debt obligations	—	(7,500)
Principal payments on capital lease obligations	(38)	(46)
Net cash used in financing activities	(2,244)	(11,742)
Effect of exchange rates on cash and cash equivalents	1	16
Net decrease in cash and cash equivalents	(42,451)	(11,087)
Cash and cash equivalents at beginning of period	134,947	201,075

Cash and cash equivalents at end of period	$92,496	$189,988
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of common stock issued in connection with a services and data agreement	$39,570	$—

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Quotient Technology Inc. (the “Company"), is a provider of digital promotions and media solutions driven by consumer-shopping data. The Company connects consumer packaged goods (“CPG”) brands and retailers with shoppers by delivering digital promotions and media to shoppers through mobile, web and social channels. Leading brands, as well as leading retailers in the grocery, drug, dollar, club and mass merchandise channels, use its platform to engage shoppers at the critical moments when they are choosing what products to buy and where to shop. The Company, which was formerly known as Coupons.com Incorporated, changed its name effective October 20, 2015, to better reflect the breadth and sophistication of its business offerings, along with its deepening relationships with Fortune 500 CPGs and retailers.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The Company’s condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. The accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2016 or for any other period.

There have been no changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on its condensed consolidated financial statements and related notes.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company’s condensed consolidated financial statements and accompanying notes. Such management estimates include, but are not limited to, revenue recognition, collectability of accounts receivable, recoverability of non-refundable distribution fees, the valuation and useful lives of intangible assets and property and equipment, goodwill, stock-based compensation, contingent consideration and income taxes. Actual results may differ from the Company’s estimates, and such differences may be material to the accompanying condensed consolidated financial statements.

When the Company delivers a digital coupon on a retailer’s website or mobile app or through its loyalty program, or the website or mobile app of a publisher, or through its Retailer iQ platform, and the consumer takes certain actions, the Company pays a distribution fee to the retailer or other publisher, which, in some cases may be prepaid prior to being incurred. During the three months ended September 30, 2016, the Company recorded a one-time charge associated with certain distribution fees under an arrangement with a retailer partner that were deemed unrecoverable. The Company considered various factors in its assessment including its historical experience with transaction volumes through the retailer and other comparative retailers, ongoing communications with the retailer to increase its marketing efforts to promote the digital platform, as well as the projected revenues, and associated revenue share payments. Accordingly, during the three months ended September 30, 2016, the Company recognized a one-time charge of $7.4 million related to such distribution fees in cost of revenues on the accompanying condensed consolidated statement of operations. As of September 30, 2016, the Company had a remaining non-refundable distribution fee prepayment balance of $0.6 million.

Foreign Currency

Prior to the first quarter of 2016, the functional currency of each of the Company's international subsidiaries was the local currency, as its international subsidiaries negotiated and managed business locally with minimal involvement from the U.S. parent entity.

Beginning the first quarter of 2016, the functional currency of certain international subsidiaries changed from its local currency to U.S. Dollar ("USD"). The change in functional currency was the result of changes in the Company's international strategy primarily resulting from the acquisition of Shopmium S.A. (a private company based in France). The Company acquired Shopmium S.A. as part of its strategy to broaden international operations and subsequently, the Company reviewed its international strategy, including management of its relationships with international CPG brands, evaluation of worldwide competition and international pricing strategy, its plan to manage future billings and collections for international customers and plan to further develop the acquired technology for its subsequent use by various entities. Consequently, as part of the Company's new international strategy and changes to the way the Company runs its business internationally, it modified its existing international structure and entered into various inter-company licensing agreements between its U.S. entity and certain international entities. As these changes were significant, the Company considered the economic factors outlined in ASC 830, Foreign Currency Matters, for the determination of the functional currency. The Company concluded that most of the factors pointed to the use of the parent's currency (USD) as the functional currency, which resulted in a change in functional currency to USD for such international subsidiaries.

The change in functional currency is applied on a prospective basis beginning with our first quarter of 2016 and translation adjustments for prior periods will continue to remain as a component of accumulated other comprehensive loss.

Gains (losses) from foreign currency transactions are included in other income (expense), net in the accompanying condensed consolidated statements of operations. Foreign currency transaction gains (losses) were immaterial in the three and nine months ended September 30, 2016.

