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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

Commission File Number: 001-36331

Quotient Technology Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(650) 605-4600

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

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

QUOTIENT TECHNOLOGY INC.

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REPORT ON

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 158,664	$ 106,174
Short-term investments	24,607	69,172
Accounts receivable, net of allowance for doubtful accounts of $913 and $1,338 at September 30, 2017 and December 31, 2016, respectively	78,476	71,945
Prepaid expenses and other current assets	8,530	6,293
Total current assets	270,277	253,584
Property and equipment, net	15,638	16,376
Intangible assets, net	49,446	47,987
Goodwill	80,506	43,895
Other assets	936	914
Total assets	$ 416,803	$ 362,756
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,129	$ 4,968
Accrued compensation and benefits	11,811	13,202
Other current liabilities	28,839	20,864
Contingent consideration related to acquisitions	16,200	—
Deferred revenues	7,575	6,856
Total current liabilities	68,554	45,890
Other non-current liabilities	520	78
Deferred rent	1,922	2,285
Contingent consideration related to acquisitions	—	185
Deferred tax liabilities	2,466	2,569
Total liabilities	73,462	51,007
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.00001 par value—10,000,000 shares authorized and no shares issued or outstanding at September 30, 2017 and December 31, 2016	—	—
Common stock, $0.00001 par value—250,000,000 shares authorized; 102,336,142	1	1

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues	$81,950	$66,470	$229,022	$199,768
Costs and expenses:				
Cost of revenues	37,501	35,126	96,734	85,500
Sales and marketing	22,002	20,415	67,456	67,656
Research and development	12,255	12,414	38,149	38,419
General and administrative	11,702	10,041	35,398	32,394
Change in fair value of escrowed shares and contingent consideration, net	9,700	105	11,015	(963)
Total costs and expenses	93,160	78,101	248,752	223,006
Loss from operations	(11,210)	(11,631)	(19,730)	(23,238)
Other income (expense), net	276	398	537	418
Loss before income taxes	(10,934)	(11,233)	(19,193)	(22,820)
Provision for (benefit from) income taxes	(107)	79	66	193
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Net loss per share, basic and diluted	$(0.12)	$(0.13)	$(0.22)	$(0.28)
Weighted-average number of common shares used in computing net loss per share, basic and diluted	90,492	84,732	89,000	83,484

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net loss	$(10,827)	$(11,312)	$(19,259)	$(23,013)
Other comprehensive income:				
Foreign currency translation adjustments	(21)	3	27	9
Comprehensive loss	$(10,848)	$(11,309)	$(19,232)	$(23,004)

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(19,259)	$(23,013)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,280	16,252
Stock-based compensation	24,302	21,647
Loss on disposal of property and equipment	—	245
Allowance for doubtful accounts	(548)	237
Deferred income taxes	66	193
One-time charge for certain distribution fees	—	7,435
Change in fair value of escrowed shares and contingent consideration, net	11,015	(963)
Changes in operating assets and liabilities:		
Accounts receivable	(1,776)	(3,970)
Prepaid expenses and other current assets	(2,231)	(596)
Accounts payable and other current liabilities	5,882	(3,720)
Accrued compensation and benefits	(1,454)	(5,180)
Deferred revenues	718	408
Net cash provided by operating activities	29,995	8,975
Cash flows from investing activities:		
Purchases of property and equipment	(4,383)	(5,004)
Purchase of intangible assets	—	(63)
Acquisitions, net of cash acquired	(21,048)	—
Purchases of short-term investments	(64,685)	(69,116)
Proceeds from maturities of short-term investment	109,250	25,000
Net cash provided by (used in) investing activities	19,134	(49,183)
Cash flows from financing activities:		
Proceeds from issuances of common stock under stock plans	5,880	9,613
Payments for taxes related to net share settlement of equity awards	(2,326)	—
Repurchases of common stock	—	(11,819)
Principal payments on promissory note and capital lease obligations	(161)	(38)
Net cash provided by (used in) financing activities	3,393	(2,244)
Effect of exchange rates on cash and cash equivalents	(32)	1
Net increase (decrease) in cash and cash equivalents	52,490	(42,451)
Cash and cash equivalents at beginning of period	106,174	134,947
Cash and cash equivalents at end of period	$158,664	$92,496

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

See Accompanying Notes to Condensed Consolidated Financial Statements

QUOTIENT TECHNOLOGY INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company’s condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain prior period balances have been reclassified to conform to the current period's presentation. The accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2017 or for any other period.

