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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

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

Commission File Number: 001-36331

Quotient Technology Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(650) 605-4600

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

QUOTIENT TECHNOLOGY INC.

INDEX

REPORT ON

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

PART I FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

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

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

Use of Estimates

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

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

Foreign Currency

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

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

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

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

Recently Issued Accounting Pronouncements

Accounting Pronouncements Not Yet Adopted

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

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

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

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

3. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

10

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

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

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

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

4. Allowance for Doubtful Accounts

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

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

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

5. Balance Sheet Components

Property and Equipment, Net

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

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

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

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

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

Accrued Compensation and Benefits

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

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

Other Current Liabilities

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

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

6. Intangible Assets

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

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

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

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

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

Intangible assets consist of the following (in thousands):

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

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

	December 31, 2015				
	Gross	Accumulated	Foreign	Net	Weighted

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

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

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

7. Debt Obligation

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

8. Stock-based Compensation

2013 Equity Incentive Plan

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

Stock Options

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

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

Dividend yield	—	—	—	—

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

Restricted Stock Units

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

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

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

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

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

Employee Stock Purchase Plan

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

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

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

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

Stock-based Compensation Expense

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

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

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

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

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

9. Common Stock Repurchase Program

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

10. Income Taxes

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

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

11. Net Loss Per Share

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

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

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

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

12. Commitments and Contingencies

Leases

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

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

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

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

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

Purchase Obligations

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

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

Indemnification

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

Litigation

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

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

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

13. Employee Benefit Plan

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

14. Information About Geographic Areas

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

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

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

Overview

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

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

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

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

Third Quarter 2016 Overview

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

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

Non- GAAP Financial Measure and Key Operating Metrics

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

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

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

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

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

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

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

21

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

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

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

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 continue to obtain high quality coupons and increase the number of CPG-authorized activations available through our platform. If we are unable to obtain high quality coupons and increase the number of CPG-authorized activations, we will not be able to increase the number of transactions and the 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. This includes increasing our share of CPG spending on overall coupons, media and trade promotions; increasing the number of brands that are using our platform within each CPG; increasing media and advertising spending on our platform; increase our share of retailer spending on coupon codes; and maximizing lifetime value of consumers across all platforms. As transactions grow, 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, 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, which in turn could impact the recoverability of prepaid non-refundable payments with some of our Retailer iQ partners. 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, mobile solutions for consumers, including digital print, mobile solutions and digital promotion offerings for specialty/franchise retail, including coupon codes, leverage our reach to consumers and the strength of our platform to broaden the selection and use of coupon codes 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 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, 2016		2015		Nine Months Ended September 30, 2016		2015	
Revenues	$66,470	100.0%	$56,467	100.0%	$199,768	100.0%	$167,896	100.0%
Cost of revenues	35,126	52.8%	22,778	40.3%	85,500	42.8%	66,767	39.8%
Gross profit	31,344	47.2%	33,689	59.7%	114,268	57.2%	101,129	60.2%
Operating expenses:								
Sales and marketing	20,415	30.7%	23,403	41.4%	67,656	33.9%	66,321	39.5%
Research and development	12,414	18.7%	11,890	21.1%	38,419	19.2%	36,671	21.8%
General and administrative	10,041	15.1%	8,382	14.8%	32,394	16.2%	24,740	14.7%
Change in fair value of escrowed shares and contingent consideration, net	105	0.2%	(238)	(0.4)%	(963)	(0.5)%	1,484	1.0%
Total operating expenses	42,975	64.7%	43,437	76.9%	137,506	68.8%	129,216	77.0%
Loss from operations	(11,631)	(17.5)%	(9,748)	(17.2)%	(23,238)	(11.6)%	(28,087)	(16.8)%
Interest expense	—	(—)%	(126)	(0.2)%	—	(—)%	(288)	(0.2)%
Other income (expense), net	398	0.6%	47	0.1%	418	0.2%	26	(—)%
Gain on sale of a right to use a web domain name	—	—%	—	—%	—	(—)%	4,800	2.9%

Loss before income taxes	(11,233)	(16.9)%	(9,827)	(17.3)%	(22,820)	(11.4)%	(23,549)	(14.1)%
Provision for (benefit from) income taxes	79	0.1 %	(9)	— %	193	0.1 %	(388)	(0.2)%
Net loss	$(11,312)	(17.0)%	$(9,818)	(17.3)%	$(23,013)	(11.5)%	$(23,161)	(13.9)%

Comparison of the Three and Nine Months Ended September 30, 2016 and 2015

Revenues

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Revenues	$66,470	$56,467	$10,003	18 %	$199,768	$167,896	$31,872	19 %

Revenues for the quarter ended September 30, 2016 increased $10.0 million, or 18%, as compared to the same period in 2015. The increase was due to revenue growth in digital promotions. Revenues from digital promotion

23

transactions and digital media campaigns were 78% and 22% respectively, of total revenues for the three months ended September 30, 2016, compared to 74% and 26%, respectively, of total revenues during the same period in 2015. Total digital coupon transactions increased during the quarter ended September 30, 2016 to 682.1 million from 403.4 million during the same period in 2015.

Revenues for the nine months ended September 30, 2016 increased $31.9 million, or 19%, as compared to the same period in 2015. The increase was due to the revenue growth in both digital promotions and digital media campaigns. Revenues from digital promotion transactions and digital media campaigns were 77% and 23% respectively, of total revenues for the nine months ended September 30, 2016, compared to 74% and 26%, respectively, of total revenues during the same period in 2015. Transactions during the nine months ended September 30, 2016 were 1.8 billion compared to 1.2 billion during the same period in 2015.

We expect revenue growth in 2016 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)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Cost of revenues	$35,126	$22,778	$12,348	54 %	$85,500	$66,767	$18,733	28 %
Gross profit	$31,344	$33,689	$(2,345)	(7)%	$114,268	$101,129	$13,139	13 %
Gross margin	47 %	60 %			57 %	60 %		

Cost of revenues for the quarter ended September 30, 2016 increased $12.3 million, or 54%, as compared to the same period in 2015. The increase was primarily due to higher distribution fees of $12.1 million attributable to a one-time charge of $7.4 million associated with certain distribution fees under an arrangement with a retailer partner, as discussed in Note 2 of the notes to the condensed consolidated financial statements, and an increase in fees of $4.7 million primarily due to higher number of transactions completed through our platform, an increase in amortization expense of $1.0 million related to certain exclusive rights acquired under a services and data agreement executed in the three months ended September 30, 2016, an increase in expenses related to the acquisition of Shopmium of $0.5 million and an increase in amortization expense of $0.2 million associated with our Retailer iQ platform, partially offset by a decrease in outsourced data center services fees used to support our business of $1.4 million.

Gross margin for the quarter ended September 30, 2016 decreased to 47% from 60% as compared to the same period in 2015. The decrease was primarily due to a one-time charge related to certain distribution fees under an arrangement with a retailer partner, increase in amortization expense related to certain exclusive rights acquired under a services and data agreement, partially offset by higher revenues, decreased outsourced data center services fees and benefit from leveraging fixed costs.

Cost of revenues for the nine months ended September 30, 2016 increased $18.7 million, or 28%, as compared to the same period in 2015. The year over year increase was primarily due to higher distribution fees of $19.4 million related a one-time charge related to certain distribution fees under an arrangement with a retailer partner of $7.4 million, as discussed in Note 2 of the notes to the condensed consolidated financial statements, and an increase in fees of $12.0 million primarily due to higher number of transactions completed through our platform, an increase in expenses related to the acquisition of Shopmium of $1.5 million, an increase in amortization expense of $1.0 million related to certain exclusive rights acquired under a services and data agreement, and an increase in amortization expense of $0.9 million associated with our Retailer iQ platform, partially offset by a decrease in outsourced data center services fees used to support our business of $3.6 million.

Gross margin for the nine months ended September 30, 2016 decreased to 57% from 60%, as compared to the same period in 2015. The decrease was primarily due one-time charge associated with certain distribution fees under an arrangement with a retailer partner, increase in amortization expense related to certain exclusive rights acquired under a services and data agreement, partially offset by higher revenues, decreased outsourced data center services fees and benefit from leveraging fixed costs.

We expect the costs associated with Retailer iQ to continue to increase in the future in absolute dollars as we continue to deploy and scale Retailer iQ across retailers. We also expect the costs associated with distribution and third-party service fees, and expenses related to amortization of intangibles to continue to increase in the future as we continue to expand and scale our distribution network and reach.

Sales and Marketing

(in thousands, except percentages)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Sales and marketing	$20,415	$23,403	$(2,988)	(13)%	$67,656	$66,321	$1,335	2 %
Percent of revenues	31 %	41 %			34 %	40 %		

Sales and marketing expenses for the quarter ended September 30, 2016 decreased $3.0 million, or 13%, as compared to the same period in 2015. The decrease was primarily due to a decrease in stock-based compensation expense of $1.6 million, a decrease in promotional and advertising costs of $1.0 million as a result from managing our expenses and a decrease in third party consultation services of $1.0 million primarily related to non-recurring efforts in prior year to improve consumer awareness of our brand, partially offset by an increase in personnel costs of $0.6 million due to the acquisition of Shopmium.

Sales and marketing expenses for the nine months ended September 30, 2016 increased approximately $1.3 million, or 2%, as compared to the same period in 2015. The increase was primarily due to an increase in headcount and related expenses of $2.0 million from hiring additional employees to support our growth and business objectives, an increase in promotional and advertising costs of $1.9 million, as a result of our efforts to improve the effectiveness of our distribution channels, and an increase in personnel costs due to the acquisition of Shopmium of $1.9 million, partially offset by a decrease in stock-based compensation expense of $4.8 million.

We expect sales and marketing expenses to increase in absolute dollars in future periods as we continue to incur costs to support our growth and business objectives.

Research and Development

(in thousands, except percentages)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Research and development	$12,414	$11,890	$ 524	4 %	$38,419	$36,671	$1,748	5 %
Percent of revenues	19 %	21 %			19 %	22 %		

Research and development expenses for the quarter ended September 30, 2016 increased $0.5 million, or 4%, as compared to the same period in 2015. The increase was primarily related an increase in personnel costs due to the acquisition of Shopmium, additional investment we are making in our internal business technology infrastructure and ongoing investment in our research and development facilities, partially offset by a decrease in stock-based compensation.