Recently Issued Accounting Pronouncements

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09—Revenue from Contracts with Customers (Topic 606), and in August 2015, the FASB issued ASU 2015-14–Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date which defers the effective date of ASU 2014-09 amended the existing accounting standards to achieve consistent application of revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the standard requires reporting companies to also disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB agreed to delay the effective date of this amendment by one year, accordingly, the Company is required to adopt the amendments in the first quarter of 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Early adoption is permitted, but not before the original effective date of the amendment, which is the first quarter of 2017. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842). The guidance requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. Lessees initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments over the lease term. The right-of-use asset is measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs. The standard is effective for public business entities for annual reporting periods beginning after December 15 2018, and interim periods within that reporting period, which would be the first quarter of 2019 for the Company. Early adoption is permitted. ASU 2016-02 is required to be adopted using a modified retrospective approach. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09—Stock Compensation (Topic 718). The new guidance requires all of the tax effects related to share based payments to be recorded through the income statement. The new guidance also removes the present requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable; instead it is recognized at the time of settlement, subject to normal valuation allowance consideration. While the simplification will eliminate some administrative complexities, it will increase the volatility of income tax expense. The standard is effective for public business entities for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The standard is effective for public business entities for annual reporting years beginning after December 15, 2017, and interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

3. Fair Value Measurements

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's fair value hierarchy for its financial assets and liabilities that are measured at fair value on a recurring basis are as follows (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Certificate of deposits [2]	—	69,116	—	69,116
Total	$—	$69,116	$—	$69,116
Liabilities:				
Contingent consideration related to Shopmium acquisition	$—	$—	$552	$552
Total	$—	$—	$552	$552

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds [1]	$19,948	$—	$—	$19,948
Certificate of deposit [2]	—	25,000	—	25,000
Total	$19,948	$25,000	$—	$44,948
Liabilities:				
Contingent consideration related to Eckim acquisition [3]	$2,291	$—	$—	$2,291
Contingent consideration related to Shopmium acquisition	—	—	1,407	1,407
Total	$2,291	$—	$1,407	$3,698

(1) Included in cash and cash equivalents
(2) Included in short-term investments
(3) Included in other current liabilities

The valuation technique used to measure the fair value of money market funds included using quoted prices in active markets for identical assets or liabilities. The valuation technique used to measure the fair value of certificate of deposits included using quoted prices in active markets for similar assets.

The fair value of contingent consideration related to the acquisition of Shopmium S.A. (Shopmium) was estimated using a Monte Carlo simulation and was based on significant inputs not observable in the market, thus classified as a Level 3 instrument. The inputs include the expected achievement of certain revenue and profit milestones for the years ending December 31, 2016 and 2017, historical volatility and risk free interest rate.

The fair value of contingent consideration related to the asset purchase agreement with Eckim LLC (Eckim) was determined based on an estimate of shares issuable to Eckim for achieving certain revenue and profit milestones at the end of the earnout period as of December 31, 2015. The inputs include the Company's stock price and the number of shares issuable. On January 26, 2016, the Company and the sellers of Eckim agreed on performance against the milestones and the shares to be issued. Accordingly, the Company reclassified the contingent liability of $1.9 million related to Eckim to stockholder's equity in the first quarter of 2016. The shares were issued during the second quarter of 2016.

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The following table represents the change in the contingent consideration (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016		2016	
	Eckim	Shopmium	Eckim	Shopmium
	Level 1	Level 3	Level 1	Level 3
Balance at the beginning of period	$—	$ 687	$2,291	$ 1,407
Change in fair value	—	(135)	(348)	(855)
Settlement	—	—	(1,943)	—
Balance as of September 30, 2016	$—	$ 552	$—	$ 552

For the three and nine months ended September 30, 2016, the Company recorded gains of $0.1 million and $1.2 million, respectively, related to the changes in fair value of contingent consideration. The change in fair value of Shopmium contingent consideration is due to a decline in expected revenue and profit milestones for the years ending December 31, 2016 and 2017. The change in fair value of Eckim contingent consideration is due to changes in the Company’s stock price at the valuation dates. The changes in the fair value of the contingent consideration is included as a component of operations in the accompanying condensed consolidated statements of operations.

There were no transfers between fair value hierarchies during the three and nine months ended September 30, 2016 and 2015.

