Quotient Technology Inc.
Form 10-Q
November 03, 2017

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, 2017

OR

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

Commission File Number: 001-36331

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, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
Emerging growth company		

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

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

As of October 31, 2017, the registrant had 92,784,396 shares of common stock outstanding.

QUOTIENT TECHNOLOGY INC.

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REPORT ON

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 158,664	$ 106,174
Short-term investments	24,607	69,172
Accounts receivable, net of allowance for doubtful accounts of $913 and $1,338 at September 30, 2017 and December 31, 2016, respectively	78,476	71,945
Prepaid expenses and other current assets	8,530	6,293
Total current assets	270,277	253,584
Property and equipment, net	15,638	16,376
Intangible assets, net	49,446	47,987
Goodwill	80,506	43,895
Other assets	936	914
Total assets	$ 416,803	$ 362,756
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,129	$ 4,968
Accrued compensation and benefits	11,811	13,202
Other current liabilities	28,839	20,864
Contingent consideration related to acquisitions	16,200	—
Deferred revenues	7,575	6,856
Total current liabilities	68,554	45,890
Other non-current liabilities	520	78
Deferred rent	1,922	2,285
Contingent consideration related to acquisitions	—	185
Deferred tax liabilities	2,466	2,569
Total liabilities	73,462	51,007
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, 2017 and December 31, 2016	—	—
Common stock, $0.00001 par value—250,000,000 shares authorized; 102,336,142	1	1

shares issued and 92,688,435 outstanding at September 30, 2017; 98,208,117 shares issued and 88,560,409 outstanding at December 31, 2016		
Additional paid-in capital	701,679	647,474
Treasury stock, at cost	(96,574)	(96,574)
Accumulated other comprehensive loss	(721)	(748)
Accumulated deficit	(261,044)	(238,404)
Total stockholders' equity	343,341	311,749
Total liabilities and stockholders' equity	$ 416,803	$ 362,756

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,	
	2017	2016	2017	2016
Revenues	$81,950	$66,470	$229,022	$199,768
Costs and expenses:				
Cost of revenues	37,501	35,126	96,734	85,500
Sales and marketing	22,002	20,415	67,456	67,656
Research and development	12,255	12,414	38,149	38,419
General and administrative	11,702	10,041	35,398	32,394
Change in fair value of escrowed shares and contingent consideration, net	9,700	105	11,015	(963)
Total costs and expenses	93,160	78,101	248,752	223,006
Loss from operations	(11,210)	(11,631)	(19,730)	(23,238)
Other income (expense), net	276	398	537	418
Loss before income taxes	(10,934)	(11,233)	(19,193)	(22,820)
Provision for (benefit from) income taxes	(107)	79	66	193
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Net loss per share, basic and diluted	$(0.12)	$(0.13)	$(0.22)	$(0.28)
Weighted-average number of common shares used in computing net loss per share, basic and diluted	90,492	84,732	89,000	83,484

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,	
	2017	2016	2017	2016
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Other comprehensive income:				
Foreign currency translation adjustments	(21)	3	27	9
Comprehensive loss	$(10,848)	$(11,309)	$(19,232)	$(23,004)

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, 2017	2016
Cash flows from operating activities:		
Net loss	$(19,259)	$(23,013)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,280	16,252
Stock-based compensation	24,302	21,647
Loss on disposal of property and equipment	—	245
Allowance for doubtful accounts	(548)	237
Deferred income taxes	66	193
One-time charge for certain distribution fees	—	7,435
Change in fair value of escrowed shares and contingent consideration, net	11,015	(963)
Changes in operating assets and liabilities:		
Accounts receivable	(1,776)	(3,970)
Prepaid expenses and other current assets	(2,231)	(596)
Accounts payable and other current liabilities	5,882	(3,720)
Accrued compensation and benefits	(1,454)	(5,180)
Deferred revenues	718	408
Net cash provided by operating activities	29,995	8,975
Cash flows from investing activities:		
Purchases of property and equipment	(4,383)	(5,004)
Purchase of intangible assets	—	(63)
Acquisitions, net of cash acquired	(21,048)	—
Purchases of short-term investments	(64,685)	(69,116)
Proceeds from maturities of short-term investment	109,250	25,000
Net cash provided by (used in) investing activities	19,134	(49,183)
Cash flows from financing activities:		
Proceeds from issuances of common stock under stock plans	5,880	9,613
Payments for taxes related to net share settlement of equity awards	(2,326)	—
Repurchases of common stock	—	(11,819)
Principal payments on promissory note and capital lease obligations	(161)	(38)
Net cash provided by (used in) financing activities	3,393	(2,244)
Effect of exchange rates on cash and cash equivalents	(32)	1
Net increase (decrease) in cash and cash equivalents	52,490	(42,451)
Cash and cash equivalents at beginning of period	106,174	134,947
Cash and cash equivalents at end of period	$158,664	$92,496

Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$113	$94
Cash paid for interest	20	3
Supplemental disclosures of noncash investing and financing activities:		
Fair value of common stock issued in connection with a services and data agreement	—	39,570
Issuance of shares related to Crisp acquisition	12,957	—
Fixed asset purchases not yet paid	461	1,163
Computer equipment acquired under promissory note	819	—
Property and equipment acquired under capital lease	$31	$—

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. (“Quotient” or, the “Company”), is a provider of an industry leading digital platform that enables consumer packaged goods (“CPG”) brands and retailers to engage shoppers through personalized and targeted promotions and media. Through our platform, CPGs and retailers are able to use online and in-store point-of-sale (POS) shopper data and analytics to drive sales with improved efficiency, as compared to traditional offline promotional and advertising vehicles.

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, 2016.

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. Certain prior period balances have been reclassified to conform to the current period's presentation. 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, 2017 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, except for Company electing to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment of $3.4 million recorded to accumulated deficit balance as of January 1, 2017.

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.

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). In addition, the FASB issued subsequent ASUs, which serve to clarify certain aspects of ASU 2014-09. 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 was the first quarter of 2017.

The Company is continuing to evaluate the overall impact of the new standard on its accounting policies, processes, system requirements, and internal controls over financial reporting. In addition to internal resources, the Company engaged third-party service providers to assist with the evaluation. The Company has made and will continue to make investments in systems to enable timely and accurate reporting under the new standard. The Company currently anticipates adopting the standard using the modified retrospective method. While the Company is still in the process of completing its analysis on the impact the guidance will have on its consolidated financial statements, related disclosures, and internal controls over financial reporting, it does not expect the impact to be material.

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 is 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 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, which is the first quarter of 2018 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

Accounting Pronouncements Adopted

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The guidance requires all of the tax effects related to share based payments to be recorded through the income statement. The guidance also removes the present requirement to delay recognition of an excess tax benefit (“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 was effective for the Company beginning January 1, 2017, and interim periods within that reporting period. Early adoption was permitted. The Company adopted ASU 2016-09 in the first quarter of 2017. Upon adoption, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment of $3.4 million recorded to accumulated deficit balance as of January 1, 2017. The amendments related to accounting for previously unrecognized excess tax benefits as deferred tax assets have been adopted on a modified retrospective basis with a cumulative-effect adjustment to opening retained earnings of $25.5 million, fully offset by a valuation allowance. This adjustment resulted in no impact to retained earnings upon adoption. The amendments related to accounting for excess tax benefits have been adopted prospectively, resulting in no impact as the Company is in a net operating loss position with a full valuation allowance.

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, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$25,068	—	—	$25,068
Certificate of deposit	—	35,092	—	35,092
Short-Term investments:				
Certificate of deposit	—	24,607	—	24,607
Total	$25,068	$59,699	$—	$84,767
Liabilities:				
Contingent consideration related to Crisp acquisition (1)	—	—	16,200	16,200
Contingent consideration related to Shopmium acquisition (1)	—	—	—	—
Total	$—	$—	$16,200	$16,200

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-Term investments:				
Certificate of deposit	—	69,172	—	69,172
Total	$—	$69,172	$—	$69,172
Liabilities:				
Contingent consideration related to Shopmium acquisition (1)	—	—	185	185
Total	$—	$—	$185	$185

(1) Included in contingent consideration related to acquisitions

The valuation technique used to measure the fair value of money market funds included using quoted prices in active markets. The money market funds have a fixed net asset value (NAV) of $1. The valuation technique 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 Crisp Media, Inc. ("Crisp") was estimated using an option pricing method and was based on significant inputs not observable in the market, thus classified as a Level 3 instrument. The inputs include expected achievement of certain financial metrics over the contingent consideration period, historical volatility and discount rate. Refer to Note 6 for further details related to the acquisition.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Shopmium Level 3	Crisp Level 3	Shopmium Level 3	Crisp Level 3
Balance at the beginning of period	$—	$14,800	$185	$—
Addition related to acquisition	—	—	—	14,800
Change in fair value	—	1,400	(185)	1,400
Balance as of September 30, 2017	$—	$16,200	$—	$16,200

For the three and nine months ended September 30, 2017, the Company recorded losses of $1.4 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 Crisp contingent consideration is due to an increase in expected achievement of certain financial metrics over the contingent consideration period. The changes in the fair value of the contingent consideration are 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, 2017 and 2016.

