COUPONS.com Inc
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

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

Commission File Number: 001-36331

Coupons.com Incorporated

(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)

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 x 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 x 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 x (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 x

As of August 5, 2014, the registrant had 77,618,235 shares of common stock outstanding.

COUPONS.COM INCORPORATED

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REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2014

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

COUPONS.COM INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$222,031	$38,972
Accounts receivable, net of allowance for doubtful accounts of $400 and $332 at June 30, 2014 and December 31, 2013, respectively	44,060	42,185
Prefunded coupons cash deposits	1,497	920
Prepaid expenses and other current assets	4,252	3,100
Total current assets	271,840	85,177
Property and equipment, net	27,820	29,942
Intangible assets, net	3,597	1,813
Goodwill	17,880	9,887
Deferred tax assets	900	195
Other assets	3,728	7,222
Total assets	$325,765	$134,236
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$7,703	$5,589
Accrued compensation and benefits	10,490	13,721
Other current liabilities	14,790	13,699
Prefunded coupons cash obligations	1,497	920
Deferred revenues	7,740	6,751
Debt obligations	7,500	7,500
Debt obligations, related party	15,999	15,577
Total current liabilities	65,719	63,757
Other non-current liabilities	569	1,046
Deferred rent	940	1,222
Deferred tax liabilities	900	195
Total liabilities	68,128	66,220
Commitments and contingencies (Note 14)		

Redeemable convertible preferred stock, $0.00001 par value—no shares authorized, issued and outstanding, and aggregate liquidation preference of $0 at June 30, 2014; 50,437,000 shares authorized and 41,529,721 shares issued and outstanding, and aggregate liquidation preference of $282,990 at December 31,2013	—	270,262
Stockholders' equity (deficit):		
Preferred stock, $0.00001 par value—10,000,000 shares authorized and no shares issued or outstanding at June 30, 2014; no shares authorized, issued or outstanding at December 31, 2013	—	—
Common stock, $0.00001 par value—250,000,000 shares authorized and 82,419,992 shares issued and 77,575,086 outstanding at June 30, 2014; 96,000,000 shares authorized and 25,934,206 shares issued and 21,089,300 outstanding at December 31, 2013	1	—
Additional paid-in capital	509,179	28,403
Treasury stock, at cost	(61,935)	(61,935)
Accumulated other comprehensive income (loss)	82	37
Accumulated deficit	(189,690)	(168,751)
Total stockholders' equity (deficit)	257,637	(202,246)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$325,765	$134,236

See Accompanying Notes to Condensed Consolidated Financial Statements

COUPONS.COM INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues	$51,715	$39,089	$103,216	$75,579
Costs and expenses:				
Cost of revenues	20,884	12,933	41,403	25,734
Sales and marketing	17,621	14,167	37,132	29,070
Research and development	10,981	9,651	27,248	20,604
General and administrative	8,857	5,002	17,907	10,898
Total costs and expenses	58,343	41,753	123,690	86,306
Loss from operations	(6,628)	(2,664)	(20,474)	(10,727)
Interest expense	(300)	(229)	(602)	(435)
Other income (expense), net	31	5	(107)	34
Loss before benefit from income taxes	(6,897)	(2,888)	(21,183)	(11,128)
Benefit from income taxes	—	—	(244)	—
Net loss	$(6,897)	$(2,888)	$(20,939)	$(11,128)
Net loss per share attributable to common stockholders, basic and diluted	$(0.09)	$(0.15)	$(0.37)	$(0.60)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders, basic and diluted	77,549	18,903	56,161	18,623

See Accompanying Notes to Condensed Consolidated Financial Statements

COUPONS.COM INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss	$(6,897)	$(2,888)	$(20,939)	$(11,128)
Other comprehensive income (loss):				
Foreign currency translation adjustments	33	12	45	(117)
Comprehensive loss	$(6,864)	$(2,876)	$(20,894)	$(11,245)

See Accompanying Notes to Condensed Consolidated Financial Statements

COUPONS.COM INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net loss	$(20,939)	$(11,128)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,822	3,388
Stock-based compensation	21,253	2,554
Accretion of debt discount	113	113
Loss on disposal of property and equipment	4	37
Provision for doubtful accounts	79	100
Benefit from deferred income taxes	(244)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,755)	(4,166)
Prepaid expenses and other current assets	262	(594)
Accounts payable and other current liabilities	2,494	(1,027)
Accrued compensation and benefits	(3,298)	(2,428)
Deferred revenues	957	732
Other	309	298
Net cash provided by (used in) operating activities	6,057	(12,121)
Cash flows from investing activities:		
Purchases of property and equipment	(4,970)	(10,973)
Business acquisition, net of acquired cash	859	—
Purchases of intangible assets	(16)	—
Net cash used in investing activities	(4,127)	(10,973)
Cash flows from financing activities:		
Proceeds from issuance of common stock	3,031	973
Proceeds from initial public offering, net of offering costs	176,525	—
Exercise of warrant	1,610	498
Principal payments on capital lease obligations	(28)	(21)
Net cash provided by financing activities	181,138	1,450
Effect of exchange rates on cash and cash equivalents	(9)	3
Net increase (decrease) in cash and cash equivalents	183,059	(21,641)
Cash and cash equivalents at beginning of period	38,972	58,395
Cash and cash equivalents at end of period	$222,031	$36,754

See Accompanying Notes to Condensed Consolidated Financial Statements

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COUPONS.COM INCORPORATED

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Coupons.com Incorporated (the "Company") operates a leading digital promotion platform that connects great brands and retailers with consumers. Many brands from leading consumer packaged goods companies ("CPGs") and grocery, drug and mass merchandise retailers use the Company's promotion platform to engage consumers at the critical moments when they are choosing which products they will buy and where they will shop. The Company delivers digital coupons, including coupons and coupon codes, through its platform which includes web, mobile and social channels, as well as those of the Company's CPGs, retailers and its extensive network of publishers. Consumers select coupons by either printing them for physical redemption at retailers or saving them to retailer online accounts for automatic digital redemption. The Company also delivers integrated advertising through its platform.