4. Allowance for Doubtful Accounts

The summary of activity in the allowance for doubtful accounts is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance at the beginning of period	$883	$245	$833	$408
Bad debt expense	86	81	237	46
Write-offs, net	(38)	(24)	(139)	(152)

Balance as of September30, 2016	$931	$302	$931	$302

5. Balance Sheet Components

Property and Equipment, Net

Property and equipment consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Software	$ 32,656	$ 33,139
Computer equipment	22,535	21,186
Leasehold improvements	8,390	4,721
Furniture and fixtures	2,372	1,670
Total	65,953	60,716
Accumulated depreciation and amortization	(47,912)	(39,124)
Projects in process	1,241	3,536
Property and equipment, net	$ 19,282	$ 25,128

Depreciation and amortization expense related to property and equipment was $4.1 million and $3.3 million for the three months ended September 30, 2016 and 2015, respectively, and $12.0 million and $9.6 million for the nine months ended September 30, 2016 and 2015, respectively.

The Company capitalized internal use software development and enhancement costs of $0.3 million during each of the three months ended September 30, 2016, and 2015, and $0.4 million and $1.1 million during the nine months ended

September 30, 2016 and 2015, respectively. Amortization expense related to internal use software, included in property and equipment depreciation and amortization expense above, and recorded as cost of revenues was $2.6 million and $2.4 million during the three months ended September 30, 2016 and 2015, respectively, and $7.9 million and $7.0 million during the nine months ended September 30, 2016 and 2015, respectively. The unamortized capitalized development and enhancement costs were $3.4 million and $11.1 million as of September 30, 2016 and December 31, 2015, respectively.

Accrued Compensation and Benefits

Accrued compensation and benefits consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Bonus	$ 3,825	$ 6,858
Commissions	1,943	3,645
Vacation	1,918	2,118
Payroll and related expenses	2,269	2,616
Accrued compensation and benefits	$ 9,955	$ 15,237

Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Distribution fees	$ 12,113	$ 8,349
Marketing expenses	1,853	3,336
Deferred rent, current	345	346
Legal and professional fees	335	745
Contingent consideration	—	2,291
Other	3,176	5,103
Other current liabilities	$ 17,822	$ 20,170

6. Intangible Assets

On August 3, 2016, the Company entered into a services and data agreement, (the "Agreement"), which provides the Company with certain exclusive rights to provide promotion and media services, and the use of shopper data, for 5.5 years, with certain rights continuing on a non-exclusive basis for up to an additional 4.5 years. In exchange, the Company agreed to issue 3,000,000 shares of common stock.

The consideration for such services and data rights aggregated to $39.6 million based on the fair value of 3,000,000 shares of the Company’s common stock at the date of entering into the Agreement. Out of the 3,000,000 shares issued, 1,000,000 shares were issued within five business days of execution of the Agreement and 2,000,000 shares are held in escrow and will be released in two equal installments, within 15 business days following the years ending December 31, 2017 and 2018. The fair value of the shares held in escrow was recorded in additional paid in capital and is subject to re-measurement until released from escrow. During the three months ended September 30, 2016, the Company recorded a loss of $0.2 million due to the change in the Company’s stock price. Gains and losses as a result of the changes in the fair value of the shares that are being held in escrow are included in change in fair value of escrowed shares and contingent consideration, net on the accompanying condensed consolidated statement of operations.

The consideration of $39.6 million as well as the capitalized transaction costs of $0.1 million were allocated to the acquired intangible assets based on the respective fair values. The Company is amortizing the intangible assets on a straight-line basis over their respective estimated useful lives in cost of revenues on the accompanying condensed consolidated statement of operations.

The following table presents the details of the acquired intangible assets (in thousands):

	Amount	Estimated Useful Life (Years)
Promotion service rights	$22,492	7.5
Media service rights	6,383	5.8
Data access rights	10,801	5.8
Total identifiable intangible assets	$39,676	

Intangible assets consist of the following (in thousands):

	September 30, 2016				
	Gross	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Amortization Period (Years)
Promotion service rights	$22,492	$ (501)	$ —	$21,991	7.3
Data access rights	10,801	$ (314)	—	10,487	5.6
Customer relationships	8,860	(4,567)	(36)	4,257	3.3
Developed technologies	7,460	(2,768)	(89)	4,603	3.6
Media service rights	6,383	(185)	—	6,198	5.6
Domain names	5,948	(3,900)	(9)	2,039	2.4
Patents	975	(705)	—	270	5.9
Vendor relationships	890	(612)	—	278	1.3
Registered users	420	(92)	(11)	317	3.6
Trade names	167	(168)	1	—	—
	$64,396	$ (13,812)	$ (144)	$50,440	5.8

As of September 30, 2016, the Company has a domain name with a gross value of $0.4 million that has an indefinite useful life, hence is not subject to amortization.