Research and development expenses for the nine months ended September 30, 2016 increased approximately $1.7 million, or 5%, as compared to the same period in 2015. The increase was primarily related to an increase in headcount and related expenses, and additional investment we are making in our internal business technology infrastructure and ongoing investment in our research and development facilities, partially offset by a decrease in stock-based compensation.

We believe that continued investment in technology is critical to attaining our strategic objectives, considering new product offerings, and, as a result, we expect research and development expenses to increase in absolute dollars in future periods.

General and Administrative

(in thousands, except percentages)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
General and administrative	$10,041	$8,382	$1,659	20 %	$32,394	$24,740	$7,654	31 %
Percent of revenues	15 %	15 %			16 %	15 %		

General and administrative expenses for the quarter ended September 30, 2016 increased $1.7 million, or 20%, as compared to the same period in 2015. The increase was primarily related to an increase in personnel costs of $2.1 million including stock-based compensation related to a former employee, partially offset by a decrease in third party consultation services of $0.4 million. The increase in personnel costs relating to salaries, stock-based compensation, and employee-related expenses, was due to an increase in employee headcount required to support our business growth.

General and administrative expenses for the nine months ended September 30, 2016 increased $7.7 million, or 31%, as compared to the same period in 2015. The increase was primarily related to an increase in personnel costs of $4.9 million, an increase in expense of $1.0 million relating to a modification of stock options and RSUs granted to a former employee, an increase in third party consultation services of $1.3 million, and an increase in personnel costs of $0.5 million due to the acquisition of Shopmium, partially offset by a reduction in facilities expense of $0.4 million. The increase in personnel costs relating to salaries, stock-based compensation, and employee-related expenses, was due to an increase in employee headcount required to support our business growth. The increase in third party consultation services relating to legal, accounting and regulatory compliance costs was due to our continued effort to invest in corporate infrastructure and incur additional expenses associated with being a public company.

We expect general and administrative expenses to increase in absolute dollars 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 costs, higher insurance premiums and compliance costs associated with Section 404 of the Sarbanes-Oxley Act.

Change in Fair Value of Escrowed Shares and Contingent Consideration

(in thousands, except percentages)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Change in fair value of escrowed shares and contingent consideration, net	$105	$(238)	$ 343	(144)%	$(963)	$1,484	$(2,447)	(165)%
Percent of revenues	0 %	(0)%			(0)%	1 %		

For the three and nine months ended September 30, 2016, we recorded a charge 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 (based on change in the Company's stock price) associated with acquiring certain exclusivity rights under a services and data agreement, 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.

For the three and nine months ended September 30, 2015, we recorded a gain of $0.2 million and a loss of $1.5 million, respectively, due to the changes in fair value of the contingent consideration of the Eckim acquisition. The change in fair value of the contingent consideration during the three months ended September 30, 2015 was primarily related to the decrease in our stock price. The change in fair value of the contingent consideration during the nine months ended September 30, 2015, was primarily driven by the increase in the likelihood of achieving the post-acquisition contractual revenue and profit milestones, partially offset by a decrease in our stock price.

Non-Operating Income (Expense)

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Interest expense	$—	$(126)	$ 126	(100)%	$—	$(288)	$ 288	(100)%
Other income (expense), net	398	47	351	747 %	418	26	392	1,508 %
Gain on sale of a right to use a web domain name	—	—	—	—	—	4,800	(4,800)	* %
	$398	$(79)	$ 477	(604)%	$418	$4,538	$ (4,120)	(91)%

*Not meaningful.

The decrease in interest expense during the three and nine months ended September 30, 2016, as compared to the same period in 2015 was due to repayment in full of a $7.5 million outstanding debt obligation under a revolving line of credit with a commercial bank in the third quarter of 2015. The change in other income (expense), net during the three and nine months ended September 30, 2016 compared to the same period in 2015 is associated with interest income earned on short-term certificate of deposits and foreign exchange rate fluctuations. The gain on sale of a right to use a web domain name during the nine months ended September 30, 2015 was the result of a $4.8 million gain realized from the sale of a right to use a web domain name through a competitive public auction process.

Provision for (Benefit from) Income Taxes

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Provision for (benefit from) income taxes	$79	$ (9)	$ 88	(978)%	$193	$(388)	$ 581	(150)%

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

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

Liquidity and Capital Resources

As of September 30, 2016, we had $92.5 million in cash and cash equivalents and $69.1 million in short-term investments, which were held for working capital purposes. Our cash equivalents and short-term investments are comprised primarily of certificate of deposits. As of September 30, 2016, $0.2 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 costs, investor relations costs, higher insurance premiums and compliance costs associated with Section 404 of the Sarbanes-Oxley Act. In addition, we may use cash to fund acquisitions or invest in other businesses, repurchase the Company's common stock under the publically announced share repurchase program and incur capital expenditures including leasehold improvements or technologies.

In 2015, we terminated our revolving line of credit facility with a commercial bank and paid in full all of $7.5 million outstanding debt obligation under the facility. As of September 30, 2016, there are no amounts outstanding or available under the line of credit.

In February 2015, our board of directors authorized the Program to repurchase up to $50.0 million of the Company's common stock through February 2016, subject to certain limitations. Through February 2016, a total of $31.3 million in stock was repurchased under this Program. The Program expired in February 2016 with an unused balance of $18.7 million. In February 2016, our board of directors authorized the New Program to repurchase up to $50.0 million of the Company's common stock through February 2017. During the nine months ended September 30, 2016, the Company repurchased shares of its common stock for an aggregate amount of $11.0 million. As of September 30, 2016, $46.9 million remains available for future share repurchases under the New Program.

We believe our existing cash, cash equivalents and marketable securities balances 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,	
	2016	2015
Net cash provided by operating activities	$8,975	$5,528
Net cash used in investing activities	(49,183)	(4,889)
Net cash used in financing activities	(2,244)	(11,742)
Effects of exchange rates on cash	1	16
Net decrease in cash and cash equivalents	$(42,451)	$(11,087)

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 operating activities has typically been due to our net losses and to changes in our operating assets and liabilities, particularly accounts receivable and accrued liabilities, adjusted for non-cash expense items such as depreciation and amortization, stock-based compensation, one-time charge for certain distribution fees, change in fair value of contingent consideration and gain on sale of a right to use a web domain name.

During the nine months ended September 30, 2016, net cash provided by operating activities of $9.0 million, reflects 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, primarily related to continued investment in our business, 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.

During the nine months ended September 30, 2015, net cash provided by operating activities was approximately $5.5 million, reflecting our net loss of $23.2 million, offset by net non-cash expenses of $33.8 million, partially offset by cash used as a result of changes in working capital of $5.1 million. Non-cash expenses included depreciation and amortization, stock-based compensation, amortization of debt issuance costs, and change in the fair value of the contingent consideration, offset by a gain on sale of a right to use a web domain name, deferred income taxes and recovery from allowance for doubtful accounts. The remaining use of cash was from the net change in working capital items, most notably a decrease in accrued compensation and benefits of $3.3 million and an increase in prepaid expenses and other assets of $2.8 million related to the timing of payments, increase in accounts receivable of $2.3 million due to an increase in billing for media campaigns as well as timing of payments, offset by an increase in accounts payable and other current liabilities of $2.1 million and increase in deferred revenues of $1.2 million.

Investing Activities

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 includes technology hardware and software, and leasehold improvements to support our growth 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. 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 cycles of Retailer iQ. 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, 2015, net cash used by investing activities was $4.9 million, reflecting proceeds of $4.8 million from the sale of a right to use a web domain name, offset by $9.4 million in purchases of property and equipment.

Financing Activities

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

During the nine months ended September 30, 2015, $11.7 million of net cash used in financing activities reflects $4.7 million of proceeds received from exercises of stock options, offset by $8.9 million in repurchases of our common stock and $7.5 million used to terminate and pay off the total debt outstanding on our line of credit.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2016.

Contractual Obligations and Commitments

Refer to Notes 7 and 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, 2016 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, 2015 filed on March 11, 2016 with the SEC.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these 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 nine months ended September 30, 2016, 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, 2015 filed on March 11, 2016 with the SEC.

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.

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. During the three months ended September 30, 2016, we recorded a one-time charge associated for certain distribution fees under an arrangement with a retailer partner. We considered various factors in our assessment including our historical experience with transaction volumes through the retailer and other comparative retailers, ongoing communications with the retailer to increase its marketing efforts to promote the digital platform, as well as the projected revenues, and associated revenue share payments. Accordingly, during the three months ended September 30, 2016, we recognized a one-time charge of $7.4 million related to such distribution fees in cost of revenues on the accompanying condensed consolidated statement of operations. As of September 30, 2016, we had a remaining non-refundable distribution fee prepayment balance of $0.6 million.

Foreign Currency

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

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

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

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, 2016, 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, 2015 filed on March 11, 2016 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, or the Exchange Act, as of September 30, 2016, 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 2016 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 $26.7 million and $23.4 million in 2015 and 2014, respectively, and incurred net loss of $23.0 million for the nine months ended September 30, 2016. We have an accumulated deficit of $241.9 million as of September 30, 2016. 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, marketing, rolling out and maintaining Retailer iQ, which we launched in the early part of 2014, and we may not succeed in increasing our revenues sufficiently to offset these expenses, which impacted the recoverability of prepaid non-refundable payments with some of our Retailer iQ partners amounting to $0.6 million and $7.5 million as of September 30, 2016 and December 31, 2015, respectively. During the third quarter of 2016, we recorded a one-time charge associated with certain distribution fees under an arrangement with a retailer partner. We considered various factors in our assessment including our historical experience with the transaction volumes through the retailer and other comparative retailers, ongoing communications with the retailer to increase its marketing efforts to promote the digital platform, as well as the projected revenues, and associated revenue share payments, and based on our review of various factors, we concluded that certain distribution fees would not be recoverable. Accordingly, during the third quarter of 2016, we recorded a loss of $7.4 million related to such distribution fee arrangement.