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 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 our prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on March 7, 2014 ("Prospectus").

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, 2014.

There have been no changes to our significant accounting policies described in the Prospectus that have had a material impact on our condensed consolidated financial statements and related notes.

Initial Public Offering

In March 2014, the Company completed its initial public offering ("IPO") 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. In addition, in connection with the IPO:

All of the Company's outstanding redeemable convertible preferred stock converted into 41,580,507 shares of common stock.

The Company recognized stock-based compensation expense of $17.9 million during the six months ended June 30, 2014 associated with restricted stock units ("RSUs"). Please see Note 9 (Stock-based Compensation) for further discussion.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. 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

In May 2014, the FASB amended the existing accounting standards for 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. The Company is required to adopt the amendments in the first quarter of 2017. Early adoption is not permitted. 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. The Company is currently evaluating the impact of these amendments.

3. Fair Value Measurements

The Company’s fair value hierarchy for its financial assets measured at fair value on a recurring basis is as follows (in thousands):

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	$14,923	$ —	$ —	$14,923
Total	$14,923	$ —	$ —	$14,923
Included in cash and cash equivalents				$14,923

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	$14,918	$ —	$ —	$14,918
Total	$14,918	$ —	$ —	$14,918
Included in cash and cash equivalents				$14,918

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.

Valuation techniques used to measure the fair value of money market funds were derived from quoted prices in active markets for identical assets or liabilities.

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4. Provision for Doubtful Accounts

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$347	$291	$332	$270
Bad debt expense	65	50	79	100
Recoveries (write-offs), net	(12)	(2)	(11)	(31)
Balance at end of period	$400	$339	$400	$339

5. Balance Sheet Components

Property and Equipment, Net

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

	June 30, 2014	December 31, 2013
Computer equipment	$15,679	$15,172
Software	28,384	5,294
Furniture and fixtures	1,583	1,611
Leasehold improvements	2,225	2,211
Total	47,871	24,288
Accumulated depreciation and amortization	(22,310)	(17,491)
Projects in process	2,259	23,145
Property and equipment, net	$27,820	$29,942

Depreciation and amortization expense of property and equipment was $3,339,000 and $6,206,000 for the three and six months ended June 30, 2014, respectively, and $1,510,000 and $3,002,000 for the three and six months ended June 30, 2013, respectively.

During the quarter ended March 31, 2014, the Company’s internally developed next generation integrated point of sale digital coupon delivery solution was ready for its intended use and, accordingly, $23,130,000 was reclassified from projects in process to software within property and equipment, net on the accompanying condensed consolidated balance sheets. The Company recognized $1,960,000 and $3,391,000 amortization expense in cost of revenues related to the capitalized new software platform during the three and six months ended June 30, 2014.

Accrued Compensation and Benefits

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

	June 30, 2014	December 31, 2013
Bonus	$3,509	$5,949
Payroll and related expenses	1,295	1,131
Commissions	2,887	4,297
Vacation	2,799	2,344
Accrued compensation and benefits	$10,490	$13,721

Other Current Liabilities

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

	June 30, 2014	December 31, 2013
Legal and professional fees	$ 1,422	$ 1,742
Marketing expenses	2,143	1,492
Distribution fees	5,914	5,628
Accrued property and equipment	1,047	1,252
Deferred rent	486	453
Other	3,778	3,132
Other current liabilities	$ 14,790	$ 13,699

6. Acquisition of Yub, Inc.

On January 2, 2014, the Company acquired all the outstanding shares of Yub, Inc. (“Yub”), a company that allows consumers to link digital offers and promotions to payment cards for savings when they use the cards for in-store purchases. The total acquisition consideration of $10.1 million, which consisted of 1,000,040 shares of the Company’s common stock, was based on the fair value of the Company’s common stock of $10.05 per share. The acquisition of Yub provides the Company with developed technologies and enhanced workforce. The fair values of identifiable intangible assets were determined using discounted cash flow models. The excess of the consideration paid over the fair values of the tangible and identifiable intangible assets acquired and liabilities assumed was recorded as goodwill, which is not deductible for tax purposes. The goodwill is attributable to expected synergies from combined operations and acquired company’s knowhow.

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

	Amount
Cash	$ 859
Other assets and (liabilities), net	(1,100)
Intangible assets	2,320
Goodwill	7,971
Total net assets acquired	$ 10,050

Acquisition related costs of $376,000 were expensed as general and administrative expense in the accompanying condensed consolidated statement of operations. The results of operations of Yub have been included in our condensed consolidated statements of operations from the acquisition date. The pro forma impact of this acquisition on consolidated revenues, loss from operations and net loss was immaterial.

The Company amortizes intangible assets on a straight-line basis over their respective estimated useful lives. The following table presents the details of the identifiable intangible assets acquired in connection with the Yub acquisition (in thousands):

	Amount	Estimated Useful Life (in Years)
Customer relationships	$ 176	5
Vendor relationships	890	4
Developed technologies	692	5
Domain names	487	5
Patents	75	5
Total identifiable intangible assets	$ 2,320	

7. Goodwill and Intangible Assets

Goodwill represents the excess of the consideration paid over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. The changes in the carrying value of goodwill are as follows (in thousands):

	Goodwill
Balance as of December 31, 2013	$ 9,887
Acquisition of Yub	7,971
Foreign currency translation	22
Balance as of June 30, 2014	$ 17,880

Intangible assets consist of the following (in thousands):

	June 30, 2014 Gross	Accumulated Amortization	Foreign Currency Translation	June 30, 2014 Net	Weighted Average Amortization Period (Years)
Domain names	$ 3,180	$ (2,539)	$ —	$ 641	4
Patents	975	(520)	—	455	7
Customer relationships	2,228	(1,412)	73	889	3
Vendor relationships	890	(112)	—	778	4
Developed technologies	1,288	(523)	—	765	4
Trade names	167	(106)	8	69	2
	$ 8,728	$ (5,212)	$ 81	$ 3,597	4