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,	
	2017	2016	2017	2016
Balance at the beginning of period	$1,035	$883	$1,338	$833
Additions related to Crisp acquisition	—	—	229	—
Bad debt expense (recovery)	(51)	86	(548)	237
Write-offs, net	(71)	(38)	(106)	(139)
Balance at the end of period	$913	$931	$913	$931

5. Balance Sheet Components

Property and Equipment, Net

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

	September 30, 2017	December 31, 2016
Software	$ 32,803	$ 32,286
Computer equipment	24,133	22,664
Leasehold improvements	8,187	8,141
Furniture and fixtures	2,354	2,296
Total	67,477	65,387
Accumulated depreciation and amortization	(55,493)	(50,249)

Projects in process	3,654	1,238
Property and equipment, net	$ 15,638	$ 16,376

Depreciation and amortization expense related to property and equipment was $1.6 million and $4.1 million for the three months ended September 30, 2017 and 2016, respectively, and $5.3 million and $12.0 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company capitalized internal use software development and enhancement costs of $1.0 million and $0.3 million during the three months ended September 30, 2017 and 2016, respectively, and $3.1 million and $0.4 million during the nine months ended September 30, 2017 and 2016, respectively. During the three and nine months ended September 30, 2017, the Company had zero and $0.6 million in amortization expense related to internal use software, included in property and equipment depreciation and amortization expense above, and recorded as cost of revenues, as compared to $2.6 million and $7.9 million, respectively, during the comparable period of 2016. The unamortized capitalized development and enhancement costs were $3.7 million and $1.2 million as of September 30, 2017 and December 31, 2016, respectively.

Accrued Compensation and Benefits

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

	September 30, 2017	December 31, 2016
Bonus	$ 5,164	$ 5,985
Commissions	2,549	3,572
Vacation	1,380	1,916
Payroll and related expenses	2,718	1,729
Accrued compensation and benefits	$ 11,811	$ 13,202

Other Current Liabilities

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

	September 30, 2017	December 31, 2016
Distribution fees	$ 16,633	$ 12,463
Marketing expenses	1,915	3,383
Prefunded Liability	1,890	1,345
Traffic Acquisition Cost	1,747	—
Other	6,654	3,673
Other current liabilities	$ 28,839	$ 20,864

6. Acquisitions

On May 31, 2017, the Company acquired all the outstanding shares of Crisp, a mobile marketing and advertising company, delivering shopper marketing media campaigns for CPGs and retailers. Crisp's mobile media expertise complements Quotient's proprietary shopper data, retail network and existing promotions and media offerings.

The total preliminary acquisition consideration of $51.9 million consisted of $24.1 million in cash, 1,177,927 shares of the Company's common stock with a fair value of $13.0 million or $11.00 per share, and contingent consideration of up to $24.5 million payable in cash with a fair value of $14.8 million. The contingent consideration payout is based on Crisp achieving certain financial metrics over a period of one year after closing and is payable within 105 days after May 31, 2018. At the date of acquisition, the contingent consideration's fair value of $14.8 million was determined by using an option pricing method. Fair value of contingent consideration is remeasured every reporting period. Refer to Note 3 for the fair value of contingent consideration at September 30, 2017.

The Crisp acquisition provides the Company with customer relationships, developed technologies and trade names. The fair value of the customer relationships intangible asset was determined by using a discounted cash flow model.

The fair values of developed technologies and trade names intangible assets were determined by using the relief from royalty methods. The excess of the consideration paid over the fair value of the net tangible assets and identifiable intangible assets acquired is recorded as goodwill. The goodwill is attributable to expected synergies from combined operations and Crisp’s knowhow.

The transaction was accounted for as a business combination. Accordingly, assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company expensed all transaction costs in the period in which they were incurred.

The following table summarizes the preliminary acquisition consideration and the related fair values of the assets acquired and liabilities assumed (in thousands):

	Purchase Consideration	Net Tangible Assets Acquired/ (Liabilities Assumed)	Identifiable Intangible Assets	Goodwill	Goodwill Deductible for Taxes	(1) Acquisition Related Expenses
Crisp	$ 51,904	$ 5,893	$ 9,400	$ 36,611	Not Deductible	$ 1,504

(1) Expensed as general and administrative

The following sets forth each component of identifiable intangible assets acquired in connection with the Crisp acquisition (in thousands):

	Crisp	Estimated Useful Life (in Years)
Developed technologies	$5,000	4.0
Customer relationships	2,800	7.0
Trade names	1,600	4.0
Total identifiable intangible assets	$9,400	

7. Intangible Assets

Intangible assets consist of the following (in thousands):

	September 30, 2017				
	Gross	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Amortization Period

					(Years)
Promotion service rights	$22,492	$ (3,497)	$ —	$18,995	6.3
Data access rights	10,801	(2,192)	—	8,609	4.6
Customer relationships	11,660	(6,069)	(36)	5,555	4.4
Developed technologies	12,187	(4,268)	(89)	7,830	3.2
Media service rights	6,383	(1,295)	—	5,088	4.6
Domain names	5,949	(4,525)	(9)	1,415	1.5
Trade names	1,767	(302)	1	1,466	3.7
Patents	975	(757)	—	218	4.8
Vendor relationships	890	(834)	—	56	0.3
Registered users	420	(195)	(11)	214	2.5
	$73,524	$ (23,934)	$ (144)	$49,446	4.9

As of September 30, 2017, and December 31, 2016, the Company has a domain name with a gross value of $0.4 million with an indefinite useful life that is not subject to amortization.

	December 31, 2016				
	Gross	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Amortization Period (Years)
Promotion service rights	$22,492	$ (1,256)	$ —	$21,236	7.1
Data access rights	10,801	(787)	—	10,014	5.3
Customer relationships	8,860	(4,915)	(36)	3,909	3.1
Developed technologies	7,187	(2,837)	(89)	4,261	3.3
Media service rights	6,383	(465)	—	5,918	5.3
Domain names	5,948	(4,061)	(9)	1,878	2.2
Patents	975	(718)	—	257	5.6
Vendor relationships	890	(667)	—	223	1.0
Registered users	420	(118)	(11)	291	3.3
Trade names	167	(168)	1	—	—
	$64,123	$ (15,992)	$ (144)	$47,987	5.6

Amortization expense related to intangible assets subject to amortization was $2.9 million and $2.1 million during the three months ended September 30, 2017 and 2016, respectively, and $7.9 million and $4.3 million during the nine months ended September 30, 2017 and 2016, respectively. Estimated future amortization expense related to intangible assets as of September 30, 2017 is as follows (in thousands):

	Total
2017, remaining three months	$2,955
2018	11,467
2019	10,379
2020	8,962
2021	7,104
2022 and beyond	8,226
Total estimated amortization expense	$49,093

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,	
	2017	2016	2017	2016
Expected life (in years)	6.25	6.08	5.50 - 6.25	2.50 - 6.08
Risk-free interest rate	1.98%	1.22%	1.87% - 2.14%	0.68% - 1.34%
Volatility	50%	55%	50%	55% - 70%
Dividend yield	—	—	—	—

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The weighted-average grant-date fair value of options granted was $5.81 and $6.87 per share during the three months ended September 30, 2017 and 2016, respectively, and $6.33 and $5.25 per share during the nine months ended September 30, 2017 and 2016, respectively.

Restricted Stock Units

The fair value of restricted stock units ("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.

On September 28, 2017 (the "Grant Date"), the Company granted 128,205 performance-based RSUs ("PSU Award"), under the 2013 Equity Incentive Plan, to Mir Aamir, in connection with his promotion to President and Chief Executive Officer. The PSU Award represents the right to receive shares of the Company's common stock upon meeting certain vesting conditions which were tied to achievement of certain Company stock price goals. The fair value of the PSU Award was measured using a Monte Carlo simulation. During the three months ended September 30, 2017, the expense recognized in the consolidated financial statements related to the PSU Award was insignificant. Subsequent to September 30, 2017, the Company modified the terms of the PSU Award to provide incentives based on targets that can be directly tied to the Company's performance. Refer to Part II – Other Information, Item 5. for further details.