We have incurred expenses related to our data and analytics solutions, Quotient Insights, 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 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. For example, if a greater number of our arrangements with CPGs required 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, increase media and advertising spending on our platform, increase our share of retailer spending on coupon codes and maximize the lifetime value of our consumers across all of our products;
- 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 and media solutions into retailers' in-store and point of sale systems and consumer channels;
- support retailers in the continued marketing and rollout of Retailer iQ;
- 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 transition from desktop to mobile devices;
- manage the transition from digital print coupons to digital paperless coupons;
- retain and grow our consumer base when we make product changes, retire old products, and transition to new products;
- 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;
- provide compelling mobile solutions to consumers;
- increase the awareness of our brands, and earn and preserve our reputation;
- hire, integrate and retain talented personnel;
- effectively manage growth in our personnel and 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 are unable to successfully respond to changes in the digital promotions market and continue to grow the 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 adoption 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 monetize enhanced Retailer iQ functionality, and our inability

33

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. Also, if our continued innovation and implementation of new initiatives associated with the digital print coupons, including our new mobile print solution, 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 in 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 and advertising 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;

34

- 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 the acquired company and employees into our operations;
- 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;
- 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. For example, on October 22, 2015, we issued a press release announcing our preliminary results for the third quarter ended September 30, 2015, which were below consensus estimates for the quarter. 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 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 and advertising spending on our platform, increase the number of brands that are using our platform within each CPG, increase our share of retailer spending on coupon codes, maximize the lifetime value of our consumers across all of our products, and increase adoption and scale of Retailer iQ. It also depends on our ability to further integrate our digital promotions and media solutions into retailers' in-store and point of sale systems and consumer channels, as well as 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. 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 and advertising 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.

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. 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, 2016 and December 31, 2015, we had $0.6 million and $7.5 million, respectively, of prepaid non-refundable payments with some of 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 mobile print solution 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. For example, our revenue growth was adversely affected in the third quarter of 2015 as compared to the same period in the prior year due in part to the transition from desktop to mobile and an increasing number of consumers wanting to print from their mobile device. Although we have attempted to address this change with the implementation of a solution enabling mobile users to print directly from their devices in the fourth quarter of 2015, there is no guarantee that this solution will be successful in responding to the changing needs of consumers. 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.

Web usage and the consumption of digital content are increasingly shifting from desktop to mobile platforms such as smartphones and other connected devices. The growth of our business depends in part on our ability to drive engagement, activation and shopping behavior for our retailers and CPGs through these new mobile channels. Our success on mobile platforms will be dependent on our interoperability with popular mobile operating systems that we do not control, such as Android, iOS and Windows Mobile, and any changes in such systems that degrade our functionality, ease of convenience or that give preferential treatment to competitive services could adversely affect usage of our services through mobile devices.

Further, to deliver high quality mobile offerings, it is important that our platform integrates with a range of other mobile technologies, systems, networks and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks or standards. For example, we have rolled out a solution enabling mobile users to print directly from their device, however there is no guarantee that this will result in increased engagement. If we fail to achieve success with our mobile applications and mobile website, or if we otherwise fail to deliver effective solutions to CPGs and retailers for mobile platforms and other emerging platforms, our ability to monetize these growth opportunities will be constrained, and our business, financial condition and operating results would be adversely affected.

Our success on mobile platforms will also be dependent on our ability to develop features or products that will make our mobile platform attractive to, and drive engagement by, consumers. If we fail to develop such features or products after investing in their development, our ability to monetize these growth opportunities will be constrained, and our business, financial condition and operating results would be adversely affected.

We depend in part on third-party advertising agencies as intermediaries, and if we fail to maintain these relationships, our business may be harmed.

A portion of our business is conducted indirectly with third-party advertising agencies acting on behalf of CPGs and retailers. Third-party advertising agencies are instrumental in assisting CPGs and retailers to plan and purchase advertising and promotions, and each third-party advertising agency generally allocates advertising and promotion spend from CPGs and retailers across numerous channels. We do not have exclusive relationships with third-party advertising agencies and we depend in part on third-party agencies to work with us as they embark on marketing campaigns for CPGs and retailers. While in most cases we have developed relationships directly with CPGs and retailers, we nevertheless depend in part on third-party advertising agencies to present to their CPG and retailer clients the merits of our platform. Inaccurate descriptions of our platform by third-party advertising agencies, over whom we have no control, negative recommendations regarding use of our service offerings or failure to mention our platform at all could hurt our business. In addition, if a third-party advertising agency is disappointed with our platform on a particular campaign or generally, we risk losing the business of the CPG or retailer for whom the campaign was run, and of other CPGs and retailers represented by that agency. Since many third-party advertising agencies are affiliated with other third-party agencies in a larger corporate structure, if we fail to maintain good relations with one third-party advertising agency in such an organization, we may lose business from the affiliated third-party advertising agencies as well.

Our sales could be adversely impacted by industry changes relating to the use of third-party advertising agencies. For example, if CPGs or retailers seek to bring their campaigns in-house rather than using an agency, we would need to develop direct relationships with the CPGs or retailers, which we might not be able to do and which could increase our sales and marketing expenses. Moreover, to the extent that we do not have a direct relationship with CPGs or retailers, the value we provide to CPGs and retailers may be attributed to the third-party advertising agency rather than to us, further limiting our ability to develop long-term relationships directly with CPG and retailers. CPGs and retailers may move from one third-party advertising agency to another, and we may lose the underlying business. The presence of third-party advertising agencies as intermediaries between us and the CPGs and retailers thus creates a challenge to building our own brand awareness and affinity with the CPGs and retailers that are the ultimate source of our revenues. In addition, third-party advertising agencies conducting business with us may offer their own digital promotion solutions. As such, these third-party advertising agencies are, or may become, our competitors. If they further develop their own capabilities they may be more likely to offer their own solutions to advertisers, and our ability to compete effectively could be significantly compromised and our business, financial condition and operating results could 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, 2015 and 2014, 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.

Competition presents an ongoing threat to the success of our business.

We expect competition in digital promotions to continue to increase. The market for digital promotions is competitive, fragmented and rapidly changing. We compete against a variety of companies with respect to different aspects of our business, including:

- traditional offline coupon and discount services, as well as newspapers, magazines and other traditional media companies that provide coupon promotions and discounts on products and services in free standing inserts or other forms, including Valassis Communications, Inc., News America Marketing Interactive, Inc. and Catalina Marketing Corporation;
- providers of digital coupons such as Valassis' Redplum.com, Catalina Marketing Corporation's Cellfire, News America Marketing's SmartSource., Inmar, and companies that offer coupon codes such as RetailMeNot, Inc., Groupon, Inc., Exponential Interactive, Inc.'s TechBargains.com, Savings.com, Inc and Ebates Performance Marketing, Inc., companies that offer cash back solutions such as iBotta, Inc., and News America Marketing's Checkout 51, and companies providing other e-commerce based services that allow consumers to obtain direct or indirect discounts on purchases;
- Internet sites that are focused on specific communities or interests that offer coupons or discount arrangements related to such communities or interests;
- companies offering online and marketing services to retailers and CPGs, such as MyWebGrocer, Inc. and Flipp Corp.; and
- companies offering media services, such as Triad Media Inc. and Rich Relevance, Inc.

We believe the principal factors that generally determine a company's competitive advantage in our market include the following:

- scale and effectiveness of reach in connecting CPGs and retailers to consumers in a digital manner, through web, mobile and other online properties;
- ability to attract consumers to use digital coupons delivered by it;
- platform security, scalability, reliability and availability;
- number of channels by which a company engages with consumers;
- integration of products and solutions;
- rapid deployment of products and services for customers;
- breadth, quality and relevance of the company's digital coupons;
- ability to deliver high quality and increasing number of digital coupons that are widely available and easy to use in consumers' preferred form;
- integration with retailer applications and point of sales systems;
- brand recognition;
- quality of tools, reporting and analytics for planning, development and optimization of promotions; and
- breadth and expertise of the company's sales organization.

We are subject to competition from large, well-established companies which have significantly greater financial, marketing and other resources than we do and have current offerings that may compete with our platform or may choose to offer digital promotions as an add-on to their core business on their own or in partnership with one of our competitors that would directly compete with ours. Many of our larger actual and potential competitors may have the resources to significantly change the nature of the digital promotions industry to their advantage, which could materially disadvantage us. For example, Google, Yahoo!, Microsoft and Facebook and online retailers such as Amazon have highly trafficked

38

industry platforms which they have leveraged, or could leverage to distribute digital coupons or other digital promotions that could negatively affect our business. In addition, these potential competitors may be able to respond more quickly than we can to new or emerging technologies and changes in consumer habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to attract more consumers and, as a result, more CPGs and retailers, or generate revenues more effectively than we do. Our competitors may offer digital coupons that are similar to the digital coupons we offer or that achieve greater market acceptance than those we offer. We are also subject to competition from smaller companies that launch similar or new products and services that we do not offer and that could gain market acceptance.

Our success depends on the effectiveness of our platform in connecting CPGs and retailers with consumers and with attracting consumer use of the digital coupons delivered through our platform. To the extent we fail to provide digital coupons for high quality, relevant products, or otherwise fail to successfully reach consumers on their mobile device or elsewhere, consumers may become dissatisfied with our platform and decide not to use our digital coupons and elect to use the digital coupons distributed by one of our competitors. As a result of these factors, our CPGs and retailers may not receive the benefits they expect, and CPGs may use the offerings of one of our competitors and retailers may elect to handle coupons themselves or exclude us from integrating with their in-store and point of sale systems or consumer channels, and our operating results would be adversely affected. Similarly, if retailers elect to use a competitive distribution network or platform and we do not have, or fail to maintain, an agreement to distribute content through that network or platform, CPGs may elect to provide digital coupons directly to that network or platform, instead of through our platform.

We also face significant competition for trade promotion and marketing spending. We compete against online and mobile businesses, including those referenced above, and traditional advertising outlets, such as television, radio and print, for trade promotion and marketing spending. In order to grow our revenues and improve our operating results, we must increase our share of CPG spending on digital coupons and media relative to traditional sources and relative to our competitors, many of whom are larger companies that offer more traditional and widely accepted media products.