There have been no changes to the Company’s significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on its condensed consolidated financial statements and related notes, except for Company electing to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment of $3.4 million recorded to accumulated deficit balance as of January 1, 2017.

Use of Estimates

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

Recently Issued Accounting Pronouncements

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). In addition, the FASB issued subsequent ASUs, which serve to clarify certain aspects of ASU 2014-09. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the standard requires reporting companies to also disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB agreed to delay the effective date of this amendment by one year, accordingly, the Company is required to adopt the amendments in the first quarter of 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Early adoption is permitted, but not before the original effective date of the amendment, which was the first quarter of 2017.

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

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The standard is effective for public business entities for annual reporting years beginning after December 15, 2017, and interim periods within that reporting period, which is the first quarter of 2018 for the Company. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting guidance on the consolidated financial statements.

Accounting Pronouncements Adopted

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

3. Fair Value Measurements

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

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

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

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

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

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents:				
Money market funds	$25,068	—	—	$25,068
Certificate of deposit	—	35,092	—	35,092
Short-Term investments:				
Certificate of deposit	—	24,607	—	24,607
Total	$25,068	$59,699	$—	$84,767
Liabilities:				
Contingent consideration related to Crisp acquisition (1)	—	—	16,200	16,200
Contingent consideration related to Shopmium acquisition (1)	—	—	—	—
Total	$—	$—	$16,200	$16,200

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

(1) Included in contingent consideration related to acquisitions

The valuation technique used to measure the fair value of money market funds included using quoted prices in active markets. The money market funds have a fixed net asset value (NAV) of $1. The valuation technique to measure the fair value of certificate of deposits included using quoted prices in active markets for similar assets.

The fair value of contingent consideration related to the acquisition of Crisp Media, Inc. ("Crisp") was estimated using an option pricing method and was based on significant inputs not observable in the market, thus classified as a Level 3 instrument. The inputs include expected achievement of certain financial metrics over the contingent consideration period, historical volatility and discount rate. Refer to Note 6 for further details related to the acquisition.

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

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

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

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For the three and nine months ended September 30, 2017, the Company recorded losses of $1.4 million and $1.2 million, respectively, related to the changes in fair value of contingent consideration. The change in fair value of Shopmium contingent consideration is due to a decline in expected revenue and profit milestones for the years ending December 31, 2016 and 2017. The change in fair value of Crisp contingent consideration is due to an increase in expected achievement of certain financial metrics over the contingent consideration period. The changes in the fair value of the contingent consideration are included as a component of operations in the accompanying condensed consolidated statements of operations.

There were no transfers between fair value hierarchies during the three and nine months ended September 30, 2017 and 2016.

4. Allowance for Doubtful Accounts

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Balance at the beginning of period	$1,035	$883	$1,338	$833
Additions related to Crisp acquisition	—	—	229	—
Bad debt expense (recovery)	(51)	86	(548)	237
Write-offs, net	(71)	(38)	(106)	(139)
Balance at the end of period	$913	$931	$913	$931

5. Balance Sheet Components

Property and Equipment, Net

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

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

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

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

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

Accrued Compensation and Benefits

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

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

Other Current Liabilities

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

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

6. Acquisitions

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

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

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

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

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

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

	Purchase Consideration	Net Tangible Assets Acquired/ (Liabilities Assumed)	Identifiable Intangible Assets	Goodwill	Goodwill Deductible for Taxes	(1) Acquisition Related Expenses
Crisp	$ 51,904	$ 5,893	$ 9,400			