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, 2016	3,424,730	5,504,084	$ 12.02	7,746,067	$ 8.83	6.12	$ 30,507
Increase in shares authorized	3,542,416	—	—	—	—	—	—
Options granted	(1,319,680)	—	—	1,319,680	$ 12.76	—	—
Options exercised	—	—	—	(1,262,802)	$ 4.01	—	$ 9,683
Options canceled or expired	184,359	—	—	(184,359)	$ 9.86	—	—
RSUs granted	(2,401,441)	2,401,441	$ 11.95	—	—	—	—
RSUs vested	—	(1,774,008)	$ 12.49	—	—	—	—
RSUs canceled or expired	684,840	(684,840)	$ 11.45	—	—	—	—
RSUs withheld for taxes	178,748	—	—	—	—	—	—
Balance as of September 30, 2017	4,293,972	5,446,677	$ 12.12	7,618,586	$ 10.29	6.41	$ 48,718
Vested and exercisable as of September 30, 2017				5,279,392	$ 9.80	5.33	$ 38,421

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 $1.5 million and $0.9 million during the three months ended September 30, 2017 and 2016, respectively, and $5.5 million and $2.4 million during the nine months ended September 30, 2017 and 2016, 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Expected life (in years)	0.50	0.50	0.50	0.50
Risk-free interest rate	1.04%	0.38%	0.62% - 1.04%	0.33% - 0.38%
Volatility	50%	74%	50%	72% - 74%
Dividend yield	—	—	—	—

As of September 30, 2017, a total of 642,124 shares of common stock were issued under the 2013 Employee Stock Purchase Plan ("ESPP"), since inception of the plan. As of September 30, 2017, a total of 1,757,876 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of revenues	$521	$467	$1,457	$1,457
Sales and marketing	1,832	1,155	4,858	4,279
Research and development	1,894	1,837	5,890	5,728
General and administrative	4,233	3,269	12,097	10,183
Total stock-based compensation expense	$8,480	$6,728	$24,302	$21,647

As of September 30, 2017, there was $62.9 million of unrecognized stock-based compensation expense, of which $12.2 million is related to stock options and ESPP shares and $50.7 million is related to RSUs. The total unrecognized stock-based compensation expense related to stock options and ESPP as of September 30, 2017 will be amortized over a weighted-average period of 2.7 years. The total unrecognized stock-based compensation expense related to RSUs as of September 30, 2017 will be amortized over a weighted-average period of 2.4 years.

During the three and nine months ended September 30, 2017, the Company capitalized $0.2 million of stock-based compensation cost in projects in process as part of property and equipment, net on the accompanying consolidated balance sheets.

9. Common Stock Repurchase Program

The Company's Board of Directors has approved programs for it to repurchase shares of its common stock. In April 2017, the Board of Directors authorized a share repurchase program ("2017 Program") for the Company to repurchase up to $50.0 million of its common stock. The 2017 Program has a one year duration beginning on May 5, 2017. Stock repurchases may be made from time-to-time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company may suspend, modify or terminate this repurchase program at any time without prior notice. During the nine months ended September 30, 2017, the Company did not repurchase any shares of its common stock. As of September 30, 2017, $50.0 million remains available for future share repurchases under the 2017 Program.

Subsequent to September 30, 2017, the Board of Directors authorized the retirement of 9,647,708 shares of the Company's treasury stock.

10. Income Taxes

The Company recorded an income tax benefit of $0.1 million and an income tax provision $0.1 million during the three and nine months ended September 30, 2017, respectively, and an income tax provision of $0.1 million and $0.2 million during the three and nine months ended September 30, 2016, respectively. The income tax benefit for the three months ended September 30, 2017 was primarily attributable to a net decrease in foreign profits. The income tax provision for the nine months ended September 30, 2017 was primarily attributable to foreign income taxed at non-US tax rates. 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 related to an acquisition and a decrease in foreign income taxed at non-US tax rates.

11. Net Loss Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Weighted-average number of common shares used in computing net loss per share, basic and diluted	90,492	84,732	89,000	83,484
Net loss per share, basic and diluted	$(0.12)	$(0.13)	$(0.22)	$(0.28)

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

	Three and Nine Months Ended	
	September 30,	
	2017	2016
Stock options and ESPP	7,770	8,287
Restricted stock units	5,447	6,017
Shares held in escrow	2,000	2,000
	15,217	16,304

12. Commitments and Contingencies

Leases

As of September 30, 2017, the Company's minimum payments under its non-cancelable operating and capital leases are as follows (in thousands):

	Operating Leases	Capital Leases
2017, remaining three months	$ 1,125	$ 12
2018	4,787	42
2019	4,506	10
2020	2,176	—
2021	805	—
2022	825	—
2023 and thereafter	1,327	—
Total minimum payments	$ 15,551	$ 64
Less: Amount representing interest		2
Present value of capital lease obligations		62
Less: Current portion		46
Capital lease obligation, net of current portion		$ 16

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 $1.1 million and $1.3 million for the three months ended September 30, 2017 and 2016, respectively, and $3.3 million and $3.2 million during the nine months ended September 30, 2017 and 2016, respectively.

Purchase Obligations

The Company has unconditional purchase commitments which expire through 2034 in the amount of $6.5 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 also has unconditional purchase commitments, primarily related to software license fees and marketing services, of $5.7 million as of September 30, 2017.

Promissory Note

In January 2017, the Company entered into a promissory note agreement with a lender to finance the purchase of computer equipment for $0.8 million to be paid in quarterly installments over three years. As of September 30, 2017, the Company had a remaining balance of $0.7 million under the agreement, which is included in other current liabilities and other non-current liabilities on the condensed consolidated balance sheets.

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

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, 2017 and December 31, 2016. 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 over four years of continuous employment. The Company’s matching contribution expense was $0.4 million and $0.3 million during the three months ended September 30, 2017 and 2016, respectively, and $1.3 million and $1.4 million during the nine months ended September 30, 2017 and 2016, 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 February 16, 2017 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

Quotient Technology Inc. is a provider of an industry leading digital platform that enables consumer packaged goods ("CPG") brands and retailers to engage shoppers through personalized and targeted promotions and media. Through our platform, CPGs and retailers are able to use online engagement data and in-store point-of-sale ("POS") shopper data and analytics to drive sales with improved efficiency, as compared to traditional offline promotional and advertising vehicles.

We operate our platform across a broad distribution network, reaching over 40 million shoppers at critical moments in their paths to purchase. Our network includes the website and mobile app of our flagship consumer brand, Coupons.com, as well as our other owned and operated properties, and thousands of our publisher partners. In addition, we operate our platform, Retailer iQ, on a co-branded or white label basis with our retailer partners, providing them a digital platform to directly engage with their shoppers across their websites, mobile, ecommerce, and social channels. Retailer iQ integrates with retailers' POS technology and leverages a broad set of shopper insights, including online behaviors, purchase, and purchase intent data to deliver personalized and targeted promotions and media. Retailers using Retailer iQ are primarily in the grocery, drug, dollar, club and mass merchandise channels, where most CPG products are sold.

Our network is made up of three constituents: more than 2,000 brands from approximately 700 CPGs; retailers across multiple classes of trade such as grocery, drug, dollar, club, and mass merchandise channels; and consumers visiting our web, mobile properties, social channels, as well as those of our CPGs and retailers.

The relationship between our CPGs, retailers, publishers and shoppers, has resulted in a network effect, which we believe gives us a significant competitive advantage over both offline and other online competitors. As our shopper audience increases, our platform becomes more valuable to CPGs and retailers, which, in turn, rely more heavily on our platform for their digital promotions and media. In addition, the breadth of content offered from these leading brands enables us to attract and retain more retailers, publishers and shoppers. As our network expands, we generate more shopper data and insights, which improve our ability to deliver more relevant and personalized promotions and media.

We primarily generate revenue by providing digital promotions and media solutions to our customers. Our customers include many of the leading food, beverage, drug, personal and household product manufacturers. Together, these CPG companies represent over 2,000 brands.

Our retailer partners include leading grocery, drug, dollar, club and mass merchandise retailers which distribute and accept coupons distributed through Quotient. Our retailers also include a broad range of specialty stores, including clothing, electronics, home improvement and many others which offer 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 we are generally paid a fee. Activation of a digital coupon can include: printing it for physical redemption at a retailer; saving it to a retailer loyalty account for automatic digital redemption; using a mobile device to scan a retailer receipt with the appropriate purchase for automatic digital redemption and cash back. 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 example, we have recently experimented with pricing strategies based on return on investment, or ROI, some of which require us to receive fees upon redemption of digital coupons rather than activation, as further discussed below in “Risk Factors”. Promotion revenues includes coupon codes in which 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. See Management’s Discussion and Analysis of Financial Condition and Results of Operations – “Non-GAAP Financial Measure and Key Operating Metrics” for more information.

We 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. We also generate media revenue by leveraging our verified buyer audience reach and proprietary data to serve targeted media and measurement across the web, and mobile. We generally pay a distribution fee to select retailers or publishers when certain shopper data is used to conduct targeted media campaigns.