We also directly and indirectly compete with retailers for consumer traffic. Many retailers market and offer their own digital coupons directly to consumers using their own websites, email newsletters and alerts, mobile applications and social media channels. Additionally, some retailers also market and offer their own digital coupons directly to consumers using our platform for which we earn no revenue. Our retailers could be more successful than we are at marketing their own digital coupons or could decide to terminate their relationship with us.

We may face competition from companies we do not yet know about. If existing or new companies develop, market or offer competitive digital coupon solutions, acquire one of our existing competitors or form a strategic alliance with one of our competitors, our ability to compete effectively could be significantly compromised and our operating results could be harmed.

If we fail to effectively manage our growth, our business and financial performance may suffer.

We have significantly expanded our operations and anticipate expanding further to pursue our growth strategy. Such expansion increases the complexity of our business and places significant demands on our management, operations, technical performance, financial resources and internal control over financial reporting functions. Continued growth could strain our ability to deliver digital coupons on our platform, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. For example, our revenue growth was adversely affected in the third quarter of 2015 as compared to the same period in the prior year due in part to an increasing number of consumers wanting to print from their mobile device. Although we have attempted to address this concern with the implementation of a solution enabling mobile users to print directly from their devices in the fourth quarter of 2015, there is no guarantee that this will result in increased revenue. Failure to manage our expansion may limit our growth, damage our reputation and negatively affect our financial performance and harm our business.

To effectively manage this growth, we will need to continue to improve our operational, financial and management controls, and our reporting systems and procedures. If we do not effectively manage the growth of our business and operations, the quality and scalability of our platform could suffer.

Our current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations. We may not be able to hire, train, retain, motivate and manage required personnel. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees. We intend to continue to expand our research and development, sales and marketing, and general and administrative organizations, and over time, expand our international operations. To attract top talent, we have had to offer, and believe we will need to continue to offer, highly competitive compensation packages before we can validate the productivity of those employees. If we fail to effectively manage our hiring needs and successfully integrate our new hires, our efficiency and ability to meet our forecasts and our employee morale, productivity and retention could suffer, and our business and operating results could be adversely affected.

Providing our products and services to our CPGs, retailers and consumers is costly and we expect our expenses to continue to increase in the future as we grow our business with existing and new CPGs and retailers and develop new products and services that require enhancements to our technology infrastructure. In addition, our operating expenses, such as our sales, marketing and engineering expenses are expected to continue to grow to support our anticipated future growth. As a result of the requirements of being a public company we incur significant legal, accounting and other expenses. Our expenses may grow faster than our revenues, and our expenses may be greater than we anticipate. Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition would be harmed.

If we do not effectively grow and train our sales team, we may be unable to add new CPGs and retailers or increase sales to our existing CPGs and retailers and our business will be adversely affected.

We continue to be dependent on our sales team to obtain new CPGs and retailers and to drive sales from our existing CPGs and retailers. We believe that there is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, integrating and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and it may take time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, if we continue to grow rapidly, a large percentage of our sales team will be new to the company and our solution. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new CPGs and retailers or increasing sales to our existing CPGs and retailers, our business will be adversely affected.

Our sales cycle with new CPGs and retailers is long and unpredictable and may require us to incur expenses before executing a customer agreement, which makes it difficult to project when, if at all, we will obtain new CPGs and retailers and when we will generate additional revenues from those customers.

We market our services and products directly to CPGs and retailers. New CPG and retailer relationships typically take time to obtain and finalize. A significant time period may pass between selection of our services and products by key decision-makers and the signing of a contract. The length of time between the initial sales call and the realization of a final contract is difficult to predict. As a result, it is difficult to predict when we will obtain new CPGs and retailers and when performance and delivery of services will be initiated with these potential CPGs and retailers. As part of our sales cycle, we may incur significant expenses before executing a definitive agreement with a prospective CPG or retailer and before we are able to generate any revenues from such agreement. If conditions in the marketplace generally or with a specific prospective CPG or retailer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any expenses incurred before a definitive agreement is executed, which would in turn have an adverse effect on our business, financial condition and results of operations.

The success and scale of Retailer iQ depends, in part, on the level of commitment and support by retailers.

If retailers do not commit sufficient time, resources and funds towards the marketing of their digital promotions and programs on Retailer iQ, the growth and scale of Retailer iQ and its penetration into the consumer market will be adversely affected. Further, the successful implementation of Retailer iQ requires integration with a retailer's point of sales system, loyalty programs and consumer channels. These integration efforts require time and effort from both the retailer and ourselves, which also involves our working with third-party systems and solutions, some of whom may be our competitors. We may not be able to integrate and launch Retailer iQ with a retailer's systems in a timely and efficient manner. If we are unable to successfully implement Retailer iQ, which includes increased consumer adoption of Retailer iQ, or it is not adopted, marketed and supported with sufficient resources by retailers, the success and scale of Retailer iQ will be adversely affected, impacting the recoverability of certain prepaid non-refundable payments with some of our retail partners and our revenues and business may suffer.

Our business depends on our ability to maintain and scale the network infrastructure necessary to operate our platform, including our websites, mobile applications and Retailer iQ platform, and any significant disruption in service could result in a loss of CPGs, retailers and consumers.

We deliver digital coupons via our platform, including over our websites and mobile applications, as well as through those of our CPGs and retailers and our publishers and other third parties. Our reputation and ability to acquire, retain and serve CPGs and retailers, as well as consumers who use digital coupons or view media on our platform are dependent upon the reliable performance of our platform. As the number of our CPG customers, retailers and consumers and the number of digital promotions and information shared through our platform continue to grow, we will need an increasing amount of network capacity and computing power. Our technology infrastructure is hosted across two data centers in co-location facilities in California and Nevada. In addition, we use two other co-location facilities in California and Virginia to host our Retailer iQ platform. We have spent and expect to continue to spend substantial amounts in our data centers and equipment and related network infrastructure to handle the traffic on our platform. The operation of these systems is expensive and complex and could result in operational failures. In the event that the number of transactions or the amount of traffic on our platform grows more quickly than anticipated, we may be required to incur significant additional costs. Interruptions in these systems or service disruptions, whether due to system failures, computer viruses or physical or electronic break-ins, could affect the security or availability of our websites and platform, and prevent CPGs, retailers or consumers from accessing our platform. A substantial portion of our network infrastructure is hosted by third-party providers. Any disruption in these services or any failure of these providers to handle existing or increased traffic could significantly harm our business. Any financial or other difficulties these providers face may adversely affect our business, and we exercise little control over these providers, which increases our vulnerability to problems with the services they provide. If we do not maintain or expand our network infrastructure successfully or if we experience operational failures, we could lose current and potential CPGs and retailers and consumers, which could harm our operating results and financial condition.

If our websites or those of our publishers fail to rank prominently in unpaid search results from search engines like Google, Yahoo! and Bing, traffic to our websites could decline and our business would be adversely affected.

Our success depends in part on our ability to attract consumers through unpaid Internet search results on search engines like Google, Yahoo! and Bing. The number of consumers we attract to our websites from search engines is due in large part to how and where our websites rank in unpaid search results. These rankings can be affected by a number of factors, many of which are not in our direct control, and they may change frequently. For example, major search engines frequently modify their ranking algorithms, methodologies or design layouts. As a result, links to our websites may not be prominent enough to drive traffic to our websites or we may receive less favorable placement which could reduce traffic to our website, and we may not know how or otherwise be in a position to influence the results. In some instances, search engine companies may change these rankings in order to promote their own competing products or services or the products or services of one or more of our competitors. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate fluctuations in the future. In addition, websites must comply with search engine guidelines and policies. These guidelines and policies are complex and may change at any time. If we fail to follow such guidelines and policies properly, search engines may rank our content lower in search results or could remove our content altogether from their index. Any reduction in the number of consumers directed to our websites could reduce the effectiveness of our coupon codes for specialty retailers and digital promotions for CPGs and retailers and could adversely impact our business and results of operations.

Factors adversely affecting performance marketing programs and our relationships with performance marketing networks and brand partners, or the termination of these relationships, may adversely affect our ability to attract and retain merchants and our coupon codes business.

A portion of our business is based upon consumers using coupon codes in connection with the purchase of goods or services. The commissions we earn for coupon codes accessed through our platform are tracked by performance marketing networks. Third-party performance marketing networks provide publishers with affiliate tracking links that allow for revenues to be attributed to publishers. When a consumer executes a purchase on a publisher’s website as a result of a performance marketing program, most performance marketing conversion tracking tools credit the most recent link or ad clicked by the consumer prior to that purchase. This practice is generally known as “last-click attribution.” We generate revenues through transactions for which we receive last-click attribution. Risks that may adversely affect our performance marketing programs and our relationships with performance marketing networks include the following, some of which are outside our control:

- we may not be able to adapt to changes in the way in which CPGs and merchants attribute credit to us in their performance marketing programs, whether it be “first-click attribution” or “multichannel attribution,” which applies weighted values to each of a retailer's advertisements and tracks how each of those advertisements contributed to a purchase, or otherwise;

- we may not receive revenue if consumers make purchases from their mobile devices as many retailers currently do not recognize affiliate tracking links on their mobile-optimized websites or applications, and tracking mechanisms on mobile websites or applications may not function to allow retailers to properly attribute sales to us;
- we may not generate revenue if consumers use mobile devices for shopping research but make purchases using coupon codes found on our sites in ways where we do not get credit;
- refund rates for products delivered on merchant sites may be greater than we estimate;
- performance marketing networks may not provide accurate and timely reporting on which we rely, we could fail to properly recognize and report revenues and misstate financial reports, projections and budgets and misdirect our advertising, marketing and other operating efforts for a portion of our business;
- we primarily rely on a small number of performance marketing networks in non-exclusive arrangements, the loss of which could adversely affect our coupon codes business;
- we primarily rely, in connection with our search engine marketing business, on a small number of brand partners which work with us in non-exclusive arrangements, the loss of which could adversely affect our coupon codes business;
- industry changes relating to the use of performance marketing networks could adversely impact our commission revenues;
- to the extent performance marketing networks serve as intermediaries between us and merchants, it may create challenges to building our own brand awareness and affinity with merchants, and the termination of our relationship with the performance marketing networks would terminate our ability to receive payments from merchants we service through that network; and
- performance marketing networks may compete with us.