	December 31, 2015				
	Gross	Accumulated	Foreign	Net	Weighted

		Amortization	Currency Translation		Average Amortization Period (Years)
Customer relationships	$8,860	$ (3,345)	$ (36)	$5,479	4
Developed technologies	7,460	(1,709)	(89)	5,662	4
Domain names	5,948	(3,419)	(9)	2,520	3
Patents	1,050	(686)	—	364	6
Vendor relationships	890	(445)	—	445	2
Registered users	420	(18)	(11)	391	4
Trade names	167	(149)	1	19	1
	$24,795	$ (9,771)	$ (144)	$14,880	4

Amortization expense related to intangible assets subject to amortization was $2.1 million and $0.8 million during the three months ended September 30, 2016 and 2015, respectively, and $4.3 million and $2.3 million during the nine months ended September 30, 2016 and 2015, respectively. Estimated future amortization expense related to intangible assets as of September 30, 2016 is as follows (in thousands):

	Total
2016, remaining three months	$2,452
2017	9,696
2018	9,419
2019	8,330
2020	6,908
2021 and beyond	13,282
Total estimated amortization expense	$50,087

7. Debt Obligation

In September 2013, the Company entered into an agreement with a commercial bank to establish an accounts receivable based revolving line of credit. During the year ended December 31, 2015, the Company terminated the line of credit and paid off the balance in full.

8. Stock-based Compensation

2013 Equity Incentive Plan

In October 2013, the Company adopted the 2013 Equity Incentive Plan (the “2013 Plan”), which became effective in March 2014 and serves as the successor to the Company’s 2006 Stock Plan (the “2006 Plan”). Under the 2013 Plan, the Company may grant stock options, stock appreciation rights, restricted stock and restricted stock units, performance shares and units to employees, directors and consultants.

Stock Options

The fair value of each option was estimated on the date of grant for the period presented using the following assumptions:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Expected life (in years)	6.08	6.08	2.5 – 6.08	5.50 – 6.08
Risk-free interest rate	1.22%	1.67%	0.68% – 1.34%	1.67% – 1.89%
Volatility	55%	60%	55% – 70%	55% – 60%

Dividend yield	—	—	—	—

The weighted-average grant-date fair value of options granted was $6.87 and $5.34 per share during the three months ended September 30, 2016 and 2015, respectively, and $5.25 and $5.57 per share during the nine months ended September 30, 2016 and 2015, respectively.

Restricted Stock Units

The fair value of RSUs equals the market value of the Company’s common stock on the date of the grant. The RSUs are excluded from issued and outstanding shares until they are vested.

A summary of the Company's stock option and RSU award activity under the 2013 Plan is as follows:

		RSUs Outstanding		Options Outstanding			
	Shares Available for Grant	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2015	2,889,301	6,786,446	$ 13.14	8,469,666	$ 7.62	5.91	$ 19,231
Increase in shares authorized	3,279,811						
Options granted	(2,197,432)			2,197,432	$ 8.99		
Options exercised	—			(1,898,237)	$ 4.78		$ 11,935
Options canceled or expired	581,550			(581,550)	$ 8.98		
RSUs granted	(2,778,817)	2,778,817	$ 10.34				
RSUs vested	—	(2,124,767)	$ 12.28				
RSUs canceled or expired	1,423,989	(1,423,989)	$ 12.04				
Balance as of September 30, 2016	3,198,402	6,016,507	$ 11.92	8,187,311	$ 8.55	6.21	$ 50,249
Vested and expected to vest as of September 30, 2016				7,619,564	$ 8.33	6.04	$ 48,236
Vested and exercisable as of September 30, 2016				5,443,565	$ 7.40	4.96	$ 40,130

The aggregate intrinsic value disclosed in the table above is based on the difference between the exercise price of the options and the fair value of the Company's common stock.

The aggregate total fair value of options which vested was $0.9 million and $0.8 million during the three months ended September 30, 2016 and 2015, respectively, and $2.4 million and $3.0 million during the nine months ended September 30, 2016 and 2015, respectively.