Seasonality

Some of the Company's products experience seasonal sales and buying patterns mirroring those in the CPG, retail, and e-commerce markets, including back-to-school and holiday campaigns, where demand increases during the second half of the Company's fiscal year. We believe that this seasonality pattern has affected, and will continue to affect, our business and the associated revenues during the first half and second half of our fiscal year. We recognized 52%, 53% and 53% of our annual revenue during the second half of 2016, 2015 and 2014, respectively.

Third Quarter 2017 Overview

Quarterly revenues of $82.0 million in the third quarter of 2017 increased by $15.5 million, or 23%, from revenues of $66.5 million in the same period in 2016. Our net loss of $10.8 million in the third quarter of 2017 decreased by $0.5 million, as compared to the net loss of $11.3 million in the same period in 2016. The year over year increase in our quarterly revenues primarily related to an increase in media revenue, including revenue related to Crisp, and an increase in digital promotions driven by the continued growth of Retailer iQ. The decrease in our net loss in the third quarter of 2017, as compared to the same period in 2016, was primarily the result of the growth in revenues and the benefit from the non-recurring one-time charge of $7.4 million, recorded during the third quarter of 2016, associated with certain distribution fees under an arrangement with a retailer partner, partially offset by the change in fair value of escrowed shares and contingent consideration resulting from the Crisp acquisition, an increase in cost of revenues due to the increase in distribution fees paid to retailers and third-parties, and an increase in operating expenses including sales, marketing, general and administrative. 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 to (1) invest in (i) research and development to enhance our platform and investments in newer product offerings including 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) incur additional general and administrative expenses associated with being a public company, including increased legal and accounting expenses, and compliance costs associated with the Sarbanes-Oxley Act; (3) amortize expenses related to intangibles assets associated with a services and data agreement and other strategic acquisitions; and (4) remeasure the fair value of shares held in escrow until released and changes in fair value of contingent consideration over the earnout periods.

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 our 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 certain income and 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.

Adjusted EBITDA excludes non-cash charges, such as depreciation, amortization and stock-based compensation, because such non-cash expenses in any specific period may not directly correlate to the underlying performance of our business operations and can vary significantly between periods. Additionally, it excludes the effects of income taxes, other (income) expense net, one-time charge for certain distribution fees, change in fair value of escrowed shares and contingent consideration, net, charges related to Enterprise Resource Planning (“ERP”) software implementation costs, certain acquisition related costs and restructuring charges.

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 historically, as our business continues to evolve with the shift to digital paperless and we experiment with different pricing models to monetize transactions, we believe transaction volume on our platform can 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Adjusted EBITDA	12,466	8,781	33,095	21,133
Transactions	986,671	682,106	2,575,179	1,754,145

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 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 charges related to ERP software implementation costs, one-time charge for certain distribution fees, change in fair value of escrowed shares and contingent consideration, net, other (income) expense net, income taxes, certain acquisition related costs and restructuring charges, 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Adjustments:				
Stock-based compensation	8,480	6,728	24,302	21,647
Depreciation, amortization and other[1]	5,496	6,144	17,508	16,252
One-time charge for certain distribution fees	—	7,435	—	7,435
Change in fair value of escrowed shares and contingent consideration, net	9,700	105	11,015	(963)
Other (income) expense, net	(276)	(398)	(537)	(418)

Provision for (benefit from) income taxes	(107)	79	66	193
Total adjustments	$23,293	$20,093	$52,354	$44,146
Adjusted EBITDA	$12,466	$8,781	$33,095	$21,133

(1) For the three and nine months ended September 30, 2017, Other includes ERP software implementation costs related to service agreements of $0.5 million and $1.0 million, respectively, certain acquisition related costs of $0.4 million and $1.9 million, respectively, and restructuring charges of zero and $1.3 million, respectively. Acquisition related costs primarily represent diligence, accounting, and legal expenses incurred related to the Crisp acquisition and restructuring charges relates to severance for impacted employees which we generally would not have otherwise incurred in the periods presented as part of our ongoing operations.

This non-GAAP financial measure is not intended to be considered in isolation from, as substitute for, or as superior to, the corresponding financial measure prepared in accordance with GAAP. Because of these and other limitations, Adjusted EBITDA should be considered along with GAAP based financial performance measures, including various cash flow metrics, net loss, and our other GAAP financial results.

Factors Affecting Our Performance

Obtaining high quality coupons and increasing the number of CPG-authorized activations. Our ability to grow revenue will depend upon our ability to shift more dollars to our platform from our CPG customers, continue to obtain high quality coupons and increase the number of CPG-authorized activations available through our platform. If we are unable to do these, growth in our revenue will be adversely affected.

Increasing revenue from CPGs on our platform. Our ability to grow our revenue in the future depends upon our ability to continue to increase revenues from existing CPGs on our platform through national brand coupons, targeted media and measurement, trade promotions, and increasing the number of brands that are using our platform within each CPG. As CPGs spend more on our platform, volume discounts that we offer to our existing CPGs may slow our revenue growth or reduce our revenues on a per transaction basis.

Variability in promotional spend by CPGs. Our revenues may fluctuate due to changes in promotional spending budgets of CPGs and retailers and the timing of their promotional spending. Decisions by major CPGs or retailers to delay or reduce their promotional and media spending, move campaigns, or divert spending away from digital promotions or media could slow our revenue growth or reduce our revenues.

Ability to scale Retailer iQ and further integrate with Retailers. Our ability to grow our revenues will depend upon our ability to continue to successfully implement and scale Retailer iQ among retailers. If we are unable to continue to successfully implement Retailer iQ, or if the implementation or marketing of Retailer iQ is delayed or it is not adopted and supported with sufficient resources by retailers, the growth in our revenues will be adversely affected. Our ability to grow our revenue in the future is also dependent upon our ability to further integrate digital promotions and media into retailers' loyalty or point of sale systems and other channels so that CPGs and retailers can more effectively engage consumers and drive their own sales.

Growth of our consumer selection and digital offerings. Our ability to grow our revenue in the future will depend on our ability to innovate and invest in promotion and media solutions, including Retailer iQ, Quotient Media Exchange ("QMX"), mobile solutions for consumers, including digital print, mobile solutions and digital promotion offerings for specialty/franchise retail, leverage our reach to consumers and the strength of our platform to broaden the selection and use of digital coupons by consumers, manage the transition from digital print coupons to digital paperless coupons as well as the transition from desktop to mobile platforms, and invest in emerging solutions around our data and analytic capabilities, referred to as Quotient Insights, for CPGs and retailers.

International Growth and Acquisitions. Our ability to grow our revenues will also depend on our ability to grow our operations and offerings in existing international markets and expand our business through selective acquisitions, similar to our acquisition of Crisp and Shopmium, and their integration with the core business of the company.

Results of Operations

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

(in thousands, except percentages)	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
Revenues	$81,950	100.0%	$66,470	100.0%	$229,022	100.0%	$199,768	100.0%
Cost of revenues	37,501	45.8 %	35,126	52.8 %	96,734	42.2 %	85,500	42.8 %
Gross profit	44,449	54.2 %	31,344	47.2 %	132,288	57.8 %	114,268	57.2 %
Operating expenses:								
Sales and marketing	22,002	26.8 %	20,415	30.7 %	67,456	29.5 %	67,656	33.9 %
Research and development	12,255	15.0 %	12,414	18.7 %	38,149	16.7 %	38,419	19.2 %
General and administrative	11,702	14.3 %	10,041	15.1 %	35,398	15.5 %	32,394	16.2 %
Change in fair value of escrowed shares and contingent consideration, net	9,700	11.8 %	105	0.2 %	11,015	4.8 %	(963)	(0.5)%
Total operating expenses	55,659	67.9 %	42,975	64.7 %	152,018	66.4 %	137,506	68.8 %
Loss from operations	(11,210)	(13.7)%	(11,631)	(17.5)%	(19,730)	(8.6)%	(23,238)	(11.6)%
Other income (expense), net	276	0.3 %	398	0.6 %	537	0.2 %	418	0.2 %
Loss before income taxes	(10,934)	(13.4)%	(11,233)	(16.9)%	(19,193)	(8.4)%	(22,820)	(11.4)%
Provision for (benefit from) income taxes	(107)	(0.1)%	79	0.1 %	66	— %	193	0.1 %
Net loss	$(10,827)	(13.3)%	$(11,312)	(17.0)%	$(19,259)	(8.4)%	$(23,013)	(11.5)%

Comparison of the Three and Nine Months Ended September 30, 2017 and 2016

Revenues

(in thousands, except percentages)	Three Months Ended September 30, 2017	2016	$ Change	% Change	Nine Months Ended September 30, 2017	2016	$ Change	% Change
Revenues	$81,950	$66,470	$15,480	23 %	$229,022	$199,768	$29,254	15 %

Revenues for the three months ended September 30, 2017 increased by $15.5 million, or 23%, as compared to the same period in 2016. The increase was due to growth in media revenue, including revenue related to Crisp, and digital promotions driven by the continued growth of Retailer iQ transactions. Revenues from digital promotion transactions and digital media campaigns were 71% and 29%, respectively, of total revenues for the three months ended September 30, 2017, as compared to 78% and 22%, respectively, of total revenues during the same period in 2016. Transactions during the three months ended September 30, 2017 were 986.7 million, as compared to 682.1 million during the same period in 2016.