If we fail to continue to obtain and increase the number of high quality coupons through our platform, our revenue growth or our revenues may be harmed.

We generally generate revenues as consumers select, or activate, a digital coupon through our platform. Our business model depends upon the availability of high quality and increasing number of digital coupons. CPGs and retailers have a variety of channels through which to promote their products and services. If CPGs and retailers elect to distribute their digital coupons through other channels or not to promote digital coupons at all, or if our competitors are willing to accept lower prices than we are, our ability to obtain high quality digital coupons available on our platform may be impeded and our business, financial condition and operating results will be adversely affected. If we cannot maintain sufficient digital coupons inventory to offer through our platform, consumers may perceive our service as less relevant, consumer traffic to our websites and those of our publishers will decline and, as a result, CPGs and retailers may decrease their use of our platform to deliver digital coupons and our revenue growth or revenues may be harmed.

Our business relies in part on electronic messaging, including emails and SMS text messages, and any technical, legal or other restrictions on the sending of electronic messages or an inability to timely deliver such communications could harm our business.

Our business is in part dependent upon electronic messaging. We provide emails, mobile alerts and other messages to consumers informing them of the digital coupons on our websites, and we believe these communications help generate a significant portion of our revenues. Because electronic messaging services are important to our business, if we are unable to successfully deliver electronic messages to consumers, if there are legal restrictions on delivering these messages to consumers, or if consumers do not or cannot open our messages, our revenues and profitability could be adversely affected. Changes in how webmail applications or other email management tools organize and prioritize email may result in our emails being delivered or routed to a less prominent location in a consumer's inbox or viewed as "spam" by consumers and may reduce the likelihood of that consumer opening our emails. Actions taken by third parties that block, impose restrictions on or charge for the delivery of electronic messages could also harm our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to consumers.

Changes in laws or regulations, or changes in interpretations of existing laws or regulations, including the Telephone Consumer Protection Act, or TCPA, in the United States and laws regarding commercial electronic messaging in other jurisdictions, that would limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications could also adversely impact our business. For example, the Federal Communications Commission amended certain of its regulations under the TCPA in recent years in a manner that could increase our exposure to liability for certain types of telephonic communication with customers, including but not limited to text messages to mobile phones. Under the TCPA, plaintiffs may seek actual monetary loss or statutory damages of $500 per violation, whichever is greater, and courts may treble the damage award for willful or knowing violations. Given the enormous number of communications we send to consumers, a determination that there have been violations of the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

We also rely on social networking messaging services to send communications. Changes to these social networking services' terms of use or terms of service that limit promotional communications, restrictions that would limit our ability or our customers' ability to send communications through their services, disruptions or downtime experienced by these social networking services or reductions in the use of or engagement with social networking services by customers and potential customers could also harm our business.

We rely on a third-party service for the delivery of daily emails and other forms of electronic communication, and delay or errors in the delivery of such emails or other messaging we send may occur and be beyond our control, which could damage our reputation or harm our business, financial condition and operating results. If we were unable to use our current electronic messaging services, alternate services are available; however, we believe our sales could be impacted for some period as we transition to a new provider, and the new provider may be unable to provide equivalent or satisfactory electronic messaging service. Any disruption or restriction on the distribution of our electronic messages, termination or disruption of our relationship with our messaging service providers, including our third-party service that delivers our daily emails, or any increase in our costs associated with our email and other messaging activities could harm our business.

We are dependent on technology systems and electronic communications networks that are supplied and managed by third parties, which could result in our inability to prevent or respond to disruptions in our services.

Our ability to provide services to consumers depends on our ability to communicate with CPGs, retailers and customers through the public Internet and electronic networks that are owned and operated by third parties. Our products and services also depend on the ability of our users to access the public Internet. In addition, in order to provide services promptly, our computer equipment and network servers must be functional 24 hours per day, which requires access to telecommunications facilities managed by third parties and the availability of electricity, which we do not control. A severe disruption of one or more of these networks, including as a result of utility or third-party system interruptions, could impair our ability to process information, which could impede our ability to provide digital promotions to consumers, harm our reputation, result in a loss of customers or CPGs and retailers and adversely affect our business and operating results.

If our security measures are compromised, or if our platform is subject to attacks that degrade or deny the ability of consumers to access our content, CPGs, retailers and consumers may curtail or stop using our platform.

We deliver digital coupons via our platform and we collect and maintain data about consumers, including personally identifiable information, as well as other confidential or proprietary information. Like all businesses that use computer systems and the Internet, our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our systems or solutions or that we or our third-party service providers otherwise maintain, including payment systems, any of which could lead to interruptions, delays, or website shutdowns, causing loss of critical data or the unauthorized disclosure or use of personally identifiable or other confidential information, or subject us to fines or higher transaction fees or limit or result in the termination of our access to certain payment methods. If we experience compromises to our security that result in performance or availability problems, the complete shutdown of one or more of our websites and mobile applications or the loss or unauthorized disclosure of confidential information, CPGs, retailers, and consumers may lose trust and confidence in us and decrease their use of our platform or stop using our platform entirely.

Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, often are not recognized until launched against a target and may originate from less regulated or remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. In addition, consumer information including email addresses, phone numbers and data on consumer usage of our websites and mobile applications could be hacked, hijacked, altered or otherwise claimed or controlled by unauthorized persons. Security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships. Any or all of these issues could negatively impact our reputation and our ability to attract and retain CPGs and retailers as well as consumers or could reduce the frequency with which our platform is used, cause existing or potential CPG or retailer customers to cancel their contracts or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby harming our results of operations.

Failure to deal effectively with fraudulent or other improper transactions could harm our business.

Digital coupons are issued in the form of redeemable coupons or coupon codes with unique identifiers. It is possible that third parties may create counterfeit digital coupons or coupon codes or exceed print or use limits in order to fraudulently or improperly claim discounts or credits for redemption. While we use advanced anti-fraud technologies, it is possible that individuals will circumvent our anti-fraud systems using increasingly sophisticated methods or methods that our anti-fraud systems are not able to counteract. Further, we may not detect any of these unauthorized activities in a timely manner. Third parties who succeed in circumventing our anti-fraud systems may sell the fraudulent or fraudulently obtained digital coupons on social networks, which would damage our brand and relationships with CPGs and harm our business. Legal measures we take or attempt to take against these third parties may be costly and may not be ultimately successful. In addition, our service could be subject to employee fraud or other internal security breaches, and we may be required to reimburse CPGs and retailers for any funds stolen or revenues lost as a result of such breaches. Our CPGs and retailers could also request reimbursement, or stop using digital coupons, if they are affected by buyer fraud or other types of fraud. We may incur significant losses from fraud and counterfeit digital coupons. If our anti-fraud technical and legal measures do not succeed, our business will suffer.

Our business is subject to complex and evolving laws, regulations and industry standards, and unfavorable interpretations of, or changes in, or failure by us to comply with these laws, regulations and industry standards could substantially harm our business and results of operations.

We are subject to a variety of federal, state, local and municipal laws, regulations and industry standards that relate to privacy, electronic communications, data protection, intellectual property, e-commerce, competition, price discrimination, consumer protection, taxation, and the use of promotions. Many of these laws, regulations, and standards are still evolving and being tested in courts and industry standards are still developing. Our business, including our ability to operate and expand, could be adversely affected if legislation, regulations or industry standards are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices or the design of our platform. Existing and future laws, regulations and industry standards could restrict our operations, and our ability to retain or increase our CPGs and retailers and consumers' use of digital promotions delivered on our platform may be adversely affected and we may not be able to maintain or grow our revenues as anticipated.

If the use of third-party cookies is rejected by Internet users, restricted by third parties outside of our control, or otherwise subject to unfavorable regulation, our performance could decline and we could lose customers and revenue.

We use small text files (referred to as "cookies"), placed through an Internet browser on an Internet user's computer and correspond to a data set that we keep on our servers, to gather important data to help deliver our solution. Certain of our cookies, including those that we predominantly use in delivering our solution, are known as "third-party" cookies because they are delivered where we do not have a direct relationship with the Internet user. Our cookies collect anonymous information, such as when an Internet user views an advertisement, clicks on an advertisement, or visits one of our advertisers' websites. On mobile devices, we may also obtain location based information about the user's device through our cookies. We use these cookies to achieve our customers' campaign goals, to ensure that the same Internet user does not unintentionally see the same media too frequently, to report aggregate information to our customers regarding the performance of their digital promotions and marketing campaigns, and to detect and prevent fraudulent activity throughout our network. We also use data from cookies to help us decide whether and how much to bid on an opportunity to place an advertisement in a certain Internet location and at a given time in front of a particular Internet user. A lack of data associated with or obtained from cookies may significantly detract from our ability to make decisions about which inventory to purchase for an advertiser's campaign and may undermine the effectiveness of our solution and harm our business.

Cookies may easily be deleted or blocked by Internet users. All of the most commonly used Internet browsers (including Chrome, Firefox, Internet Explorer, and Safari) allow Internet users to prevent cookies from being accepted by their browsers. Internet users can also delete cookies from their computers at any time. Some Internet users also download "ad blocking" software that prevents cookies from being stored on a user's computer. If more Internet users adopt these settings or delete their cookies more frequently than they currently do, our business could be harmed. In addition, the Safari browser blocks third-party cookies by default, the developers of the Firefox browser have announced that a future version of the Firefox browser will also block third-party cookies by default, and other browsers may do so in the future. Unless such default settings in browsers were altered by Internet users to permit the placement of third-party cookies, we would be able to set fewer of our cookies in users' browsers, which could adversely affect our business. In addition, companies such as Google have publicly disclosed their intention to move away from cookies to another form of persistent unique identifier, or ID, to identify individual Internet users or Internet-connected devices in the bidding process on advertising exchanges. If companies do not use shared IDs across the entire ecosystem, this could have a negative impact on our ability to find the same anonymous user across different web properties, and reduce the effectiveness of our solution.