Employee Stock Purchase Plan

Eligible employees can enroll and elect to contribute up to 15% of their base compensation through payroll withholdings in each offering period which is six months in duration, subject to certain limitations. The purchase price of the stock is the lower of 85% of the fair market value on (a) the first day of the offering period or (b) the purchase date.

The fair value of the option feature is estimated using the Black-Scholes model for the period presented based on the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected life (in years)	0.50	0.50	0.50	0.50
Risk-free interest rate	0.38%	0.08%	0.38%	0.08%
Volatility	74%	63%	74%	63%
Dividend yield	—	—	—	—

As of September 30, 2016, a total of 460,502 shares of common stock were issued under the 2013 Employee Stock Purchase Plan (“ESPP”). As of September 30, 2016, a total of 1,539,498 shares are available for issuance under the ESPP.

Stock-based Compensation Expense

The following table sets forth the total stock-based compensation expense resulting from stock options, RSUs and ESPP included in the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenues	$467	$419	$1,457	$1,301
Sales and marketing	1,155	2,723	4,279	9,097
Research and development	1,837	2,411	5,728	7,460
General and administrative	3,269	2,521	10,183	7,655
Total stock-based compensation expense	$6,728	$8,074	$21,647	$25,513

During nine months ended September 30, 2016, the Company recorded $1.0 million of stock-based compensation expense on account of modification of stock options and RSUs granted to a former employee pursuant to transitioning from an employee to a special advisor consulting arrangement. Under the original terms of the grant agreements, the unvested options and RSUs would be forfeited upon termination. The transition arrangement extended the period over which the vested awards can be exercised and allows for continued vesting of unvested options and RSUs subject to the former employee continuing to provide services in accordance with the special advisor consulting arrangement. The expense is included in general and administrative expense in the Company's condensed consolidated statement of operations.

The amount of stock-based compensation cost capitalized in property and equipment, net, on the accompanying condensed consolidated balance sheets, was immaterial for all periods presented.

As of September 30, 2016, there was $52.2 million of unrecognized stock-based compensation expense (net of estimated forfeitures), of which $9.2 million is related to stock options and ESPP shares and $43.0 million is related to RSUs. The total unrecognized stock-based compensation expense related to stock options and ESPP as of September 30, 2016 will be amortized over a weighted-average period of 2.71 years. The total unrecognized stock-based compensation expense related to RSUs as of September 30, 2016 will be amortized over a weighted-average period of 2.65 years.

9. Common Stock Repurchase Program

In February 2015, the Company's board of directors authorized a Share Repurchase Program ("Program") to repurchase up to $50.0 million of the Company's common stock through February 2016, subject to certain limitations. Through February 2016, a total of $31.3 million in stock was repurchased under this Program. The Program expired in February 2016 with an unused balance of $18.7 million. In February 2016, the Company's board of directors authorized a new share repurchase program ("New Program") to repurchase up to $50.0 million of the Company's common stock through February 2017. During the nine months ended September 30, 2016, the Company repurchased shares of its common stock for an aggregate amount of $11.0 million. During the three months ended September 30, 2016, the Company did not repurchase any shares of its common stock. As of September 30, 2016, $46.9 million remains available for future share repurchases under the New Program.

10. Income Taxes

The Company recorded an income tax provision of $0.1 million and $0.2 million for the three and nine months ended September 30, 2016, respectively, and an income tax benefit of an insignificant amount and $0.4 million for the three and nine months ended September 30, 2015, respectively. The income tax provision for the three and nine months ended September 30, 2016 was primarily attributable to a net increase in deferred tax liabilities associated with the change in fair value of contingent consideration from prior year acquisitions and a decrease in foreign income taxed at non-US tax rates. The income tax benefit for the three and nine months ended September 30, 2015 was primarily attributable to the net decrease in deferred tax liabilities associated with the change in fair value of contingent consideration related to a prior year acquisition.

The Company’s federal income tax returns for calendar years 2013 and 2014 are under examination by the Internal Revenue Service. The Company believes that an adequate provision has been made for any adjustments that may result from the IRS examination.

