CHANNELADVISOR CORP
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-35940

CHANNELADVISOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	56-2257867
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
3025 Carrington Mill Boulevard, Morrisville, NC	27560
(Address of principal executive offices)	(Zip Code)

(919) 228-4700
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

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

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

Exchange Act. x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, as of the close of business on July 20, 2017 was 26,431,333.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CHANNELADVISOR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$57,879	$65,420
Accounts receivable, net of allowance of $362 and $594 as of June 30, 2017 and December 31, 2016, respectively	21,779	19,445
Prepaid expenses and other current assets	9,752	10,972
Total current assets	89,410	95,837
Property and equipment, net	11,782	13,252
Goodwill	23,486	21,632
Intangible assets, net	2,821	2,660
Long-term deferred tax assets, net	5,423	5,244
Other assets	694	533
Total assets	$133,616	$139,158
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,598	$4,709
Accrued expenses	11,315	11,067
Deferred revenue	25,974	23,474
Other current liabilities	5,564	4,450
Total current liabilities	45,451	43,700
Long-term capital leases, net of current portion	1,047	1,262
Lease incentive obligation	3,767	4,206
Other long-term liabilities	3,723	2,993
Total liabilities	53,988	52,161
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 26,430,495 and 25,955,759 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	26	26
Additional paid-in capital	256,295	252,158
Accumulated other comprehensive loss	(1,077)	(1,612)
Accumulated deficit	(175,616)	(163,575)
Total stockholders' equity	79,628	86,997
Total liabilities and stockholders' equity	$133,616	$139,158

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$30,004	$27,098	$58,333	$53,445
Cost of revenue	6,520	6,863	13,362	13,776
Gross profit	23,484	20,235	44,971	39,669
Operating expenses:				
Sales and marketing	15,627	15,743	31,666	29,240
Research and development	5,147	4,410	10,118	8,565
General and administrative	6,678	6,822	15,208	13,243
Total operating expenses	27,452	26,975	56,992	51,048
Loss from operations	(3,968)	(6,740)	(12,021)	(11,379)
Other income (expense):				
Interest income (expense), net	54	(1)	82	(22)
Other income (expense), net	13	(8)	70	47
Total other income (expense)	67	(9)	152	25
Loss before income taxes	(3,901)	(6,749)	(11,869)	(11,354)
Income tax expense (benefit)	84	(22)	172	(64)
Net loss	$(3,985)	$(6,727)	$(12,041)	$(11,290)
Net loss per share:				
Basic and diluted	$(0.15)	$(0.26)	$(0.46)	$(0.44)
Weighted average common shares outstanding:				
Basic and diluted	26,380,031	25,520,847	26,219,348	25,406,626

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(3,985)	$(6,727)	$(12,041)	$(11,290)
Other comprehensive gain (loss):				
Foreign currency translation adjustments	325	(237)	535	(102)
Total comprehensive loss	$(3,660)	$(6,964)	$(11,506)	$(11,392)

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	$(12,041)	$(11,290)
Adjustments to reconcile net loss to cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	3,436	4,055
Bad debt expense	113	395
Stock-based compensation expense	6,292	7,342
Other items, net	(279)	(530)
Changes in assets and liabilities, net of effects from acquisition:		
Accounts receivable	(2,157)	(5)
Prepaid expenses and other assets	1,193	2,232
Accounts payable and accrued expenses	276	(358)
Deferred revenue	3,070	4,321
Cash and cash equivalents (used in) provided by operating activities	(97)	6,162
Cash flows from investing activities		
Purchases of property and equipment	(543)	(732)
Payment of internal-use software development costs	(159)	(151)
Acquisition, net of cash acquired	(2,177)	—
Cash and cash equivalents used in investing activities	(2,879)	(883)
Cash flows from financing activities		
Repayment of capital leases	(2,439)	(1,463)
Proceeds from exercise of stock options	339	417
Payment of contingent consideration	—	(236)
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(2,494)	(1,904)
Cash and cash equivalents used in financing activities	(4,594)	(3,186)
Effect of currency exchange rate changes on cash and cash equivalents	29	(197)
Net (decrease) increase in cash and cash equivalents	(7,541)	1,896
Cash and cash equivalents, beginning of period	65,420	60,474
Cash and cash equivalents, end of period	$57,879	$62,370
Supplemental disclosure of cash flow information		
Cash paid for interest	$93	$88
Cash paid for income taxes, net	$144	$90
Supplemental disclosure of noncash investing and financing activities		
Accrued capital expenditures	$557	$192
Capital lease obligations entered into for the purchase of fixed assets	$567	$—