In addition, in the European Union, or EU, Directive 2009/136/EC, commonly referred to as the "Cookie Directive," directs EU member states to ensure that accessing information on an Internet user's computer, such as through a cookie, is allowed only if the Internet user has appropriately given his or her consent. We may experience challenges in obtaining appropriate consent to our use of cookies from consumers within the EU, which may affect our operating results and business in European markets, and we may not be able to develop or implement additional tools that compensate for the lack of data associated with cookies. Moreover, even if we are able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than our current use of cookies.

Failure to comply with federal, state and international privacy, data protection, marketing and consumer protection laws, regulations and industry standards, or the expansion of current or the enactment or adoption of new privacy, data protection, marketing and consumer protection laws, regulations or industry standards, could adversely affect our business.

We are subject to a variety of federal, state and international laws, regulations and industry standards regarding privacy, data protection, data security, marketing and consumer protection, which address the collection, storing, sharing, using, processing, disclosure and protection of data relating to individuals, as well as the tracking of consumer behavior and other consumer data. Many of these laws, regulations and industry standards are changing and may be subject to differing interpretations, costly to comply with or inconsistent among countries and jurisdictions. For example, the Federal Trade Commission, or the FTC, expects companies like ours to comply with guidelines issued under the Federal Trade Commission Act that govern the collection, use, disclosure, and storage of consumer information, and establish principles relating to notice, consent, access and data integrity and security. The laws and regulations in many foreign countries relating to privacy, data protection, data security, marketing and consumer protection often are more restrictive than in the United States, and may in some cases be interpreted to have a greater scope. Additionally, the laws, regulations and industry standards, both foreign and domestic, relating to privacy, data protection, data security, marketing and consumer protection are dynamic and may be expanded or replaced by new laws, regulations or industry standards. We believe our policies and practices comply in all material respects with applicable privacy, data protection, data security, marketing and consumer protection guidelines, laws and regulations. However, if our belief is incorrect, or if these guidelines, laws or regulations or their interpretation change or new legislation or regulations are enacted, we may be compelled to provide additional disclosures to our consumers, obtain additional consents from our consumers before collecting, using, or disclosing their information or implement new safeguards to help our consumers manage our use of their information, among other changes.

Various industry standards on privacy have been developed and are expected to continue to develop, which may be adopted by industry participants at any time. We are subject to the terms of our privacy policies and obligations to third parties relating to privacy, data protection and data security (including voluntary third-party certification bodies such as TRUSTe), including contractual obligations relating to privacy rights, data protection, data use and data security measures. Certain of our solutions, including Retailer iQ and Quotient Insights, depend in part on our ability to use data that we obtain in connection with our offerings, and our ability to use this data may be subject to restrictions in our commercial agreements and subject to the privacy policies of the entities which provide us with this data. Our failure to adhere to these third-party restrictions on data use may result in claims, proceedings or actions against us by our business counterparties or other parties, or other liabilities, including loss of business, reputational damage, and remediation costs, which could adversely affect our business. We also may be unable to obtain all rights necessary to use data in desired manners in our business, either on commercially reasonable terms or at all. This could limit our ability to provide new offerings or functionality, which also could have an adverse effect on our business and revenue growth.

We strive to comply with applicable laws, policies, contractual and other legal obligations and certain applicable industry standards of conduct relating to privacy, data security, data protection, marketing and consumer protection.

However, these obligations and standards of conduct often are complex and difficult to comply with fully, and it is possible that these obligations and standards of conduct may be interpreted and applied in new ways and/or in a manner that is inconsistent with each other or that new laws, regulations or other obligations may be enacted. It is possible that our practices may be argued or held to conflict with applicable laws, policies, contractual or other legal obligations, or applicable industry standards of conduct relating to privacy, data security, data protection, marketing or consumer protection. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, FTC, other regulatory requirements or orders or other federal, state or, as we continue to expand internationally, international privacy, data security, data protection, marketing or consumer protection-related laws, regulations, contractual obligations or self-regulatory principles or other industry standards could result in claims, proceedings or actions against us by governmental entities or others or other liabilities or could result in a loss of consumers using our digital coupons or loss of CPGs and retailers. Any of these circumstances could adversely affect our business. Further, if third parties we work with violate applicable laws, our policies or other privacy-related obligations, such violations may also put our consumers' information at risk and could in turn have an adverse effect on our business.

With respect to personal data transfers from the European Economic Area, or EEA, we have in the past relied on adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the EU and Switzerland, which established a means for legitimizing the transfer of personally identifiable information by U.S. companies doing business in Europe from the EEA to the U.S. As a result of an October 2015 decision of the European Union Court of Justice, or ECJ, the U.S.-EU Safe Harbor Framework is now deemed to be an invalid method of compliance with restrictions set forth in the Data Protection Directive (and member states' implementations thereof) regarding the transfer of data outside of the EEA. U.S. and EU authorities reached a political agreement in February 2016 regarding a new means for legitimizing personal data transfers from the EEA to the U.S., the EU-U.S. Privacy Shield. It is unclear, however whether the EU-U.S. Privacy Shield will serve as an appropriate means for us to legitimize personal data transfers from the EEA to the U.S We have engaged in certain actions in an effort to legitimize our transfers of personal data from the EEA to the U.S., and we anticipate engaging in additional activities in an effort to do so going forward. We may continue to be unsuccessful in establishing legitimate means of transferring all personal data from the EEA, we may experience reluctance or refusal by European consumers, retailers or CPGs to continue to use our solutions due to the potential risk exposure to such individuals and organizations as a result of the ECJ ruling, and we and our CPG and retailer partners are at risk of enforcement actions taken by an EU data protection authority until we ensure that all applicable data transfers to us from the EEA are legitimized. In addition, legislators in the EU recently adopted the General Data Protection Regulation, or GDPR, a new regulation set to become effective in May 2018 that will supersede the 1995 EU Data Protection Directive, and include more stringent operational requirements for processors and controllers of personal data, including payment card information, and impose significant penalties for non-compliance. We may incur liabilities, expenses, costs, and other operational losses when the GDPR is effective and in connection with any measures we take to comply with it.

We expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. Future laws, regulations, standards and other obligations could, for example, impair our ability to collect or use information that we utilize to provide targeted digital promotions and media to consumers, CPGs and retailers, thereby impairing our ability to maintain and grow our total customers and increase revenues. Future restrictions on the collection, use, sharing or disclosure of our users' data or additional requirements for express or implied consent of users for the use and disclosure of such information could require us to modify our solutions, possibly in a material manner, and could limit our ability to develop new solutions and features. Any such new laws, regulations, other legal obligations or industry standards, or any changed interpretation of existing laws, regulations or other standards may require us to incur additional costs and restrict our business operations. If our measures fail to comply with current or future laws, regulations, policies, legal obligations or industry standards relating to privacy, data protection, data security, marketing or consumer protection, we may be subject to litigation, regulatory investigations, fines or other liabilities, as well as negative publicity and a potential loss of business. Moreover, if future laws, regulations, other legal obligations or industry standards, or any changed interpretations of the foregoing limit our users' or CPGs' or retailers' ability to use and share personally identifiable information or our ability to store, process and share personally identifiable information or other data, demand for our solutions could decrease, our costs could increase, our revenue growth could slow, and our business, financial condition and operating results could be harmed.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties.

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which we operate. We also may not be able to acquire or maintain appropriate domain names or trademarks in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring and using domain names that are similar to, infringe upon or diminish the value of our trademarks and other proprietary rights. We may be unable to prevent third parties from using and registering our trademarks, or trademarks that are similar to, or diminish the value of, our trademark in some countries.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. For example, from time to time we have identified and shut down websites that have attempted to misappropriate our brand and proprietary rights and sell fraudulent digital coupons. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We are currently involved in litigation and disputes related to our intellectual property and service offerings. We may in the future be subject to additional litigation and disputes. The costs of supporting such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained.

In the past, we have been subject to third-party claims of infringement and we expect to be subject to infringement claims in the future. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Failure to protect or enforce our intellectual property rights could harm our business and results of operations.

We regard the protection of our trade secrets, copyrights, trademarks, databases, patents and domain names as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, contractual restrictions as well as rights provided under foreign laws. These laws are subject to change at any time and could further restrict our ability to protect our intellectual property rights. We typically enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. Also, from time to time, we make our intellectual property rights available to others under license agreements. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation or disclosure of our proprietary information, infringement of our intellectual property rights or deter independent development of similar technologies by others and may not provide an adequate remedy in the event of such misappropriation or infringement.

Obtaining and maintaining effective intellectual property rights is expensive, including the costs of defending our rights. We are seeking to protect our intellectual property rights in a number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location. Even where we have such rights, they may be later found to be unenforceable or have a limited scope of enforceability. Litigation may be necessary to enforce our intellectual property rights, protect our respective trade secrets or determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business and operating results. We may also incur significant costs in enforcing our trademarks against those who attempt to imitate our “Coupons.com” brand and other valuable trademarks and service marks. If we fail to maintain, protect and enhance our intellectual property rights, our business and operating results may be harmed.

Our business depends on strong brands, and if we are not able to maintain and enhance our brands, or if we receive unfavorable media coverage, our ability to retain and expand our number of CPGs, retailers and consumers will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing our brands are critical to expanding our base of CPGs, retailers and consumers. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business would be harmed. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend on our ability to continue to provide sufficient quantities of reliable, trustworthy and high quality digital coupons, which we may not do successfully.

Unfavorable publicity or consumer perception of our websites, platform, practices or service offerings, or the offerings of our CPGs and retailers, could adversely affect our reputation, resulting in difficulties in recruiting, decreased revenues and a negative impact on the number of CPGs and retailers we feature and our user base, the loyalty of our consumers and the number and variety of digital coupons we offer. As a result, our business could be harmed.

We may be unable to continue to use the domain names that we use in our business, or prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks.