11. Net Loss Per Share

The computation of the Company's basic and diluted net loss per share attributable to common stockholders is as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	$(11,312)	$(9,818)	$(23,013)	$(23,161)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	84,732	82,831	83,484	83,335
Net loss per share attributable to common stockholders, basic and diluted	$(0.13)	$(0.12)	$(0.28)	$(0.28)

The outstanding common equivalent shares excluded from the computation of the diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive are as follows (in thousands):

	Three and Nine Months Ended	
	September 30,	
	2016	2015
Stock options and ESPP	8,287	8,846
Restricted stock units	6,017	7,160
Shares held in escrow	2,000	—
	16,304	18,021

12. Commitments and Contingencies

Leases

As of September 30, 2016, the Company’s minimum payments under its non-cancelable operating and capital leases are as follows (in thousands):

	Operating Leases	Capital Leases
2016, remaining three months	$ 953	$ 11
2017	4,289	22
2018	4,029	18
2019	4,088	1
2020	1,989	—
2021	656	—
2022 and thereafter	1,742	—
Total minimum payments	$ 17,746	$ 52
Less: Amount representing interest		2
Present value of capital lease obligations		50
Less: Current portion		26
Capital lease obligation, net of current portion		$ 24

The Company leases various office facilities, including its corporate headquarters in Mountain View, California and various sales offices, under non-cancelable operating lease agreements that expire through December 2024. In the first quarter of 2016, the Company entered into a lease agreement for an office facility located in Cincinnati, Ohio which will expire in June 2024.

The terms of the lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease periods. Additionally, the Company leases certain equipment under non-cancelable operating leases at its facilities and its leased data center operations.

Rent expense pursuant to all operating lease agreements was $1.3 million and $0.8 million for the three months ended September 30, 2016 and 2015, respectively, and $3.2 million and $2.3 million during the nine months ended September 30, 2016 and 2015, respectively.

Purchase Obligations

The Company has unconditional purchase obligations which expire through 2034 in the amount of $6.8 million for marketing arrangements relating to the purchase of a 20-year suite license for a professional sports team which it uses for sales and marketing purposes.

The Company's open purchase commitments which primarily relate to software license fees was $2.8 million as of September 30, 2016.

Indemnification

In the normal course of business, to facilitate transactions related to the Company's operations, the Company indemnifies certain parties, including CPGs, advertising agencies and other third parties including retailers. The Company has agreed to hold certain parties harmless against losses arising from claims of intellectual property infringement or other liabilities relating to or arising from our products or services or other contractual infringement. The term of these indemnity provisions generally survive termination or expiration of the applicable agreement. To date, the Company has not recorded any liabilities related to these agreements.

Litigation

On March 11, 2015, a putative stockholder class action lawsuit was filed against us, the members of our board of directors, certain of our executive officers and the underwriters of our IPO: Nguyen v. Coupons.com Incorporated, Case No. CGC-15-544654 (California Superior Court, San Francisco County). The complaint asserted claims under the Securities Act and sought unspecified damages and other relief on behalf of a putative class of persons and entities who purchased stock pursuant or traceable to the registration statement and prospectus for our IPO. Plaintiff Nguyen requested and obtained a dismissal without prejudice of his San Francisco action and filed another complaint with substantially the same allegations in the Santa Clara County Superior Court, Nguyen v. Coupons.com Incorporated, Case No. 1-15-CV-278777 (California Superior Court, Santa Clara County) (Mar. 30, 2015). Three other complaints with substantially the same allegations have also been filed: O'Donnell v. Coupons.com Incorporated, Case No. 1-15-CV-278399 (California Superior Court, Santa Clara County) (Mar. 20, 2015); So v. Coupons.com Incorporated, Case No. 1-15-CV-278774 (California Superior Court, Santa Clara County) (Mar. 30, 2015); and Silverberg v. Coupons.com Incorporated, Case No. 1-15-CV-278891 (California Superior Court, Santa Clara County) (Apr. 2, 2015). On May 7, 2015, the Santa Clara court consolidated the Nguyen, So and Silverberg actions with the O'Donnell action. The Court sustained defendants' demurrer to the consolidated complaint with leave to amend. On December 14, 2015, plaintiffs filed an amended consolidated complaint. The Court sustained defendants' demurrer to the amended consolidated complaint without leave to amend on May 25, 2016, and on July 13, 2016 entered final judgment in our favor. The lawsuit has concluded since the defendants did not appeal the judgment.