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

ChannelAdvisor Corporation ("ChannelAdvisor" or the "Company") was incorporated in the state of Delaware and capitalized in June 2001. The Company began operations in July 2001. ChannelAdvisor is a provider of software-as-a-service, or SaaS, solutions and our mission is to connect and optimize the world's commerce. ChannelAdvisor's e-commerce cloud platform helps retailers and branded manufacturers worldwide improve their online performance by expanding sales channels, connecting with consumers around the world, optimizing their operations for peak performance and providing actionable analytics to improve competitiveness. The Company is headquartered in Morrisville, North Carolina and has international offices in England, Ireland, Germany, Australia, Brazil, China and Spain.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Interim Condensed Consolidated Financial Information

The accompanying condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") for interim financial information. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of financial position, the results of operations, comprehensive loss and cash flows. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited interim financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended December 31, 2016 ("fiscal 2016"), which are included in the Company’s Annual Report on Form 10-K for fiscal 2016. There have been no material changes to the Company’s significant accounting policies from those described in the footnotes to the audited financial statements contained in the Company’s Annual Report on Form 10-K for fiscal 2016.

Recent Accounting Pronouncements

Standard	Description	Effect on the Financial Statements or Other Significant Matters
Standards that the Company has not yet adopted		
Revenue Recognition:		

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Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) The Company's adoption date: January 1, 2018	The standard will replace existing revenue recognition standards and provides that an entity should recognize revenue 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. ASU 2014-09 also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard.	The Company formed a project team to evaluate and direct the implementation of the new revenue recognition standard and related amendments. The project team developed an implementation plan centered around specific functional areas that may be impacted by the standard and its amendments, including accounting and reporting, information technology ("IT"), internal audit and contracts and legal, among others. This team has recently completed certain IT updates to the Company's accounting system to support recognition and disclosure under the new standard, and is continuing to make additional updates to facilitate the standard's adoption. The project team completed an initial contract assessment on a sample of contracts and analyzed the Company's contract portfolio and associated contract costs. The team is finalizing the Company's accounting positions under ASU 2014-09, as amended, including the significant judgments and estimates required, and is assessing the potential changes to internal controls. The project team has reported the findings and progress of the implementation plan to management and to the Audit Committee on a frequent basis over the last two years and will continue to do so as the effective date of the new standard approaches. The Company anticipates that the adoption of the new standard will impact the timing of revenue recognition of fixed fees for its contracts, as well as the accounting for costs to obtain contracts. For managed-service contracts, the Company currently defers revenue until the completion of the implementation services, at which point the Company recognizes a cumulative catch-up adjustment equal to the revenue earned during the implementation period but previously deferred. The remaining balance of these fixed fees is recognized ratably over the remaining term of the contract. Under the new standard, the Company expects revenue recognition for the managed-service subscription and implementation fees to begin on the launch date and to be recognized over time through the contract end date, with no cumulative catch-up adjustment on the launch date. Further, the Company currently expenses sales commissions and related bonuses as incurred. Under the new standard, the Company will be required to defer and amortize a portion of these contract costs. The Company intends to adopt the new standard using the modified retrospective transition method effective January 1, 2018. The Company continues to evaluate the provisions of the new standard to identify further potential impacts to its consolidated financial statements.
ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net) The Company's adoption date: January 1, 2018	The standard clarifies implementation guidance on principal versus agent considerations in ASU 2014-09.	
ASU 2016-10, Identifying Performance Obligations and Licensing The Company's adoption date: January 1, 2018	The standard clarifies implementation guidance on the identification of performance obligations and the licensing implementation guidance in ASU 2014-09.	
ASU 2016-12, Narrow-Scope Improvements and Practical Expedients The Company's adoption date:	The standard clarifies the guidance on assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition.	

January 1, 2018		
ASU 2016-20, Technical Corrections and Improvements to Topic 606 The Company's adoption date: January 1, 2018	The standard clarifies certain narrow aspects of ASU 2014-09.	
Leases:		
ASU 2016-02, Leases (Topic 842) The Company's adoption date: January 1, 2019	The standard requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. The standard also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases.	The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.
Financial Instruments:		