We have registered domain names for our websites that we use in our business, such as Quotient.com and Coupons.com. If we lose the ability to use a domain name, whether due to trademark claims, failure to renew the applicable registration, or any other cause, we may be forced to market our products under new domain names, which could cause us substantial harm, or to incur significant expense in order to purchase rights to the domain names in question. In addition, our competitors and others could attempt to capitalize on our brand recognition by using domain names similar to ours. Domain names similar to ours have been registered in the United States and elsewhere. We may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks. Protecting and enforcing our rights in our domain names may require litigation, which could result in substantial costs and diversion of management’s attention and harm our business.

Some of our solutions contain open source software, which may pose particular risks to our proprietary software and solutions.

We use open source software in our solutions and will use open source software in the future. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open source software and/or derivative works that we developed using such software (which could include our proprietary source code), or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a negative effect on our business and operating results.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with CPGs, retailers and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement or other liabilities relating to or arising from our products, services or other contractual obligations. The term of these indemnity provisions generally survives termination or expiration of the applicable agreement. Large indemnity payments could harm our business.

Acquisitions, joint ventures and strategic investments could result in operating difficulties, dilution and other harmful consequences.

We expect to evaluate and consider a wide array of potential strategic transactions, including acquisitions and dispositions of businesses, joint ventures, technologies, services, products and other assets and strategic investments. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations. We have limited experience managing acquisitions and integrating acquired businesses and our ability to successfully integrate acquisitions is unproven. The process of integrating any acquired business may create unforeseen operating difficulties and expenditures and is itself risky. The areas where we may face difficulties include:

- expected and unexpected costs incurred in identifying and pursuing strategic transactions and performing due diligence regarding potential strategic transactions that may or may not be successful;
- failure of an acquired company to achieve anticipated revenue, earnings, cash flows or other desired technological and business goals;
- diversion of management time, as well as a shift of focus from operating the businesses to issues related to integration and administration;
- the need to integrate the acquired company's accounting, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- retention of key employees from the acquired company and cultural challenges associated with integrating employees from the acquired company into our organization;
- the need to implement or improve controls, procedures and policies appropriate for a public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- in some cases, the need to transition operations and customers onto our existing platforms;
- liability for activities of the acquired company before the acquisition, including violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities;
- write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, users, former stockholders or other third parties and intellectual property infringement claims.

For example, we have acquired businesses whose technologies are new to us and with which we did not have significant experience. We have made and are making investments of resources to support such acquisitions, which will result in ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments and the integration of these acquisitions will be successful. If we fail to successfully integrate the companies we acquire, we may not realize the benefits expected from the transaction and our business may be harmed.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of any or all of our acquisitions or joint ventures, or we may not realize them in the time frame expected or cause us to incur unanticipated liabilities, and harm our business. Future acquisitions or joint ventures may require us to issue dilutive additional equity securities, spend a substantial portion of our available cash, incur debt or contingent liabilities, amortize expenses related to intangible assets or incur incremental operating expenses or write-offs of goodwill or impaired acquired intangible assets, which could adversely affect our results of operations and harm our business.

We may be required to record a significant charge to earnings if our goodwill or amortizable intangible assets become impaired.

We are required under GAAP to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. The events and circumstances we consider include the business climate, legal factors, operating performance indicators and competition. In the future we may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. This could adversely impact our results of operations and harm our business.

If we fail to expand effectively in international markets, our revenues and our business may be harmed.

We currently generate almost all of our revenues from the United States. We also operate to a limited extent in the United Kingdom, France and other countries in Europe. Many CPGs and retailers on our platform have global operations and we plan to grow our operations and offerings through expansion in existing international markets and by partnering with our CPGs and retailers to enter new geographies that are important to them. Further expansion into international markets will require management attention and resources and we have limited experience entering new geographic markets. Entering new foreign markets will require us to localize our services to conform to a wide variety of local cultures, business practices, laws and policies. The different commercial and Internet infrastructure in other countries may make it more difficult for us to replicate our business model. In some countries, we will compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages. We may not be successful in expanding into particular international markets or in generating revenues from foreign operations. As we expand internationally, we will be subject to risks of doing business internationally, including the following:

- competition with strong local competitors and preference for local providers, or foreign companies entering the same markets;
- the cost and resources required to localize our platform;
- burdens of complying with a wide variety of different laws and regulations, including intellectual property laws and regulation of digital coupon terms, Internet services, privacy and data protection, marketing and consumer protection laws, anti-competition regulations and different liability standards, which may limit or prevent us from offering of our solutions in some jurisdictions or limit our ability to enforce contractual obligations;
- differences in how trade promotion spending is allocated;
- differences in the way digital coupons and advertising are delivered and how consumers access and use digital coupons;
- technology compatibility;
- difficulties in recruiting and retaining qualified employees and managing foreign operations;
- different employee/employer relationships and the existence of workers' councils and labor unions;
- shorter payment cycles, different accounting practices and greater problems in collecting accounts receivable;
- higher product return rates;
- seasonal reductions in business activity;
- adverse tax effects and foreign exchange controls making it difficult to repatriate earnings and cash; and
- political and economic instability.

Changes in the U.S. taxation of international activities may increase our worldwide effective tax rate and harm our financial condition and results of operations. The taxing authorities of the jurisdictions in which we plan to operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences, which could increase our worldwide effective tax rate and harm our financial position and results of operations. Significant judgment will be required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there will be many transactions and calculations for which the ultimate tax determination is uncertain. As we expand our business to operate in numerous taxing jurisdictions, the application of tax laws may be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. It is not uncommon for taxing authorities in different countries to have conflicting views. In addition, tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. In particular, there is uncertainty in relation to the U.S. tax legislation in terms of the future corporate tax rate but also in terms of the U.S. tax consequences of income derived from intellectual property earned overseas in low tax jurisdictions.

Our planned corporate structure and intercompany arrangements will be implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits which we intend to eventually derive could be undermined if we are unable to adapt the manner in which we operate our business and due to changing tax laws.

Our failure to manage these risks and challenges successfully could materially and adversely affect our business, financial condition and results of operations.

The loss of one or more key members of our management team, or our failure to attract, integrate and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of the key members of our management team, including Steven R. Boal, our Chief Executive Officer. Mr. Boal is one of our founders and his leadership has played an integral role in our growth. Key institutional knowledge remains with a small group of long-term employees and directors whom we may not be able to retain. The loss of key personnel, including key members of management as well as our marketing, sales, product development and technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. Moreover, some of our management are new to our team.

As we become a more mature company, we may find our recruiting and retention efforts more challenging. We are seeking to continue to hire a significant number of personnel, including certain key management personnel. If we do not succeed in attracting, hiring and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

We are currently or could be exposed in the future to fluctuations in currency exchange rates and interest rates.

To date, we have generated almost all of our revenues from within the United States. As a result, we currently do not have significant revenues or expenses in our international operations and we do not hedge our foreign currency exchange risk. However, we plan to grow our operations and offerings through expansion in existing international markets and by partnering with our existing CPGs and retailers to enter new geographies that are important to them. For example, we opened a research and development facility in Bangalore, India and acquired Shopmium S.A., which has research and development operations in Paris, France. As we expand our business outside the United States we will face exposure to adverse movements in currency exchange rates. We will be exposed to foreign exchange rate fluctuations from the conversion of collections and expenses not denominated in U.S. dollars. If the U.S. dollar weakens against foreign currencies, the conversion of these foreign currency denominated transactions will result in increased revenues, operating expenses and net income. Similarly, if the U.S. dollar strengthens against foreign currencies, the conversion of these foreign currency denominated transaction will result in decreased revenues, operating expenses and net income. As exchange rates vary, sales and other operating results, when translated, may differ materially from expectations. Our risks related to currency fluctuations will increase as our international operations become an increasing portion of our business. In addition, we face exposure to fluctuations in interest rates which may impact our investment income unfavorably.

Our use of and reliance on international research and development resources and operations may expose us to unanticipated costs or events

We opened a research and development center in India in the first quarter of 2015, and expect to increase our headcount, development and operations activity at this facility, and we acquired Shopmium S.A., which has research and development activity and operations in Paris, France. There is no assurance that our reliance upon international research and development resources and operations will enable us to achieve our research and development and operational goals or greater resource efficiency. Further, our international research and development and operations efforts involve significant risks, including:

- difficulty hiring and retaining appropriate personnel due to intense competition for such resources and resulting wage inflation in the cities where our research and development activities and operations are located;
- the knowledge transfer related to our technology and resulting exposure to misappropriation of intellectual property or information that is proprietary to us, our customers and other third parties;
-

heightened exposure to change in the economic, security and political conditions in the countries where our research and development activities and operations are located;
- fluctuations in currency exchange rates and regulatory compliance in the countries where our research and development activities and operations are located;
- delays and inefficiencies caused by geographical separation of our international research and development activities and operations; and
- interruptions to our operations in the countries where our research and development activities and operations are located as a result of floods and other natural catastrophic events as well as manmade problems such as power disruptions or terrorism.

Difficulties resulting from the factors above could increase our research and development or operational expenses, delay the introduction of new products, or impact our product quality, the occurrence of which could adversely affect our business and operating results.

Our business is subject to interruptions, delays or failures resulting from earthquakes, other natural catastrophic events or terrorism.

Our headquarters is located in Mountain View, California. Our current technology infrastructure is hosted across two data centers in co-location facilities in California and Nevada. In addition, we use two other co-location facilities in California and Virginia to host our Retailer iQ platform. Our services, operations and the data centers from which we provide our services are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins and similar events. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, financial condition and results of operations and our insurance coverage may be insufficient to compensate us for losses that may occur. Acts of terrorism could cause disruptions to the Internet, our business or the economy as a whole. We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting areas where data centers upon which we rely are located, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Such disruptions could negatively impact our ability to run our websites, which could harm our business.

Our management team has limited experience managing a public company, and regulatory compliance may divert its attention from the day-to-day management of our business.