	December 31, 2013 Gross	Accumulated Amortization	Foreign Currency Translation	December 31, 2013 Net	Weighted Average Amortization Period (Years)
Domain names	$ 2,638	$ (2,376)	$ —	$ 262	1
Patents	900	(470)	—	430	7
Customer relationships	2,052	(1,239)	51	864	3

Developed technologies	596	(420)	—	176	3
Trade names	167	(91)	5	81	3
	$ 6,353	$ (4,596)	$ 56	$ 1,813	4

Amortization expense related to intangible assets subject to amortization was $311,000 and $616,000 for the three and six months ended June 30, 2014, respectively, and $193,000 and $386,000 for the three and six months ended June 30, 2013. Estimated future amortization expense of intangible assets as of June 30, 2014 is as follows (in thousands):

	Total
2014, remaining six months	$592
2015	1,046
2016	932
2017	559
2018	324
2019 and beyond	144
Total estimated amortization expense	$3,597

8. Debt Obligations

2013 Credit and Security Agreement

In September 2013, the Company entered into an agreement with a commercial bank to establish an accounts receivable based revolving line of credit. The maximum amount available for borrowing under the revolving credit facility is the lesser of $25,000,000 (which can be increased to $30,000,000 if certain conditions are met) or an amount equal to 85% of certain eligible accounts, which excludes accounts that are over 60 days outstanding from the original due date. The revolving line of credit has a maturity date of September 30, 2016 and may be repaid and redrawn at any time prior to the maturity date. Interest is charged at a floating interest rate based on the daily three month LIBOR, plus an applicable margin. In May 2014, the Company entered into an amendment, which revised the applicable margin from 2.75% to 2.00% and the financial reporting intervals from monthly to quarterly reporting. Interest was 2.25% at June 30, 2014. The Company is also required to pay a commitment fee on the unused portion of the revolving credit facility equal to 0.25% per annum. As of June 30, 2014 and December 31, 2013, $7,500,000 was outstanding under the revolving line of credit. The revolving credit facility is secured by substantially all of the Company's assets, and is subject to certain financial and non-financial covenants, including financial reporting. As of June 30, 2014, the Company was in compliance with the financial and non-financial covenants under the credit and security agreement.

2012 Note Payable, Related Party

In October 2012, the Company borrowed $15,000,000 from one of its stockholders by entering into a subordinated note arrangement. The note is subordinated to other senior debt. The note has a stated interest rate of 4.00% per annum, and the principal and accrued interest are due in a lump-sum payment on October 5, 2014. Accrued interest related to the related party debt obligation is included in debt obligations, related party on the accompanying condensed consolidated balance sheets.

In connection with the note, the Company issued a warrant to purchase 400,000 shares of Company's common stock at an exercise price of $4.03 per share. In February 2014, the warrant to purchase 400,000 shares of common stock was exercised.

9. 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"). Pursuant to the 2013 Plan, 4,000,000 shares of common stock were initially reserved for grant, plus (1) any shares that were reserved and available for issuance under the 2006 Plan at the time the 2013 Plan became effective, and (2) any shares that become available upon forfeiture or repurchase by us under the 2006 Plan and 2000 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 stock option is estimated on the date of grant for the periods presented using the Black-Scholes model based on the following assumptions:

	Six Months Ended June 30,	
	2014	2013
Expected life (in years)	6.08	6.08
Risk-free interest rate	2.33%	1.09%
Volatility	55%	51%
Dividend yield	—	—

The weighted-average grant-date fair value of options granted was $8.60 and $1.80 per share during the six months ended June 30, 2014 and 2013, respectively. No options were granted during the three months ended June 30, 2014 and 2013.

Restricted Stock Units

The fair value of RSUs equals the market value of the Company's common stock on the date of grant. RSUs granted prior to the Company's IPO have a contractual term of seven years and vest upon the satisfaction of both a service condition and a liquidity-event condition. The service condition is satisfied as to 25% of the RSUs on each of the first four anniversaries of the vesting commencement date. The liquidity-event condition is satisfied upon the earlier of (i) six months after the effective date of the IPO or (ii) March 15 of the calendar year following the year in which the IPO was declared effective; and (iii) the time immediately prior to the consummation of a change in control. The vesting condition that will be satisfied six months following the Company's IPO does not affect the expense attribution period for the RSUs for which the service condition has been met as of the date of the Company's IPO. This six-month period is not a substantive service condition and, accordingly, beginning on the effectiveness of the Company's IPO in March 2014, the Company recognized a cumulative stock-based compensation expense for the portion of the RSUs that had met the service condition as of the date of the Company's IPO.

RSUs granted on or after the Company's IPO have similar terms as the RSUs granted prior to the Company's IPO, but are not subject to a liquidity-event condition in order to vest, and the compensation expense is recognized on a straight-line basis over the applicable service period.

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

		Options Outstanding				RSUs Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Balance as of December 31, 2013	2,035,282	12,635,707	$ 5.87	7.02	$ 68,944	4,521,191	$ 5.59
Increase in shares authorized	4,000,000						
Options granted	(46,875)	46,875	16.00				
Options exercised	—	(1,430,239)	2.12		11,912		
Options canceled or expired	29,802	(29,802)	6.49				
RSUs granted	(3,106,663)					3,106,663	17.95
RSUs canceled or expired	282,777					(282,777)	8.84
Balance as of June 30, 2014	3,194,323	11,222,541	6.39	6.80	223,590	7,345,077	10.70
Vested and expected to vest as of June 30, 2014		10,546,146	6.10	6.69	213,241		
Vested and exercisable as of June 30, 2014		7,163,304	3.25	5.69	165,160		

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 shares which vested during the three and six months ended June 30, 2014 was $854,000 and $1,859,000, respectively, and during the three and six months ended June 30, 2013 was $1,404,000 and $2,988,000, respectively.