Revenues for the nine months ended September 30, 2017 increased by $29.3 million, or 15%, as compared to the same period in 2016. The increase was due to growth in digital promotions driven by the continued growth of Retailer iQ transactions and media revenue, including revenue related to Crisp. Revenues from digital promotion transactions and digital media campaigns were 76% and 24%, respectively, of total revenues for the nine months ended September 30, 2017, as compared to 77% and 23%, respectively, of total revenues during the same period in 2016. Transactions during the nine months ended September 30, 2017 were 2.6 billion, as compared to 1.8 billion during the same period in 2016.

We expect revenue growth in 2017 from deployments of Retailer iQ and the anticipated marketing campaigns as well as adoption of our platform by consumers.

Cost of Revenues and Gross Profit

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Cost of revenues	$37,501	$35,126	$2,375	7 %	$96,734	$85,500	$11,234	13 %
Gross profit	$44,449	$31,344	$13,105	42 %	$132,288	$114,268	$18,020	16 %
Gross margin	54 %	47 %			58 %	57 %		

Cost of revenues for the three months ended September 30, 2017 increased by $2.4 million, or 7%, as compared to the same period in 2016. The quarter over quarter increase was primarily due to an increase of $9.9 million in distribution fees, attributable to a greater number of Retailer iQ transactions completed through our platform, as well as third-party services fees related to the Crisp acquisition which closed in the second quarter of 2017, an increase in data center expenses of $1.0 million, an increase in other revenue related expenses of $0.6 million, an increase in amortization expense of $0.5 million related to certain exclusive rights acquired under a services and data agreement, and an increase in amortization expense of $0.4 million related to the acquisition of Crisp. This increase was partially offset by the benefit from the non-recurring one-time charge of $7.4 million, recorded during the third quarter of 2016, associated with certain distribution fees under an arrangement with a retailer partner and a decrease in amortization expense of $2.6 million associated with our Retailer iQ platform.

Cost of revenues for the nine months ended September 30, 2017 increased by $11.2 million, or 13%, as compared to the same period in 2016. The year over year increase was primarily due to an increase of $19.9 million in distribution fees as well as third-party services fees related to the Crisp acquisition, an increase in amortization expense of $3.5 million related to a services and data agreement, an increase in data center expenses of $1.1 million, an increase in other revenue related expenses of $0.6 million, an increase in amortization expense of $0.6 million related to the acquisition of Crisp, and an increase in restructuring charges of $0.2 million primarily related to severance for the impacted employees. This increase was partially offset by the benefit from the non-recurring one-time charge of $7.4 million, recorded during the third quarter of 2016, associated with certain distribution fees under an arrangement with a retailer partner and a decrease in amortization expense of $7.3 million associated with our Retailer iQ platform.

Gross margin for the three and nine months ended September 30, 2017 increased to 54%, and 58%, respectively, as compared to 47% and 57%, respectively, during the same periods in 2016, primarily due to the benefit from the non-recurring one-time charge of $7.4 million, recorded during the third quarter of 2016, associated with certain distribution fees under an arrangement with a retailer partner. This increase was partially offset by an increase in distribution fees resulting from a greater number of Retailer iQ transactions completed through our platform, attributable to an increase in digital promotion revenues, and due to the shift in revenue mix from promotions to media campaigns.

We expect the costs associated with distribution and third-party service fees to continue to increase in the future as we continue to expand and scale our distribution network and reach, and as we continue to pursue opportunities to expand our business through selective acquisitions.

Sales and Marketing

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Sales and marketing	$22,002	$20,415	$1,587	8 %	$67,456	$67,656	$(200)	(0)%
Percent of revenues	27 %	31 %			29 %	34 %		

Sales and marketing expenses for the three months ended September 30, 2017 increased by $1.6 million, or 8%, as compared to the same period in 2016. The increase was primarily due an increase in salaries and related expenses of $1.2 million and an increase in stock-based compensation of $0.7 million, partially offset by a reduction in promotional and advertising costs of $0.3 million resulting from our expense management efforts.

Sales and marketing expenses for the nine months ended September 30, 2017 decreased by $0.2 million, as compared to the same period in 2016. The decrease was primarily due to a reduction in promotional and advertising costs of $2.0 million, partially offset by an increase in salaries and related expenses of $0.8 million and an increase in stock-based compensation of $0.6 million, and an increase in restructuring costs of $0.4 million primarily related to severance for the impacted employees.

We expect to continue to invest in sales and marketing in order to support our growth and business objectives, while continuing to optimize our investment in promotional and advertising activities.

Research and Development

(in thousands, except percentages)	Three Months Ended September 30, 2017	2016	$ Change	% Change	Nine Months Ended September 30, 2017	2016	$ Change	% Change
Research and development	$12,255	$12,414	$ (159)	(1)%	$38,149	$38,419	$ (270)	(1)%
Percent of revenues	15 %	19 %			17 %	19 %		

Research and development expenses for the three months ended September 30, 2017 decreased by $0.2 million, or 1%, as compared to the same period in 2016. The decrease was primarily due to the capitalization of Quotient Insights software development costs of $1.0 million, partially offset by an increase in salaries and related expenses of $0.2 million, an increase in research and development support activities of $0.5 million, and an increase in stock-based compensation expense of $0.1 million.

Research and development expenses for the nine months ended September 30, 2017 decreased by $0.3 million, or 1%, as compared to the same period in 2016. The decrease was primarily due to the capitalization of Quotient Insights software development costs of $3.1 million, partially offset by an increase in research and development support activities of $1.8 million, an increase in salaries and related expenses of $0.4 million, an increase in restructuring costs of $0.4 million, and an increase in stock-based compensation expense of $0.2 million.

We believe that continued investment in technology is critical to attaining our strategic objectives. Our investment in research and development will be balanced with our continued operational and cost optimization efforts, as it provides us with the ability to invest in strategic areas, while managing growth in future periods.

General and Administrative

(in thousands, except percentages)	Three Months Ended September 30, 2017	2016	$ Change	% Change	Nine Months Ended September 30, 2017	2016	$ Change	% Change
General and administrative	$11,702	$10,041	$ 1,661	17 %	$35,398	$32,394	$ 3,004	9 %
Percent of revenues	14 %	15 %			15 %	16 %		

General and administrative expenses for the three months ended September 30, 2017 increased by $1.7 million, or 17%, as compared to the same period in 2016. The increase was primarily due to an increase in stock-based compensation expense of $1.0 million, an increase in ERP software implementation costs of $0.5 million, and an increase in certain acquisition related fees of $0.4 million due to the Crisp acquisition, partially offset by a decrease in salaries and related expenses of $0.2 million.

General and administrative expenses for the nine months ended September 30, 2017 increased by $3.0 million, or 9%, as compared to the same period in 2016. The increase was primarily due to an increase in certain acquisition related fees of $1.9 million due to the Crisp acquisition, an increase in stock-based compensation expense of $1.9 million, an increase in ERP software implementation costs of $1.0 million, an increase in salaries and related expenses of $0.1 million, and an increase in restructuring costs of $0.2 million primarily related to severance for the impacted employees, partially offset by a decrease in third party consultation services of $1.3 million, and a decrease in allowance for doubtful accounts of $0.8 million.

We expect to continue to incur additional general and administrative expenses in future periods as we continue to invest in corporate infrastructure and incur additional expenses associated with being a public company, including increased legal and accounting expenses, and compliance costs associated with the Sarbanes-Oxley Act.

Change in Fair Value of Escrowed Shares and Contingent Consideration

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Change in fair value of escrowed shares and contingent consideration, net	$9,700	$105	$9,595	9,138%	$11,015	$(963)	$11,978	(1,244)%
Percent of revenues	12%	0%			5%	(0)%		

For the three and nine months ended September 30, 2017, we recorded an expense of $9.7 million and $11.0 million, respectively, due to the changes in fair value of escrowed shares and contingent consideration. During the three months ended September 30, 2017, we recorded a loss of $8.3 million due to the increase in fair value of certain escrowed shares resulting from the increase in the Company’s stock price and a loss of $1.4 million due to the change in fair value of Crisp contingent consideration related to the increase in expected achievement of certain financial metrics over the contingent consideration period. During the nine months ended September 30, 2017, we recorded a loss of $9.8 million due to the increase in fair value of certain escrowed shares resulting from the increase in the Company’s stock price and a loss of $1.4 million due to the change in fair value of Crisp contingent consideration, partially offset by a gain of $0.2 million due to the change in fair value of the Shopmium contingent consideration related to a decline in expected revenue and profit milestones for the year ending December 31, 2017.