In the ordinary course of business, the Company may be involved in lawsuits, claims, investigations, and proceedings consisting of intellectual property, commercial, employment, and other matters. The Company records a provision for these claims when it is both probable that a liability has been incurred and the amount of the loss, or a range of the potential loss, can be reasonably estimated. These provisions are reviewed regularly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information or events pertaining to a particular case. In the event that one or more of these matters were to result in a claim against the Company, an adverse outcome, including a judgment or settlement, may cause a material adverse effect on the Company’s future business, operating results, or financial condition.

The Company believes that liabilities associated with existing claims are remote, therefore the Company has not recorded any accrual for claims as of September 30, 2016 and December 31, 2015. The Company expenses legal fees in the period in which they are incurred.

13. Employee Benefit Plan

The Company maintains a defined-contribution plan under Section 401(k) of the Internal Revenue Code. The 401(k) plan provides retirement benefits for eligible employees. Eligible employees may elect to contribute to the 401(k) plan. The Company provides a match of up to the lesser of 3% of each employee's annual salary or $6,000, which vests fully after four years of continuous employment. The Company's matching contribution expense was $0.3 million and $0.2 million during the three months ended September 30, 2016 and 2015, respectively, and $1.4 million and $1.2 million during the nine months ended September 30, 2016 and 2015, respectively.

14. Information About Geographic Areas

Revenues generated outside of the United States were insignificant for all periods presented. Additionally, as the Company's assets are primarily located in the United States, information regarding geographical location is not presented, as such amounts are immaterial to these condensed consolidated financial statements taken as a whole.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K filed on March 11, 2016 with the SEC. In addition to historical financial information, the following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934. The forward looking statements reflect our plans, estimates, beliefs and expectations that involve risks and uncertainties. Our actual results and the timing of events could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences are described in "Risk Factors" set forth in our Annual Report on Form 10-K and elsewhere in this Quarterly Report on Form 10-Q.

Overview

The Company is a provider of digital promotions and media solutions driven by consumer-shopping data. We connect CPGs and retailers with shoppers by delivering digital promotions and media to shoppers through mobile, web and social channels. Leading brands, as well as leading retailers in the grocery, drug, dollar, club and mass merchandise channels, use our platform to engage shoppers at the critical moments when they are choosing what products to buy and where to shop. Our corporate name, which became effective October 20, 2015, is designed to better reflect the breadth and sophistication of our business offerings, along with our deepening relationships with Fortune 500 CPGs and retailers.

Our core promotions and media solutions, which we refer to as Quotient Promotions and Quotient Media, respectively, reach millions of shoppers every day through our extensive network. That network includes our flagship site and mobile app, Coupons.com; over 2,000 brands from approximately 700 CPGs; retailers across multiple classes of trade such as grocery, drug, dollar, club, and mass merchandise channels; our publisher network of thousands of registered partner sites, which have distributed or may distribute our offers and media; and consumers visiting web, mobile properties, and social channels within that ecosystem. Our emerging solutions around our data and analytic capabilities, referred to as Quotient Insights, also relies on this extensive network. We expect to continue to solidify and/or expand partnerships, and incur investment costs specific to Quotient Insights in anticipation of launching new products and/or services in the future.

Our CPG customers include many of the leading food, beverage, drug, personal and household product manufacturers. We primarily generate revenue from CPGs by offering promotions and media content to consumers across our network. Our retailers include leading grocery, drug, dollar channel, club and mass merchandise retailers. We also service a broad range of specialty retailers, including clothing, electronics, home improvement and many others, through which we generate revenue primarily from offering coupon codes through our platform.

We generate promotion revenues from digital transactions on our network. Each time a consumer activates a digital coupon on our platform by either printing it for physical redemption at a retailer or saving it to a retailer loyalty account for automatic digital redemption, or redeems a cash back coupon using a mobile device after taking a picture of a retailer receipt with the appropriate purchase, we are generally paid a fee. As our business evolves, we will continue to experiment with different pricing models and fee arrangements with CPGs and retailers which may impact how we monetize transactions. For coupon codes, we are generally paid a fee when a consumer makes a purchase using a coupon code from our platform. We generally pay a distribution fee to retailers or publishers when a consumer activates a digital promotion on their website or mobile app. These distribution fees are included in our cost of revenues. We also generate media revenue through the placement of online advertisements from CPGs and retailers that are displayed on our websites and mobile apps, as well as those of our publishers, retailers and other third parties. See Management's Discussion and Analysis of Financial Condition and Results of Operations – "Non-GAAP Financial Measure and Key Operating Metrics" for more information.