Employee Stock Purchase Plan

The Company's Board of Directors adopted the 2014 Employee Stock Purchase Plan ("ESPP"), which became effective in March 2014, pursuant to which 1,200,000 shares of common stock have been reserved for future issuance. Eligible employees can enroll and elect to contribute up to 15% of their base compensation through payroll withholdings in each offering period, subject to certain limitations. Each offering period is six months in duration, with the exception of the initial offering period which commenced in March 2014 and ends in November 2014. 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:

	Six Months Ended June 30, 2014
Expected life (in years)	0.62
Risk-free interest rate	0.08%
Volatility	55%
Dividend yield	—

Stock-based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenues	$523	$85	$2,100	$171
Sales and marketing	1,284	322	5,401	704
Research and development	1,760	271	7,270	571
General and administrative	3,094	390	6,482	1,108
Total stock-based compensation expense	$6,661	$1,068	$21,253	$2,554

As of June 30, 2014, there was $59,263,000 of unrecognized stock-based compensation expense (net of estimated forfeitures), of which $10,028,000 is related to stock options and ESPP shares and $49,235,000 is related to RSUs. The total unrecognized stock-based compensation expense related to stock options and ESPP as of June 30, 2014 will be amortized over a weighted-average period of 2.7 years. The total unrecognized stock-based compensation expense related to RSUs as of June 30, 2014 will be amortized over a weighted-average period of 3.5 years.

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.

10. Redeemable Convertible Preferred Stock

Immediately prior to the completion of the Company's IPO, all of the Company's outstanding redeemable convertible preferred stock automatically converted into 41,580,507 shares of common stock.

11. Stockholders’ Equity (Deficit)

Reverse Stock Split

In February 2014, the Company’s board approved an amendment to the restated certificate of incorporation to effect a 2.5-for-1 reverse stock split of its capital stock. All share and per share information for all periods presented has been adjusted to reflect the effect of such reverse stock split.

Amended and Restated Certificate of Incorporation

In March 2014, the Company filed an amended and restated certificate of incorporation, which became effective immediately following the completion of the Company’s IPO. Under the restated certificate of incorporation, the authorized capital stock consists of 250,000,000 shares of common stock and 10,000,000 shares of preferred stock.

Common Stock. The rights, preferences and privileges of the holders of common stock are subject to the rights of the holders of shares of any series of preferred stock which the Company may issue in the future. Subject to the foregoing, for as long as such stock is outstanding, the holders of common stock are entitled to receive ratably any dividends as may be declared by the board of directors out of funds legally available for dividends. Holders of common stock are entitled to one vote per share on any matter to be voted upon by stockholders. The amended and restated certificate of incorporation establishes a classified board of directors that is divided into three classes with staggered three

year terms. Only the directors in one class will be subject to election at each annual meeting of stockholders, with the directors in other classes continuing for the remainder of their three year terms. Upon liquidation, dissolution or winding-up, the assets legally available for distribution to the Company's stockholders would be distributable ratably among the holders of common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

Preferred Stock. The board of directors is authorized to issue undesignated preferred stock in one or more series without stockholder approval and to determine for each such series of preferred stock the voting powers, designations, preferences, and special rights, qualifications, limitations, or restrictions as permitted by law, in each case without further vote of action by the stockholders. The board of directors can also increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders. The board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock.

Amendment. The amendment of the provisions in the restated certificate requires approval by holders of at least 66 2/3% of the Company's outstanding capital stock entitled to vote generally in the election of directors.

12. Income Taxes

The Company recorded a net income tax benefit of $0 and $244,000 during the three and six months ended June 30, 2014, respectively. The benefit from income taxes was due to acquired net deferred tax liabilities as part of the Yub acquisition. These additional deferred tax liabilities create a new source of taxable income, which requires the release of a portion of the Company's deferred tax asset valuation allowance with a related reduction in income tax expense. The Company recorded no income tax expense during the three and six months ended June 30, 2013.

13. 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		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net loss	$(6,897)	$(2,888)	$(20,939)	$(11,128)
Weighted-average number of common shares used in computing				
net loss per share attributable to common stockholders, basic and diluted	77,549	18,903	56,161	18,623
Net loss per share attributable to common stockholders, basic and diluted	$(0.09)	$(0.15)	$(0.37)	$(0.60)

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 Six Months Ended June 30,	
	2014	2013
Redeemable convertible preferred stock	—	41,581
Stock options and ESPP	11,349	11,024
Restricted stock units	7,345	3,602
Warrants	—	400
	18,694	56,607

14. Commitments and Contingencies

Leases

The Company leases office space under noncancelable operating leases with lease terms ranging from one to five years. Additionally, the Company leases certain equipment under noncancelable operating leases at its facilities and its leased data center operations.

Aggregate Future Contractual Obligations and Lease Commitments

As of June 30, 2014, the Company’s minimum payments under its noncancelable operating and capital leases are as follows (in thousands):

	Operating Leases	Capital Leases
2014, remaining six months	$ 1,557	$ 34
2015	3,207	68
2016	3,047	52
2017	172	22
2018	126	18
2019 and thereafter	109	1
Total minimum payments	$ 8,218	$ 195
Less: Amount representing interest		16
Present value of capital lease obligations		179
Less: Current portion		60
Capital lease obligation, net of current portion		$ 119

Other Future Commitments

The Company has long-term commitments related to technology development and support for the years 2014 to 2016 in the amount of $6,083,000.

The Company also has other long-term commitments for the years 2014 to 2034 in the amount of $7,520,000 for marketing arrangements.

The Company entered into service agreements under which the Company is obligated to prepay non-refundable payments up to $19,250,000 over three years or earlier upon achievement of certain milestones. As of June 30, 2014, the Company made payments of $3,250,000.