For the three and nine months ended September 30, 2016, we recorded an expense of $0.1 million and a gain of $1.0 million, respectively, due to the changes in fair value of escrowed shares and contingent consideration. During the three months ended September 30, 2016, we recorded a loss of $0.2 million due to the increase in fair value of certain shares held in escrow, which was partially offset by a gain of $0.1 million due to the change in fair value of the Shopmium contingent consideration related to a decline in expected revenue and profit milestones for the years ending December 31, 2016 and 2017. During the nine months ended September 30, 2016, we recorded a gain of $0.9 million due to the change in fair value of Shopmium contingent consideration and a gain of $0.3 million due to the change in fair value of Eckim contingent consideration related to a decrease in the Company’s stock price when the Company and the sellers of Eckim agreed on the performance against the milestones and when the shares were issued, which was partially offset by the charge of $0.2 million due to the increase in fair value of certain shares held in escrow related to the change in the Company’s stock price.

We expect that the change in fair value of escrowed shares and contingent consideration will fluctuate as we continue to remeasure the fair values of shares held in escrow until they are released and contingent consideration is remeasured over the earnout periods.

Non-Operating Income (Expense)

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Other income (expense), net	$276	$398	$ (122)	(31)%	$537	$418	$ 119	28%

The change in other income (expense), net during the three and nine months ended September 30, 2017, as compared to the same period in 2016 was due to interest income earned on short-term certificate of deposits, net of the effect of re-measuring balances in foreign currency due to exchange rate fluctuations.

Provision for (Benefit from) Income Taxes

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Provision for (benefit from) income taxes	$(107)	$ 79	$ (186)	(235)%	$66	$193	$ (127)	(66)%

We recorded an income tax benefit of $0.1 million and an income tax provision $0.1 million during the three and nine months ended September 30, 2017, respectively. The income tax benefit for the three months ended September 30, 2017 was primarily attributable to a net decrease in foreign profits. The income tax provision for the nine ended September 30, 2017 was primarily attributable to foreign income taxed at non-US tax rates. We recorded an income tax expense of $0.1 million and $0.2 million for the three and nine months ended September 30, 2016, respectively, primarily attributable to a net increase in deferred tax liabilities associated with the change in fair value of contingent consideration from an acquisition and a decrease in foreign income taxed at non-US tax rates.

Liquidity and Capital Resources

As of September 30, 2017, we had $158.7 million in cash and cash equivalents and $24.6 million in short-term investments, which were held for working capital purposes. Our cash equivalents and short-term investments are comprised primarily of money market funds and certificate of deposits. As of September 30, 2017, $2.2 million of cash was held by our foreign subsidiaries. We do not presently anticipate a need to repatriate these funds for use in our domestic operations, but if we were to do so, any such repatriated cash and cash equivalents could be subject to U.S. income taxes, less any previously paid foreign income taxes.

In the near term, although we intend to continue to manage our operating expenses in line with our existing cash and available financial resources, we anticipate we will incur increased spending in future periods in order to execute our long-term business plan and to support our growth and the costs associated with being a public company. As a public company, we have incurred and expect to continue to incur significant legal, accounting, regulatory compliance and other costs that we did not incur in the periods prior to our IPO with higher increases in future periods as we continue to invest in corporate infrastructure and incur additional expenses associated with being a public company, including increased legal and accounting expenses, and compliance costs associated with the Sarbanes-Oxley Act. In addition, we may use cash to fund acquisitions or invest in other business, repurchase the Company's common stock under the publicly announced share repurchase program or incur capital expenditures including leasehold improvements or technologies.

Our Board of Directors has approved programs for us to repurchase shares of our common stock. In April 2017, our Board of Directors authorized a share repurchase program ("2017 Program") for us to repurchase up to $50.0 million of the Company's common stock. The 2017 Program has a one year duration beginning on May 5, 2017. Stock repurchases may be made from time-to-time and the timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors. The Company may suspend, modify or terminate this repurchase program at any time without prior notice. During the nine months ended September 30, 2017, the Company did not repurchase any shares of its common stock. As of September 30, 2017, $50.0 million remains available for future share repurchases under the 2017 Program.

Subsequent to September 30, 2017, the Board of Directors authorized the retirement of 9,647,708 shares of the Company's treasury stock. The Company will account for the retirement of treasury stock under the par value method by allocating the excess purchase price over par of the repurchased shares between additional paid-in capital and accumulated deficit.

We believe our existing cash, cash equivalents and cash flow from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months and the foreseeable future. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. In the event additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all.

Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	$29,995	$8,975
Net cash provided by (used in) investing activities	19,134	(49,183)
Net cash provided by (used in) financing activities	3,393	(2,244)
Effects of exchange rates on cash	(32)	1
Net increase (decrease) in cash and cash equivalents	$52,490	$(42,451)

Operating Activities

Cash provided by operating activities is primarily influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business and the increase in our revenues. Cash provided by (used in) operating activities has typically been due to our net losses and to changes in our operating assets and liabilities.

During the nine months ended September 30, 2017, net cash provided by operating activities of $30.0 million reflects our net loss of $19.3 million, adjusted for net non-cash expenses of $48.1 million, and cash provided as a result of changes in working capital of $1.1 million. Non-cash expenses included depreciation and amortization, stock-based compensation, recovery from allowance for doubtful accounts, change in fair value of escrowed shares and contingent consideration, net, and deferred income taxes. The sources of cash from working capital items included an increase in accounts payable and other current liabilities of $5.9 million due to the timing of services and payments and an increase in deferred revenues of $0.7 million, partially offset by an increase in prepaid and other current assets of $2.2 million related to prepaid subscription and support fees, an increase in accounts receivable of $1.8 million due to timing of invoicing and collections and a decrease in accrued compensation and benefits of $1.5 million related to the payout of the annual bonus.

During the nine months ended September 30, 2016, net cash provided by operating activities of $9.0 million reflected our net loss of $23.0 million, adjusted for net non-cash expenses of $45.0 million, partially offset by cash used as a result of changes in working capital of $13.1 million. Non-cash expenses included depreciation and amortization, stock-based compensation, one-time charge for certain distribution fees under an arrangement with a retailer partner, change in the fair value of escrowed shares and contingent consideration, loss on disposal of property and equipment, deferred income taxes and recovery from allowance for doubtful accounts. The non-cash expenses were primarily due to depreciation from capital expenditures and headcount growth, and a one-time charge for certain distribution fees under an arrangement with a retailer partner. The remaining use of cash was from the net change in working capital items, most notably a decrease in accrued compensation and benefits of $5.2 million, an increase in accounts receivable of $4.0 million, a decrease in accounts payable and other current liabilities of $3.7 million, and an increase in prepaid expenses and other assets of $0.6 million related to the timing of payments, partially offset by an increase in deferred revenues of $0.4 million.

Investing Activities

Purchases of property and equipment may vary from period-to-period due to the timing of the expansion of our operations, the addition of headcount and the development activities related to our future offerings including Quotient Insights. We expect to continue to invest in property and equipment and in the further development and enhancement of our software platform for the foreseeable future. In addition, from time to time, we may consider potential acquisitions that would complement our existing service offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders.

During the nine months ended September 30, 2017, net cash provided by investing activities of $19.1 million, primarily reflects the proceeds from maturities of certificates of deposits of $109.2 million, partially offset by purchases of certificates of deposits of $64.7 million, net cash consideration paid for the Crisp acquisition of $21.0 million, and purchases of property and equipment of $4.4 million, which includes capitalized software development costs related to Quotient Insights, and technology hardware and software to support our growth.

During the nine months ended September 30, 2016, net cash used in investing activities of $49.2 million, primarily reflects purchases of certificates of deposits of $69.1 million, purchases of property and equipment of $5.0 million that included technology hardware and software, and leasehold improvements, as well as capitalized development and enhancement costs related to Retailer iQ, partially offset by proceeds from the maturity of a certificate of deposit of $25.0 million.

Financing Activities

During the nine months ended September 30, 2017, net cash provided by financing activities of $3.4 million primarily reflects proceeds received from exercises of stock options under stock plans, net of shares withheld to cover the required payroll withholding taxes.

During the nine months ended September 30, 2016, net cash used in financing activities was $2.2 million, which reflects repurchases of our common stock of $11.8 million, partially offset by $9.6 million of proceeds received from exercises of stock options.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2017.

Contractual Obligations and Commitments

Refer to Note 12 of our notes to condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q for further information. There have been no significant changes outside the ordinary course of business during the three and nine months ended September 30, 2017 to our commitments and contingencies disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on February 16, 2017 with the SEC.