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Third Quarter 2016 Overview

Quarterly revenues of $66.5 million for the third quarter of 2016 increased $10.0 million, or 18%, from revenues of $56.5 million in the same period in 2015. Our net loss of $11.3 million in the third quarter of 2016 increased by $1.5 million, as compared to the net loss of $9.8 million in the same period in 2015. The year over year increase in our quarterly revenues was primarily related to increased revenues from digital promotions. Contributing factors to the year over year increase in revenues also included an increasing number of consumers wanting to print from their mobile device, as well as timing of Retailer iQ implementations. The increase in our net loss in the third quarter of 2016 compared to the same period in 2015 was primarily driven by a one-time charge associated with certain distribution fees under an arrangement with a retailer partner amounting to $7.4 million (discussed in detail further below), and an increase in general and administrative expense, mostly offset by an increase in revenues from digital promotions and decrease in sales and marketing expense. While we continue to make important investments in our technology and infrastructure, we remain focused on operational efficiencies and expense management.

Our operating expenses may increase in the future as we continue (1) to invest in (i) research and development to enhance our platform and investments in Quotient Insights; (ii) sales and marketing to acquire new CPG and retailer customers and increase revenues from our existing customers; and, (iii) corporate infrastructure; (2) to incur additional general and administrative expenses associated with being a public company, including increased legal and accounting expenses, higher insurance premiums and compliance costs associated with the Sarbanes-Oxley Act; and (3) to amortize expenses related to intangibles assets associated with a services and data agreement.

Non- GAAP Financial Measure and Key Operating Metrics

Adjusted Earnings Before Income Taxes, Depreciation and Amortization (Adjusted EBITDA), a non-GAAP financial measure, is a key metric used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, to develop short and long-term operational plans, and to determine bonus payouts. In particular, we believe that the exclusion of the expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, Adjusted EBITDA is a key financial metric used by the compensation committee of our board of directors in connection with the determination of compensation for our executive officers. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

We define a “transaction” as any action that generates revenue, directly or indirectly, including per item transaction fees, set up fees, volume-based fixed fees and revenue sharing. Transactions continue to exclude retailer offers that generate no direct revenue. Transactions indirectly generate revenue when the action is not paid for on a per item basis, but is part of an agreement which generates revenue for offer services; for example, transactions after a fixed fee cap has been reached would be included in our definition. This definition of transaction does not impact the number of transactions reported in prior filings. While the number of transactions on our platform has been an important indicator of our ability to grow our revenues, as our business continues to evolve and we experiment with different pricing models to monetize transactions, we believe transaction volume on our platform may become a less predictive indicator of future operating performance.

Net loss, Adjusted EBITDA and number of transactions for each of the periods presented were as follows (in thousands):

	Three Months Ended	Nine Months Ended
	September 30,	September 30,

	2016	2015	2016	2015
Net loss	$(11,312)	$(9,818)	$(23,013)	$(23,161)
Adjusted EBITDA	8,781	2,187	21,133	10,789
Transactions	682,106	403,382	1,754,145	1,188,029

Our use of Adjusted EBITDA as an analytical tool has limitations, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization 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 capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA also does not include the effects of interest, income taxes, gain on sale of a right to use a web domain name, other income (expense), net, one-time charge for certain distribution fees and change in fair value of escrowed shares and contingent consideration, net; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

A reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure, for each of the periods presented is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	$(11,312)	$(9,818)	$(23,013)	$(23,161)
Adjustments:				
Stock-based compensation	6,728	8,074	21,647	25,513
Depreciation and amortization	6,144	4,099	16,252	11,879
One-time charge for certain distribution fees	7,435	—	7,435	—
Change in fair value of escrowed shares and contingent consideration, net	105	(238)	(963)	1,484
Interest expense	—	126	—	288
Other income (expense), net	(398)	(47)	(418)	(26)
Provision for (benefit from) income taxes	79	(9)	193	(388)
Gain on sale of a right to use a web domain name	—	—	—	(4,800)
Total adjustments	$20,093	$12,005	$44,146	$33,950
Adjusted EBITDA	$8,781	$2,187	$21,133	$10,789