Litigation

In the ordinary course of business, the Company may be involved in lawsuits, claims, investigations, and proceedings consisting of intellectual property, commercial, employment, and other matters. The Company will record 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 any claims are not probable and any reasonably possible range of losses cannot be estimated at this time, therefore the Company has not recorded any accrual for claims as of June 30, 2014 and December 31, 2013.

15. 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.

16. Subsequent Event

On August 4, 2014, the Company acquired the assets of Eckim, LLC, a marketing company specializing in search engine management for e-commerce.

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 prospectus filed on March 7, 2014 with the U.S. Securities and Exchange Commission (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 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 prospectus and elsewhere in this Quarterly Report on Form 10-Q.

Overview

We operate a leading digital promotion platform that connects great brands and retailers with consumers. Household brands from recognized consumer packaged goods companies, or CPGs, and many of the leading grocery, drug and mass merchandise retailers use our promotion platform to engage consumers. We deliver digital coupons to consumers, including coupons and coupon codes, and display advertising through our platform which includes our web, mobile and social channels, as well as those of our CPGs, retailers, and our extensive network of third-party websites, or publishers, that display our coupon and advertising offerings on their websites.

Our platform distributes digital promotions at scale across multiple channels enabling CPGs and retailers to deliver promotions and media advertisements to consumers at the point when they are most engaged and likely to make a purchasing decision. Our platform is comprised of promotional channels, including our Digital FSI Network, which is our network of owned and third-party websites that display our coupons and advertising offerings, retail point of sale solutions, mobile solutions, publishing tools, which enhance the effectiveness of the promotions we offer, and media advertising. Our secure technology gives CPGs control over the number of coupons distributed and the number of CPG-authorized activations per coupon, which enhances the security of digital coupons.

We generate revenues primarily from digital promotion transactions. Each time a consumer selects a digital coupon on our platform by either printing it for physical redemption at a retailer or saving it to a retailer online account for automatic digital redemption, we are paid a fee that is not dependent on the digital coupon being redeemed. For coupon codes, we are paid a fee when a consumer makes a purchase using a coupon code from our platform. If we deliver a digital coupon or coupon code on a retailer's website or through its loyalty reward program, or the website of a publisher, we generally pay a distribution fee to the retailer or publisher which is included in our cost of revenues. We also generate advertising revenues through the placement of online advertisements from CPGs and retailers which are displayed with our coupon offerings on our websites and those of our publishers. We are paid a fee for the display of advertisements on a per impression or a per click basis. Advertising placements are generally sold as part of insertion orders for coupons as an integrated sale and not as a separate transaction.

Second Quarter 2014 Overview

Quarterly revenues of $51.7 million for the second quarter of 2014 increased $12.6 million or 32% from revenues of $39.1 million in the second quarter of 2013. Our net loss of $6.9 million increased $4.0 million for the second quarter of 2014 compared to the net loss of $2.9 million for the corresponding period of 2013. The year over year increase in our quarterly revenue is primarily related to an increase in the number of transactions completed in the second quarter of 2014 of 383.7 million from 314.8 million for the second quarter of 2013. The increase in our net loss in the second quarter of 2014 compared to the same period in 2013 was primarily driven by increased stock-based compensation expense of $4.8 million associated with RSUs and increased costs of revenues associated with amortization expense and support costs for our new point of sale solution of approximately $3.9 million.

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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. Our operating expenses may increase in the future as we continue to invest in research and development to enhance our platform and in sales and marketing to acquire new CPG and retailer customers and increase revenues from our existing customers.

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014		2013		2014		2013	
	(in thousands, except percentages)							
Revenues	$51,715	100.0%	$39,089	100.0%	$103,216	100.0%	$75,579	100.0%
Cost of revenues	20,884	40.4 %	12,933	33.1 %	41,403	40.1 %	25,734	34.0 %
Gross profit	30,831	59.6 %	26,156	66.9 %	61,813	59.9 %	49,845	66.0 %
Operating expenses:								
Sales and marketing	17,621	34.1 %	14,167	36.2 %	37,132	36.0 %	29,070	38.5 %
Research and development	10,981	21.2 %	9,651	24.7 %	27,248	26.4 %	20,604	27.3 %
General and administrative	8,857	17.1 %	5,002	12.8 %	17,907	17.3 %	10,898	14.4 %
Total operating expenses	37,459	72.4 %	28,820	73.7 %	82,287	79.7 %	60,572	80.2 %
Loss from operations	(6,628)	(12.8)%	(2,664)	(6.8)%	(20,474)	(19.8)%	(10,727)	(14.2)%
Interest expense	(300)	(0.6)%	(229)	(0.6)%	(602)	(0.6)%	(435)	(0.6)%
Other income (expense), net	31	0.1 %	5	— %	(107)	(0.1)%	34	— %
Loss before benefit from income taxes	(6,897)	(13.3)%	(2,888)	(7.4)%	(21,183)	(20.5)%	(11,128)	(14.8)%
Benefit from income taxes	-	— %	—	— %	(244)	(0.2)%	—	— %
Net loss	$(6,897)	(13.3)%	$(2,888)	(7.4)%	$(20,939)	(20.3)%	$(11,128)	(14.8)%

Comparison of the Three and Six Months Ended June 30, 2014 and 2013

Revenues

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Revenues	$51,715	$39,089	$12,626	32 %	$103,216	$75,579	$27,637	37 %

Revenues for the three and six months ended June 30, 2014 increased by $12.6 million, or 32% and $27.6 million, or 37%, respectively, compared to the same periods in 2013. The increases in revenues for the three and six months ended June 30, 2014 compared to the same periods in 2013 were primarily attributable to increases in the number of transactions and to a lesser extent from increases in advertising revenues. Transactions during the three and six months ended June 30, 2014 increased to 383.7 million from 314.8 million and to 791.5 million from 626.6 million, respectively, compared to the same periods in 2013. Revenues from digital promotion and display advertisements for the three and six months ended June 30, 2014 accounted for 74% and 26% and 77% and 23%, respectively, of total revenues compared to 79% and 21% and 81% and 19%, respectively, for the same periods in 2013.