Critical Accounting Policies and Estimates

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

There were no significant changes in our critical accounting policies and estimates during the three and nine months ended September 30, 2017, as compared to the critical accounting policies and estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on February 16, 2017 with the SEC, except for Company electing to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment of $3.4 million recorded to accumulated deficit balance as of January 1, 2017.

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 our 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 prepayments, 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.

Recently Issued and Adopted Accounting Pronouncements

Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements contained in this Form 10-Q for further information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the three and nine months ended September 30, 2017, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Quantitative and Qualitative Disclosures About Market Risk included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on February 16, 2017 with the SEC for a more complete discussion on the market risks we encounter.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2017, have concluded that our disclosure controls and procedures were effective at the reasonable assurance level based on their evaluation of these controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the third quarter of 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures or our internal controls are not designed to prevent all errors and all frauds. 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. 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, within the Company have been detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

For a discussion of legal proceedings, see Note 12, “Commitments and Contingencies,” of the Notes to Condensed Consolidated Financial Statements of this Form 10-Q.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, results of operations, cash flows, financial conditions, and the trading price of our common stock.

Risks Related to Our Business

We have incurred net losses since inception and we may not be able to generate sufficient revenues to achieve or subsequently maintain profitability.

We have incurred net losses of $19.5 million and $26.7 million in 2016 and 2015, respectively, and incurred net loss of $19.3 million for the nine months ended September 30, 2017. We have an accumulated deficit of $261.0 million as of September 30, 2017. We anticipate that our costs and expenses will increase in the foreseeable future as we continue to invest in:

- sales and marketing;
- research and development, including new product development;
- our technology infrastructure;
- general administration, including legal and accounting expenses related to our growth and continued expenses with respect to being a public company;
- efforts to expand into new markets; and
- strategic opportunities, including commercial relationships and acquisitions.

For example, we have incurred and expect to continue to incur expenses developing, improving, integrating, investing, marketing and maintaining our retailer platform Retailer iQ, our data and analytics platform, Quotient Insights, and our data-driven media solutions, Quotient Media Exchange or QMX, and we may not succeed in increasing our revenues sufficiently to offset these expenses.

If we are unable to gain efficiencies in our operating costs, our business could be adversely impacted. We cannot be certain that we will be able to attain or maintain profitability on a quarterly or annual basis. If we are unable to effectively manage these risks and difficulties as we encounter them, our business, financial condition and results of operations may suffer.

We may not achieve revenue growth.

We may not be able to achieve revenue growth, and we may not be able to generate sufficient revenues to achieve profitability. In addition, historically the growth rate of our business, and as a result, our revenue growth, has varied from quarter-to-quarter and year-to-year, and we expect that variability to continue. For example, our revenues may fluctuate due to changes in promotional spending budgets (including shopper marketing budgets) of CPGs and retailers and the timing of their promotional spending and we may not always be able to anticipate such fluctuations. Decisions by major CPGs or retailers to delay or reduce their promotional spending or divert spending away from digital promotions, or from our platform, or changes in our fee arrangements with CPGs and retailers, could slow our revenue growth or reduce our revenues. Additionally, 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 example, we have recently experimented with ROI-based pricing strategies. As we shift a greater number of our arrangements with CPGs to ROI-based pricing models, some of which require us to receive fees upon the actual redemption of digital coupons on our platform rather than activation as is generally done, our revenue growth and revenues could be harmed.

We believe that our continued revenue growth will depend on our ability to:

- increase our share of CPG spending on overall coupon and trade promotions, increase the number of brands that are using our platform within each CPG, and increase shopper marketing and media spend on our platform;
- adapt to changes in promotional spending budgets of CPGs and retailers and the timing of their promotional spending;
- further integrate, grow and maintain our digital promotions, shopper marketing and media solutions into retailers' in-store and point of sale systems and consumer channels;
- manage the transition from digital print coupons to digital paperless coupons;
- develop and deploy our data solutions in support of Retailer iQ and QMX;
- grow the number of CPGs and retailers in our current customer base and add new industry segments such as convenience, specialty/franchise retail, restaurants and entertainment;
- grow and maintain our retailer network through direct and indirect partnerships;
- expand the use by consumers of our newest digital promotion and media offerings and broaden the selection and use of digital coupons;
- manage the shift from desktop to mobile devices;
- innovate our product offerings to retain and grow our consumer base;
- obtain and increase the number of high quality coupons;
- grow the number of transactions across our platform;
- expand the number, variety and relevance of digital coupons available on our web, mobile and social channels, as well as those of our CPGs, retailers and network of publishers;
- develop and implement our media strategies including the integration of Crisp Media;
- increase the awareness of our brands, and earn and build our reputation;
- hire, integrate and retain talented personnel;
- effectively manage scaling our operations; and
- successfully compete with existing and new competitors.

However, we cannot assure you that we will successfully accomplish any of these actions. Failure to do so could harm our business and cause our operating results to suffer.

If we fail to attract and retain CPGs, retailers and publishers and expand our relationships with them, our revenues and business will be harmed.

The success of our business depends in part on our ability to increase our share of CPG spending on overall coupons and trade promotions, increase media spending on our platform, increase the number of brands that are using our platform within each CPG, increase adoption and scale of Retailer iQ, and development and deployment of Quotient Insights and QMX. It also depends on (i) our ability to further integrate our digital promotions and media solutions into retailers' in-store and point of sale systems and consumer channels, (ii) our ability to obtain the right to distribute Retailer iQ digital promotions more broadly through our websites and mobile apps and those of our publishers, and (iii) our ability to obtain and maintain data license agreements with our retailer partners, and (iv) our retail partners' commitment in promoting our digital solutions to their customers. In addition, we must acquire new CPGs and retailers in our current customer base and add new industry segments such as convenience, specialty/franchise retail, restaurants and entertainment venues. If CPGs and retailers do not find that offering digital promotions and media on our platform enables them to reach consumers and sufficiently increase sales with the scale and effectiveness that is compelling to them, CPGs and retailers may not increase their distribution of digital promotions and media on our platform, or they may decrease them or stop offering them altogether, and new CPGs and retailers may decide not to use our platform.

For example, if CPGs decide that utilizing our platform provides a less effective means of connecting with consumers, we may not be able to increase our prices or CPGs may pay us less. Likewise, if retailers decide that our platform is less effective at increasing sales to and loyalty of existing and new consumers, retailers may demand a higher percentage of the total proceeds from each digital promotion that is activated or redeemed or demand minimum guaranteed payments. Furthermore, if existing and new retailers using Retailer iQ do not find that it increases consumer engagement and loyalty, our overall success may be harmed. In addition, we expect to face increased competition, and competitors may accept lower payments from CPGs to attract and acquire new CPGs, or provide retailers and publishers a higher distribution fee than we currently offer to attract and acquire new retailers and publishers. In addition, we may experience attrition in our CPGs, retailers and publishers in the ordinary course of business resulting from several factors, including losses to competitors, changes in CPG budgets, and decisions by CPGs, retailers and publishers to offer digital coupons through their own websites or other channels without using a third-party platform such as ours or through a competitive third party network or platform, and failure to maintain distribution agreements with third party digital promotions networks and platforms. If we are unable to retain and expand our relationships with existing CPGs, retailers and publishers or if we fail to attract new CPGs, retailers and publishers to the extent sufficient to grow our business, or if too many CPGs, retailers and publishers are unwilling to offer digital coupons and media with compelling terms through our platform, we may not increase the number of high quality coupons and marketing campaigns on our platform and our revenues, gross margin and operating results will be adversely affected.

The loss of any significant customer could materially and adversely affect our results of operations and financial condition.

Our business is exposed to risks related to customer concentration, particularly among CPGs. For the years ended December 31, 2016 and 2015, total revenue from The Procter and Gamble Company accounted for more than 10% of our total revenues. The loss of any of our significant customers or deterioration in our relations with any of them could materially and adversely affect our results of operations and financial condition.

If we are unable to grow or successfully respond to changes in the digital promotions market, our business could be harmed.