Our management team has limited experience managing a publicly-traded company and limited experience complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company that will be subject to significant regulatory oversight and reporting obligations under the federal securities laws. In particular, these new obligations will require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely impact our business operations.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our stockholders, and debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, and similar state law provisions, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. If our existing NOLs are subject to limitations arising from ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, also could result in an ownership change under Section 382 of the Code. There is also a risk that our NOLs could expire, or otherwise be unavailable to offset future income tax liabilities due to changes in the law, including regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons. For these reasons, we may not be able to utilize all of our NOLs, even if we attain profitability.

State and foreign laws regulating money transmission could impact our mobile shopping and receipt scanning cash-back application platform.

Many states and certain foreign jurisdictions impose license and registration obligations on those companies engaged in the business of money transmission, with varying definitions of what constitutes money transmission. If our mobile shopping and receipt scanning cash-back platform were to subject us to any applicable state or foreign laws, it could subject us to increased compliance costs and delay our ability to offer this product in certain jurisdictions pending receipt of any necessary licenses or registrations. If we need to make product and operational changes in light of these laws, the growth and adoption of this product may be adversely impacted and our revenues may be harmed.

Risks Related to Ownership of our Common Stock

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the market price of our common stock has been, and is likely to continue to be, subject to wide fluctuations and could subject us to litigation.

The price of our stock may change in response to variations in our operating results and also may change in response to other factors, including factors specific to technology companies, many of which are beyond our control. As a result, our stock price may experience significant volatility. Among other factors that could affect our stock price are:

- the financial projections that we or analysts may choose to provide to the public, any changes in these projections or our failure for any reason to meet these projections;
- actual or anticipated changes or fluctuations in our results of operations;
- whether our results of operations meet the expectations of securities analysts or investors;
- the development and sustainability of an active trading market for our common stock;
- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in the trading volume of our shares or the size of our public float;
- success of competitive products or services;
- the public's response to press releases or other public announcements by us or others, including our filings with the SEC;
- announcements relating to litigation;
- speculation about our business in the press or the investment community;
- future sales of our common stock by our significant stockholders, officers and directors;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets;
- regulatory developments in the United States or foreign countries;
- strategic actions by us or our competitors, such as acquisitions or restructurings; and
- changes in accounting principles.

In addition, the stock market in general has experienced substantial price and volume volatility that is often seemingly unrelated to the operating results of any particular companies. Moreover, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price for our stock might also decline in reaction to events that affect other companies within, or outside, our industry, even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been subject of securities litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of management's attention and resources.

Substantial future sales of shares by our stockholders could negatively affect our stock price.

Sales of a substantial number of shares of our common stock in the public market could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We have approximately 87,755,940 shares of common stock outstanding as of September 30, 2016, assuming no exercise of our outstanding options or vesting of our outstanding RSUs.

All of the shares of common stock sold in our IPO are freely tradable without restrictions or further registration under the Securities Act, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act.

Our equity incentive plans allow us to issue, among other things, stock options, restricted stock and restricted stock units and we have filed a registration statement under the Securities Act to cover the issuance of shares upon the exercise or vesting of awards granted under those plans.

53

The concentration of our common stock ownership with our executive officers, directors and affiliates will limit your ability to influence corporate matters.

Our executive officers, directors and owners of 5% or more of our outstanding common stock together beneficially own approximately 68% of our outstanding common stock, based on the number of shares outstanding as of June 30, 2016. These stockholders therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control limits your ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. This ownership could affect the value of your shares of common stock.

Our stock repurchase program could affect the price of our common stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock.

In February of 2015, our board of directors approved a share repurchase program pursuant to which we are authorized to repurchase shares of our stock having an aggregate value of up to $50.0 million. In February of 2016 our board of directors approved a new share purchase program with a one-year term on terms substantially similar to the program approved in February of 2015. From January 1, 2016 through September 30, 2016, we repurchased $11.0 million in stock under our total authorized amounts under our new and old share purchase programs. The timing and actual number of shares repurchased will depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, an assessment by management and our board of directors of cash availability and other market conditions. The stock repurchase program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect the price of our common stock and increase its volatility. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves, which could impact our ability to further develop our technology, access and/or retrofit additional facilities and service our indebtedness. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program’s effectiveness.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the New York Stock Exchange, or the NYSE. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will be required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and could result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations and independent registered public accounting firm audits of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE.

Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it concludes that our internal control over financial reporting is not effective.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the price of our common stock.

We are an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company", as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced financial disclosure obligations, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments not previously approved. We may take advantage of these provisions for up to five years or such earlier time that we are no longer an "emerging growth company." We would cease to be an "emerging growth company" upon the earliest to occur of: the last day of the fiscal year in which we have more than $1.0 billion in annual revenues; the date we are deemed a "large accelerated filer" as defined in the Exchange Act; and the last day of the fiscal year ending after the fifth anniversary of our IPO. We may choose to take advantage of some but not all of these reduced reporting burdens. If we take advantage of any of these reduced reporting burdens in future filings, the information that we provide our security holders may be different than you might get from other public companies in which you hold equity interests. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

If securities analysts do not publish research or if securities analysts or other third parties publish inaccurate or unfavorable research about us, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that securities analysts and other third parties choose to publish about us. We do not control these analysts or other third parties. The price of our common stock could decline if one or more securities analysts downgrade our common stock or if one or more securities analysts or other third parties publish inaccurate or unfavorable research about us or cease publishing reports about us.

We do not intend to pay dividends for the foreseeable future.

We intend to retain all of our earnings for the foreseeable future to finance the operation and expansion of our business and do not anticipate paying cash dividends on our common stock. As a result, you can expect to receive a return on your investment in our common stock only if the market price of the stock increases.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in our certificate of incorporation and by-laws may have the effect of delaying or preventing a change of control or changes in our management. Amongst other things, these provisions:

- authorize the issuance of “blank check” preferred stock that could be issued by our board of directors to defend against a takeover attempt;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a majority stockholder vote;
- provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office rather than by stockholders;
- prevent stockholders from calling special meetings; and
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder becomes an “interested” stockholder.

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

Unregistered Sales of Equity Securities

On August 3, 2016 the Company agreed to issue 3,000,000 shares of common stock of the Company (the “Transaction Shares”) pursuant to a services and data agreement (the “Services Agreement”) as partial consideration for certain rights provided thereunder. 1,000,000 of the Transaction Shares were issued on August 10, 2016. The remaining 2,000,000 of the Transaction Shares (the “Additional Shares”) were placed in escrow. Subject to compliance with the Services Agreement, half of the Additional Shares shall be released from escrow within 15 business days of the end of 2017 and 2018.

The issuance and sale of the Transaction Shares are exempt from registration under the Securities Act pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D thereunder. The recipient of the Transaction Shares is an “accredited investor” as defined in Rule 501 of the Securities Act and represented that the common stock is being acquired for investment purposes and not with a view to, or for sale in connection with, any distribution thereof, and appropriate legends will be affixed to any certificates evidencing the shares of common stock issued.

Use of Proceeds from Public Offering of Common Stock

In March 2014, the Company completed its IPO pursuant to a registration statement on Form S-1 (File No. 333-193692) in which it issued and sold 12,075,000 shares of common stock at a public offering price of $16.00 per share. The Company received net proceeds of $179.7 million after deducting underwriting discounts and commissions of $13.5 million, but before deducting offering expenses of $5.4 million.

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on March 7, 2014 pursuant to Rule 424(b) under the Securities Act. Pending the uses described, we maintain the cash received in cash, cash equivalents and short-term investments.

56

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
July 1 - 31, 2016	—	$ —	—	$46,910,000
August 1 - 31, 2016	—	—	—	46,910,000
September 1 -30, 2016	—	—	—	46,910,000
Total	—	$ —	—	$46,910,000

(1) In February 2016, the Company's board of directors authorized a new share purchase program to repurchase up to $50.0 million of the Company's common stock through February 2017. During the nine months ended September 30, 2016, the Company had repurchased 1,695,158 shares of its common stock for an aggregate amount of $11.0 million.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

5(a)

During the quarter ended September 30, 2016, we discovered that certain equity awards that were granted by our board of directors, or the compensation committee of our board of directors, had been executed with forms of award that were not previously approved by our compensation committee and filed with the SEC. The differences of the terms of the equity awards between the previously filed forms and the forms used are not significant, did not have any impact on the valuation of the equity awards, and our compensation committee has taken action to ratify the use of the forms used. The ratified forms are filed with this Form 10-Q as Exhibits 10.6, 10.7 and 10.8.

Item 6. Exhibits.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

57

SIGNATURES

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

QUOTIENT TECHNOLOGY INC.

Dated: November 8, 2016	By:	/s/ Steven R. Boal Steven R. Boal Chief Executive Officer (Principal Executive Officer)
Dated: November 8, 2016	By:	/s/ Ronald J. Fior Ronald J. Fior Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit Index

		Incorporated by Reference				
Number	Exhibit Title	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant, as amended effective October 20, 2015.	10-K	001-36331	3.1	03/11/16	
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-36331	3.2	10/06/15	
4.1	Form of Registrant's Common Stock Certificate	S-1/A	333-193692	4.1	02/25/14	
4.2	Eighth Amended and Restated Investors' Rights Agreement among the Registrant and certain holders of its capital stock, dated June 1, 2011.	S-1	333-193692	4.2	01/31/14	
10.1	Terms of Separation & Release of Claims with Jennifer Ceran, effective date August 10, 2016*					X
10.2	Offer Letter of Employment with Ronald J. Fior, dated July 26, 2016*					X
10.3	Change of Control Severance Agreement with Steven R. Boal, dated August 2, 2016*					X
10.4	Change of Control Severance Agreement with Mir Aamir, dated August 2, 2016*					X
10.5	Change of Control Severance Agreement with Ronald J. Fior, dated August 2, 2016*					X
10.6	Restricted Stock Unit Agreement Used under the Company's 2013 Equity Incentive Plan*					X
10.7	Option Agreement for Employees*					X
						X

10.8	Option Agreement for Non-Employee Directors*	
31.1	Certification of Principal Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certificate of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X

		Incorporated by Reference				
Number	Exhibit Title	Form	File No.	Exhibit	Filing Date	Filed Herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

* Indicates a management contract or compensatory plan or arrangement

60