We expect to see effects of seasonality on our business from quarter over quarter in the future.

Cost of Revenues and Gross Profit

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Cost of revenues	$20,884	$12,933	$ 7,951	61 %	$41,403	$25,734	$ 15,669	61 %
Gross profit	$30,831	$26,156	$ 4,675	18 %	$61,813	$49,845	$ 11,968	24 %
Gross margin	60 %	67 %			60 %	66 %		

Cost of revenues for the three and six months ended June 30, 2014 increased by $8.0 million, or 61% and $15.7 million, or 61%, respectively, compared to the same periods in 2013. The increases were primarily due to higher distribution fees and third-party service fees, increased costs associated with the deployment of our new point of sale solution, and to a lesser extent higher headcount and related expenses. The increases in distribution fees and third-party service fees were related to the increased number of transactions subject to fees completed through our platform. The increases in costs related to our new point of sale solution were primarily related to amortization expense and support costs incurred as a result of the deployment of our new point of sale solution in the first quarter of 2014. The increases in headcount related costs were primarily due to higher stock-based compensation related to RSUs and to a lesser extent, higher salaries and related costs. For the three and six months ended June 30, 2014, distribution and third-party service fees increased $2.8 million and $6.0 million, respectively, compared to the same periods of 2013. Costs associated with the deployment of our new point of sale solution increased $3.9 million and $6.5 million for the three and six months ended June 30, 2014, respectively, compared to the same periods of 2013.

Gross margin for the three and six months ended June 30, 2014 decreased to 60% from 67% and 66%, respectively, compared to the same periods in 2013. The decrease in gross margin is primarily due to the combined impact from increased costs from our new point of sale solution and increased stock-based compensation related to RSUs, partially offset by expense leverage from fixed costs and increases in advertising revenues.

We expect that the costs associated with our new point of sale solution will continue to increase in the future in absolute dollars as we continue to deploy our solution to retailers. We also believe that as the number of transactions increase, including those on our new point of sale solution, that our cost of revenues as percentage of revenues will decrease as we achieve increased operational efficiencies.

Sales and marketing

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Sales and marketing	$17,621	$14,167	$ 3,454	24 %	$37,132	$29,070	$ 8,062	28 %
Percent of revenues	34 %	36 %			36 %	38 %		

Sales and marketing expenses for the three and six months ended June 30, 2014 increased $3.5 million, or 24% and $8.1 million, or $28%, respectively, compared to the same periods in 2013. The increases were primarily due to promotional and advertising costs and headcount and related costs. The increases in our promotional and advertising

costs were required to support our business objectives and the growth in revenues. The increases in our headcount related costs were primarily related to increases in stock-based compensation related to RSUs and to a lesser extent, increased salaries and new hire costs required to support our growth and business objectives, and higher commission expenses related to the increases in revenues. For the three and six months ended June 30, 2014, promotional and advertising costs increased $2.3 million and $1.9 million, respectively, compared to the same periods in 2013. For the three and six months ended June 30, 2014, headcount and related costs increased $1.0 million and $5.5 million, respectively, compared to the same periods in 2013.

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

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Research and development	$10,981	$9,651	$ 1,330	14 %	$27,248	$20,604	$ 6,644	32 %
Percent of revenues	21 %	25 %			26 %	27 %		

Research and development expenses for the three and six months ended June 30, 2014 increased $1.3 million, or 14% and $6.6 million, or 32% compared to the same period in 2013. The increases were primarily related to the combined effect from increased headcount and related costs partially offset by a decrease in research and development support services costs. The increases in headcount related expenses were primarily driven by increased stock-based compensation and to a lesser extent higher salaries. The increase in stock-based compensation was related to RSUs and the increased salaries and was due to our continued investment in our growth and business technology objectives. The decreases in research and development support services were primarily due to the deployment of our new point of sales solution in January of 2014 resulting in the post deployment costs being recorded as a component of costs of revenues.

For the three months ended June 30, 2014, headcount and related costs increased $1.9 million, including increases in stock-based compensation of $1.5 million and were partially offset by a decrease in the costs of our research and development support services, compared to the same period in 2013. For the six months ended June 30, 2014, headcount and related costs increased $7.9 million, including increases in stock-based compensation of $6.7 million and were partially offset by a decrease in the costs of our research and development consultation and support services of $1.5 million compared to the same period in 2013.

During the three and six months ended June 30, 2014, we capitalized internal use software development costs related to our new point of sale solution of $0.9 million and $2.2 million, respectively, compared to $1.3 million and $3.6 million during the same periods in 2013.

We anticipate that we will decrease our use of third-party services in the future. We believe that continued investment in technology is critical to attaining our strategic objectives, and, as a result, we expect research and development expenses to increase in absolute dollars in future periods.

General and administrative

	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
General and administrative	$8,857	$5,002	$ 3,855	77 %	$17,907	$10,898	$ 7,009	64 %
Percent of revenues	17 %	13 %			17 %	14 %		

General and administrative expenses for the three and six months ended June 30, 2014 increased $3.9 million, or 77% and $7.0 million, or 64% compared to the same period in 2013. The increases were primarily due to headcount related costs from higher stock-based compensation and to a lesser extent from higher salaries and new hire costs. The increases in stock-based compensation were primarily related to RSUs. The increases in salaries and new hire costs were to support our growth as well as the activities of a public company. For the three and six months ended June 30, 2014, headcount and related costs increased $3.8 million and $7.4 million, including increases in stock-based compensation of $2.7 million and $5.4 million, and increases in salaries and new hire cost of $1.1 million and $2.0 million, respectively, compared to the same periods in 2013.

As a public company, we expect to incur significant legal, accounting, regulatory compliance and other costs that we did not incur in the periods prior to our IPO in March 2014. 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, investor relations costs, higher insurance premiums and compliance costs associated with Section 404 of the Sarbanes-Oxley Act.