As consumer demand for digital coupons has increased, promotion spending has shifted from traditional coupons through traditional channels, such as newspapers and direct mail, to digital coupons. However, it is difficult to predict whether the pace of transition from traditional to digital coupons will continue at the same rate and whether the growth of the digital promotions market will continue. In order to expand our business, we must appeal to and attract consumers who historically have used traditional promotions to purchase goods or may prefer alternatives to our offerings, such as those of our competitors. If the demand for digital coupons does not continue to grow as we expect, or if we fail to successfully address this demand, our business will be harmed. For example, the growth of our revenues will require increasing the number of brands that are using our platform within each CPG and further integrating such digital promotions with Retailer iQ. If our projections regarding the adoption and usage of Retailer iQ by retailers, CPGs and consumers, do not occur or are slower than expected, our business, financial condition, results of operations and prospects will be harmed. A variety of factors could slow the success of Retailer iQ generally, including insufficient time, resources or funds committed by retailers to the implementation and promotion of Retailer iQ, a retailer’s decision to delay or forego launching or marketing Retailer iQ, our inability to obtain sufficient data rights to maximize the functionality of Retailer iQ, Quotient Insights, or QMX, our inability to monetize enhanced Retailer iQ functionality, and our inability to efficiently integrate Retailer iQ with a retailer’s system. Even if we are successful in driving the adoption and usage of Retailer iQ by retailers, CPGs and consumers, if Retailer iQ fee arrangements or transaction volumes, or the mix of offers, change or do not meet our projections, our revenues may be harmed. We expect that the market will evolve in ways which may be difficult to predict. It is also possible that digital coupon offerings generally could lose favor with CPGs, retailers or consumers. In the event of these or any other changes to the market, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. In addition, we will need to continue to grow demand for our digital promotions platform by CPGs, retailers and consumers, including through continued innovation and implementation of new initiatives associated with the digital coupons. For example, if consumer demand for our software-free print solution or our new mobile application does not grow as we expect, our business may be harmed. If we are unable to grow or successfully respond to changes in the digital promotions market, our business could be harmed and our results of operations could be negatively impacted. For example, we are seeing a shift from digital paper coupons to digital paperless coupons. Our revenues may be harmed if we are unable to manage this transition and the growth of digital paperless coupons is slower than the decline in digital print coupons.

We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Historically, our revenue growth has varied from quarter-to-quarter and year-to-year, and we expect that variability to continue. In addition, our operating costs and expenses have fluctuated in the past, and we anticipate that our costs and expenses will increase over time as we continue to invest in growing our business and incur additional costs of being a public company. Our operating results could vary significantly from quarter-to-quarter and year-to-year as a result of these and other factors, many of which are outside of our control, and as a result we have a limited ability to forecast the amount of future revenues and expenses, which may adversely affect our ability to predict financial results accurately, and our operating results may vary from quarter-to-quarter and may fall below our estimates or the expectations of public market analysts and investors. Fluctuations in our quarterly operating results may lead analysts to change their long-term models for valuing our common stock, cause us to face short-term liquidity issues, impact our ability to retain or attract key personnel or cause other unanticipated issues, all of which could cause our stock price to decline. As a result of the potential variations in our quarterly revenues and operating results, we believe that quarter-to-quarter comparisons of our revenues and operating results may not be meaningful and the results of any one quarter or historical patterns should not be considered indicative of our future sales activity, expenditure levels or performance.

In addition to other factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- our ability to grow our revenues by increasing our share of CPG spending and the number of brands using our platform, including Retailer iQ, increasing media spending on our platform, further integrating with our retailers and increasing the use of retailer coupon codes by consumers, adding new CPGs and retailers to our network and growing our current consumer base and expanding into new industry segments such as convenience, specialty/franchise retail, restaurants and entertainment;
- our ability to successfully respond to changes in the digital promotions and media market and continue to grow the market and demand for our platform;
- our ability to grow consumer selection and use of our digital promotion offerings and attract new consumers to our platform;
- the amount and timing of digital promotions and marketing campaigns by CPGs, which are affected by budget cycles, economic conditions, seasonality and other factors;
- the impact of global business or macroeconomic conditions, including the resulting effects on the level of coupon and trade promotion spending by CPGs and spending by consumers;
- the impact of competitors or competitive products and services, and our ability to compete in the digital promotions market;
- our ability to obtain and increase the number of high quality coupons;
- changes in consumer behavior with respect to digital promotions and how consumers access digital coupons and our ability to develop applications that are widely accepted and generate revenues;
- the costs of investing, maintaining and enhancing our technology infrastructure;
- the costs of developing new products and solutions and enhancements to our platform;
- our ability to manage our growth, including scaling Retailer iQ, developing and deploying Quotient Insights, and growing QMX;
- the success of our sales and marketing efforts;
- the costs of acquiring new companies which we anticipate will help us grow our business;
- the costs of successfully integrating acquired companies and employees into our operations, including cost related to the integration of Crisp Media;
- government regulation of e-commerce and m-commerce and requirements to comply with security and privacy laws and regulations affecting our business, and changes in government regulation affecting our business or our becoming subject to new government regulation;
- our ability to deal effectively with fraudulent transactions or customer disputes;

- the attraction and retention of qualified employees and key personnel, which can be affected by changes in U.S. immigration policies;

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- the effectiveness of our internal controls; and
- changes in accounting rules, tax laws or interpretations thereof.

The effects of these factors individually or in combination could cause our quarterly and annual operating results to fluctuate, and affect our ability to forecast those results and our ability to achieve those forecasts. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of our investors or financial analysts for any period. We may release guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, based on predictions of our management, which are necessarily uncertain in nature. Our guidance may vary materially from actual results. If our revenue or operating results, or the rate of growth of our revenue or operating results, fall below the expectations of our investors or financial analysts, or below any forecasts or guidance we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met our own or other publicly stated revenue or earnings forecasts. Our failure to meet our own or other publicly stated revenue or earnings forecasts, or even when we meet our own forecasts but fall short of analyst or investor expectations, could cause our stock price to decline and expose us to costly lawsuits, including securities class action suits. Such litigation against us could impose substantial costs and divert our management's attention and resources.

If the distribution fees that we pay as a percentage of our revenues increase, our gross profit and business will be harmed.

When we deliver 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 our Retailer iQ platform, and the consumer takes certain actions, we pay a distribution fee to the retailer or other publisher, which, in some cases may be prepaid prior to being incurred. Such fees have increased as a percentage of our revenues in recent periods. If such fees as a percentage of our revenues continue to increase, our cost of revenues as a percentage of revenues could increase and our operating results would be adversely affected. Additionally, if the adoption and usage of Retailer iQ does not meet projections, certain prepaid distribution fees with some of the retailers will not be recoverable and the distribution fee will increase as a percentage of revenue. During the third quarter of 2016, we recorded a one-time charge associated with certain distribution fees under an arrangement with a retailer partner that were deemed unrecoverable. We considered various factors in our assessment including our historical experience with the transaction volumes through the retailer and 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 third quarter of 2016, we recognized a loss of $7.4 million related to such distribution fee arrangement. At September 30, 2017 we had no prepaid non-refundable payments with our Retailer iQ partners.

If we fail to maintain and expand the use by consumers of digital coupons on our platform, our revenues and business will be harmed.

We must continue to maintain and expand the use by consumers of digital coupons in order to increase the attractiveness of our platform to CPGs and retailers and to increase revenues and achieve profitability. If consumers do not perceive that we offer a broad selection of personalized and high quality digital coupons, or that the usage of digital coupons is easy and convenient through our platform, we may not be able to attract or retain consumers on our platform. For instance, we are retiring our coupon printing software and if consumers who use that software do not move to our upgraded print solution or other products or their transition to our other products is slower than anticipated, our revenues could be adversely affected. Further, if there is increased competition for the trade promotions and marketing budgets of CPGs and retailers, the result could be increased pricing pressure. If we are unable to maintain and expand the use by consumers of digital coupons on our platform, including through our software-free print solution, updated Coupons.com mobile application and Shopmium cash back application, and do so to a greater extent than our competitors, CPGs may find that offering digital promotions on our platform does not reach consumers with the scale and effectiveness that is compelling to them. Likewise, if retailers find that using our platform, including Retailer iQ, does not increase sales of the promoted products and consumer loyalty to the retailer to the extent they expect, then the revenues we generate may not increase to the extent we expect or may decrease. Any of these would adversely affect our operating results.

If we are not successful in responding to changes in consumer behavior and do not develop products and solutions that are widely accepted and generate revenues, our results of operations and business could be adversely affected.

The methods by which consumers access digital coupons are varied and evolving. Our platform has been designed to engage consumers at the critical moments when they are choosing the products they will buy and where they will shop. Consumers can select our digital coupons both online through web and mobile and in-store. In order for us to maintain and increase our revenues, we must be a leading provider of digital coupons in each of the forms by which consumers access them. As consumer behavior in accessing digital coupons changes and new distribution channels emerge, if we do not successfully respond and do not develop products or solutions that are widely accepted and generate revenues we may be unable to retain consumers or attract new consumers and as a result, CPGs and retailers, and our business may suffer. As another example, we are seeing a transition from digital print coupons to digital paperless coupons. If we do not manage this transition and digital print transactions decline faster than digital paperless transactions increase, our revenues may be harmed.

Consumers are increasingly using mobile devices to access our content, and if we are unsuccessful in expanding the capabilities of our digital coupon solutions for our mobile platforms to allow us to generate net revenues as effectively as our website platforms, our net revenues could decline.