Interest expense and Other income (expense), Net

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Interest expense	$(300)	$(229)	$ (71)	31 %	$(602)	$(435)	$ (167)	38 %
Other income (expense), net	31	5	26	* %	(107)	34	(141)	* %
	$(269)	$(224)	$ (45)	* %	$(709)	$(401)	$ (308)	* %

*Not meaningful.

The increase in interest expense and other income (expense), net for the three and six months ended June 30, 2014 was primarily due to interest expense resulting from borrowings of $15.0 million in the fourth quarter of 2012 and $7.5 million during the third quarter of 2013 compared to the same periods in 2013.

Benefit from income taxes

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
	(in thousands, except percentages)							
Benefit from income taxes	$—	$ —	$ —	—	$(244)	$ —	$ (244)	100 %

Our benefit from income taxes for the three and six months ended June 30, 2014 was related to the deferred tax liabilities that arose from intangible assets acquired as part of the Yub acquisition which occurred during the first quarter of 2014. These additional deferred tax liabilities create a new source of taxable income, thereby requiring us to release a portion of our deferred tax asset valuation allowance with a related reduction in income tax expense. We recorded no similar benefit or provision for income taxes during the three and six months ended June 30, 2013.

Liquidity and Capital Resources

As of June 30, 2014 we had $222.0 million in cash and cash equivalents. We expect that operating expenses will constitute a material use of our cash balances. 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 that we will incur increased spending in future periods in order to execute our long-term business plan and to support our growth and the change in the status of our business from a private company to a public company. As a public company, we expect to incur future significant legal, accounting, regulatory compliance and other costs that we did not incur in the periods prior to our IPO on March, 7, 2014. In addition, we may use cash to fund acquisitions or invest in other businesses or technologies.

Prior to 2014, we have financed our operations and capital expenditures through private sales of preferred stock, term debt financing, exercise of stock options and cash flows from operations. Since our inception we have issued $283.0 million of preferred stock, of which we used $70.3 million of the proceeds to repurchase shares of common stock and preferred stock. In addition, we have raised $39.0 million in aggregate principal amount through debt. More recently in March 2014, we completed our IPO in which we issued and sold 12,075,000 shares of common stock at a public offering price of $16.00 per share for which we received proceeds of $179.7 million which is net of underwriting discounts and commissions of $13.5 million, but before deducting offering expenses of $5.4 million.

As of June 30, 2014, we had available a revolving line of credit facility with a commercial bank that provided for advances of up to $30.0 million (if certain conditions are met) which is based on eligible accounts receivable. As of June 30, 2014, we had $7.5 million was outstanding on this credit facility and we were in compliance with the financial and non-financial covenants under the credit agreement.

We believe that our existing cash and cash equivalents balance together with cash generated from operations will be sufficient to meet our working capital requirements for at least the next 12 months. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. In addition, we may elect to raise additional funds at any time through equity, equity-linked or debt financing arrangements.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in the section titled "Risk Factors." We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to obtain needed additional funds, we will have to reduce our operating expenses, which would impair our growth prospects and could otherwise negatively impact our business.

If we choose to undertake a net settlement of our RSUs, then in order to fund the tax withholding and remittance obligations on behalf of our RSU holders, we would expect to use a substantial portion of our cash and cash equivalent balances, or, alternatively, we may choose to borrow funds or a combination of cash and borrowed funds to satisfy these obligations.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Cash flows provided by (used in) operating activities	$6,057	$(12,121)
Cash flows used in investing activities	(4,127)	(10,973)
Cash flows provided by financing activities	181,138	1,450
Effects of exchange rates on cash	(9)	3
Increase (decrease) in cash and cash equivalents	$183,059	$(21,641)

Operating Activities

Cash provided by (used in) 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 used in operating activities has typically been generated from net losses and further increased by changes in our operating assets and liabilities, particularly accounts receivable and accrued liabilities, adjusted for non-cash expense items such as depreciation, amortization and stock-based compensation.

Cash provided by operating activities during the six months ended June 30, 2014 of $6.1 million was the result of a non-cash expenses of $28.2 million, which included depreciation and amortization, provision for doubtful accounts, and stock-based compensation, offset by net loss of $20.9 million. These non-cash expenses increased primarily due to capital expenses and headcount growth, primarily related to continued investment in our business and stock-based compensation expense for RSUs. The remaining effect was from the net change in working capital items, primarily an increase in accounts payable and other current liabilities of $2.5 million and increase in deferred revenues of $1.0 million, offset by decrease in accrued compensation and benefits of $3.3 million and an increases in accounts receivable of $1.8 million. The changes in working capital items were primarily due to the timing of payments and receipt of invoices, timing of the receipt of payments and prepayment of expenses.

Cash used in operating activities during the six months ended June 30, 2013 of $12.1 million was the result of a net loss of $11.1 million, offset by non-cash expenses of $5.9 million, which included depreciation and amortization and

stock-based compensation. These non-cash expenses increased due to capital expenses and headcount growth, primarily related to continued investment in our business. The remaining effect was from the net change in working capital items, primarily an increase in accounts receivable of $4.2 million, a decrease in accrued compensation and benefits of $2.4 million, a decrease in accounts payable and other current liabilities of $1.0 million and an increase in prepaid expenses and other current assets of $0.6 million, offset by an increase in deferred revenues of $0.7 million. The changes in working capital items were primarily due to the timing of payments, an increase in billings for advertising campaigns and timing of the receipt of payments and prepayment of expenses.

Investing Activities

During the six months ended June 30, 2014, cash used in investing activities consisted primarily of purchases of property and equipment of $5.0 million, including technology hardware and software to support our growth as well as

capitalized internal-use software development costs, offset by cash acquired in Yub acquisition of $0.9 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 our in-development new point of sale solution. 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.

During the six months ended June 30, 2013, cash used in investing activities consisted primarily of purchases of property and equipment, including technology hardware and software to support our growth as well as capitalized internal-use software development costs.

Financing Activities

Historically our financing activities have consisted primarily of net proceeds from the issuance of preferred stock, net borrowings under term debt and a line of credit, and the issuance of shares of common stock upon the exercise of stock options. More recently in March 2014, we completed our IPO in which we issued and sold 12,075,000 shares of common stock at a public offering price of $16.00 per share for which we received proceeds of $179.7 million which is net of underwriting discounts and commissions paid of $13.5 million, but before deducting offering expenses of $5.4 million.

During the six months ended June 30, 2014, cash provided by financing activities of $181.1 million consisted primarily of $176.5 million in proceeds from our IPO net of payments of offering costs of $3.2 million, proceeds from issuance of common stock of $3.0 million and warrant of $1.6 million.

During the six months ended June 30, 2013, cash provided by financing activities of $1.5 million was primarily from proceeds from issuance of common stock and warrant.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as of June 30, 2014 and December 31, 2013.

Contractual Obligations and Commitments

Refer to Notes 8 and 14 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 during the six months ended June 30, 2014, for additional information on contractual obligations and commitments, please refer to our prospectus filed on March 7, 2014 with the SEC.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with 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 six months ended June 30, 2014 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 prospectus filed on March 7, 2014 with the SEC.

Recently Issued and Adopted Accounting Pronouncements

Refer to Note 2 of our notes to condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q for further information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the six months ended June 30, 2014, 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 prospectus filed on March 7, 2014 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 June 30, 2014, have concluded that our disclosure controls and procedures were effective at the reasonable assurance level based on their evaluation of these controls and procedures.

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.

We are a party to litigation and subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on our business because of defense and settlement costs, diversion of management resources and other factors.

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 $23.0 million, $59.2 million and $11.2 million in 2011, 2012 and 2013, respectively, and had net losses of $21.1 million for the six months ending June 30, 2014. We had an accumulated deficit of $189.9 million as of June 30, 2014. 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 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 significant expenses developing our new point of sale solution. These efforts may prove more expensive than we currently anticipate, 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 maintain our recent revenue growth.

Our revenues have increased quarter over quarter since the quarter ended September 30, 2012. We may not be able to maintain our rate of 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 revenue growth was adversely affected in the first half of 2012 because as we scaled our technology infrastructure to support our growth, our technology for securely identifying unique users and devices inadvertently prevented our personalization algorithms from optimally displaying our digital coupons to consumers. In addition, 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 spending or divert spending away from

digital promotions could slow our revenue growth or reduce our revenues. We believe that our continued revenue growth will depend on increasing the number of transactions on our platform, and, in particular, on our ability to:

- increase our share of CPG spending on overall trade promotions, increase the number of brands that are using our platform within each CPG, increase media 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;
- further integrate our digital promotions into retailers' in-store and point of sale systems;

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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;
expand the use by consumers of our newest digital promotion offerings and broaden the selection and use of digital coupons;
obtain high quality coupons and increase the number of CPG-authorized activations;
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;
increase the awareness of our brand 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 implement 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 continued growth of our revenues will require increasing the number of brands that are using our platform within each CPG and further integrating our digital promotions into retailers' in-store and point of sale systems. 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. 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.

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.

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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 continue to grow our revenues by increasing our share of CPG spending and the number of brands using our platform within each CPG, increasing media 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 core current customer 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 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 by CPGs, which are affected by budget cycles, economic conditions and other factors;
- the impact of global business or macroeconomic conditions, including the resulting effects on the level of 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 high quality coupons and increase the number of CPG-authorized activations;
- 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 in and 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;
- the success of our sales and marketing efforts;
- 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 U.S. generally accepted accounting principles or tax laws.

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 trade promotions, increase media 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, and maximize the lifetime value of our consumers across all of our products. It also depends on our ability to further integrate our digital promotions into retailers' in-store and point of sale systems. 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. If CPGs and retailers do not find that offering digital promotions 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 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 demand minimum guaranteed payments. 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

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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. 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 with compelling terms through our platform, we may not increase the number of transactions 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 increases, our gross profit and business will be harmed.

When we deliver a digital coupon on a retailer’s website or through its loyalty reward program, or the website of a publisher, we generally pay a distribution fee to the retailer or publisher. 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.

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, we may not be able to attract or retain consumers on our platform. If we are unable to maintain and expand the use by consumers of digital coupons on our platform 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 retailers may find that using our platform does not increase sales of the promoted products and consumer loyalty to the retailer to the extent they expect, the revenues we generate may not increase to the extent we expect or may decrease. Either of these would adversely affect our operating results.

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.

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 highly 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 Interactive, Inc., News America Marketing Interactive, Inc. and Catalina Marketing Corporation;
- providers of digital coupons such as Valassis' Redplum.com and News America Marketing's SmartSource, companies that offer coupon codes such as RetailMeNot, Inc., Exponential Interactive, Inc.'s TechBargains.com, Savings.com, Inc. and Ebates Performance Marketing, Inc., 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; and
- companies offering other advertising and promotion related services.

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;
- 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 digital coupons that are widely available and easy to use in consumers' preferred form;
- integration with retailer applications;
- 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 potential 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 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 industry platforms which they 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 potential competition from smaller companies that launch 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, 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

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competitors and retailers may elect to handle coupon codes themselves or exclude us from integrating with their in-store and point of sale systems, and our operating results would be adversely affected.

We also face significant competition for trade promotion 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 spending. In order to grow our revenues and improve our operating results, we must increase our share of CPG spending on digital coupons and advertising relative to traditional sources and relative to our competitors, many of whom are larger companies that offer more traditional and widely accepted advertising 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. 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 first half of 2012 because as we scaled our technology infrastructure to support our growth, our technology for securely identifying unique users and devices inadvertently prevented our personalization algorithms from optimally displaying our digital coupons to consumers. Failure to manage our expansion may limit our growth, damage our reputation and negatively affect our financial performance and harm our business.

To effect