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ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) The Company's adoption date: January 1, 2020	The standard replaces the incurred loss impairment methodology in current U.S. GAAP (defined below) with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses.	The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.
Cash Flow:		
ASU 2016-18, Restricted Cash The Company's adoption date: January 1, 2018	The standard requires that entities show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. Transfers between cash, cash equivalents and restricted cash should not be presented as cash flow activities on the statement of cash flows.	The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.
Standards that the Company has recently adopted		
Stock-Based Compensation:		
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) The Company's adoption date: January 1, 2017	The standard is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.	The Company adopted this standard effective January 1, 2017. As a result of this adoption, the Company recognized $8.2 million of deferred tax assets attributable to accumulated excess tax benefits that under the previous guidance could not be recognized until the benefits were realized through a reduction in income taxes payable. This adjustment was applied using a modified retrospective method with a cumulative-effect adjustment to the accumulated deficit for the excess tax benefits not previously recognized. However, given the full valuation allowance of $8.2 million placed on the additional deferred tax assets, the recognition upon adoption had no impact on the Company's accumulated deficit as of January 1, 2017. Further, the Company has elected to continue to estimate forfeitures to determine the amount of compensation cost to be recognized in each period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the accounts receivable allowance, the useful lives of long-lived assets and other intangible assets, income taxes and assumptions used for purposes of determining stock-based compensation, among others. Estimates and assumptions are also required to value assets acquired and liabilities assumed as well as contingent consideration, where applicable, in conjunction with business combinations. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying value of assets and liabilities.

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3. STOCKHOLDERS' EQUITY

The following table summarizes the stockholders' equity activity for the six months ended June 30, 2017 (in thousands):

Balance as of December 31, 2016	$86,997
Exercise of stock options and vesting of restricted stock units	339
Stock-based compensation expense	6,292
Statutory tax withholding related to net-share settlement of restricted stock units	(2,494)
Net loss	(12,041)
Foreign currency translation adjustments	535
Balance as of June 30, 2017	$79,628

4. BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS

Business Combinations

On May 26, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which the Company acquired all of the issued and outstanding shares of HubLogix Commerce Corp. ("HubLogix") (now ChannelAdvisor Fulfillment, Inc.), a fulfillment and logistics platform that automates order management by connecting online storefronts and marketplaces to distribution and fulfillment centers. The Company acquired HubLogix to further enhance its fulfillment network offering and capabilities.

Under the Merger Agreement, the Company paid an aggregate purchase price of $2.3 million for HubLogix, all of which was paid in cash, which amount is subject to adjustment as set forth in the Merger Agreement. The purchase price includes $0.4 million that has been placed into escrow to secure the indemnification obligations of HubLogix stockholders until November 26, 2018.

The acquisition has been accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"). Under the acquisition method of accounting, the Company allocated the purchase price to the identifiable assets acquired and liabilities assumed based on their estimated acquisition-date fair value. The difference between the acquisition-date fair value of the consideration and the estimated fair value of the net assets acquired is recorded as goodwill. Goodwill represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including acquired workforce, as well as expected future synergies.

Based on management’s provisional assessment of the acquisition-date fair value of the assets acquired and liabilities assumed, the purchase price of $2.3 million has been allocated to the Company’s assets and liabilities on a preliminary basis as follows: $1.9 million to goodwill, $0.5 million to identifiable intangible assets and $0.1 million to working capital as a net current liability. The purchase price allocation in conjunction with the acquisition of HubLogix is subject to change as additional information becomes available. Any adjustments will be made as soon as practicable, but not later than one year from the acquisition date.

The goodwill of $1.9 million arising from the acquisition of HubLogix consists largely of the acquired workforce, the expected company-specific synergies and the opportunity to expand the Company’s product offerings to customers. The goodwill recognized is not deductible for income tax purposes.

The Company incurred transaction costs in connection with the acquisition of $0.3 million, which are included in general and administrative expense in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2017.

Comparative pro forma financial information for this acquisition has not been presented because the acquisition is not material to the Company’s consolidated results of operations.

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Goodwill and Intangible Assets

The following table shows the changes in the carrying amount of goodwill for the six months ended June 30, 2017 (in thousands):

Balance as of December 31, 2016	$21,632
Goodwill attributable to the HubLogix acquisition	1,854
Balance as of June 30, 2017	$23,486

There were no changes to the Company's goodwill during the year ended December 31, 2016.

The Company acquired intangible assets in connection with its business acquisitions. These assets were recorded at their estimated fair values at the acquisition date and are being amortized over their respective estimated useful lives using the straight-line method. The estimated useful lives and amortization methodology used in computing amortization are as follows:

	Estimated Useful Life	Amortization Methodology
Customer relationships	7 years	Straight-line
Acquired technology	7 years	Straight-line
Trade names	3 years	Straight-line

Amortization expense associated with the Company's intangible assets was $0.2 million and $0.1 million for the three months ended June 30, 2017 and 2016, respectively, and was $0.3 million for each of the six months ended June 30, 2017 and 2016.

5. COMMITMENTS

Sales Tax

During the first quarter of 2017, the Company completed its analysis with regard to potential unpaid sales tax obligations. Based on the results of this analysis, the Company has made the decision to enter into voluntary disclosure agreements ("VDAs") with certain jurisdictions to reduce the Company’s potential sales tax liability. VDAs generally provide for a maximum look-back period, a waiver of penalties and, at times, interest as well as payment arrangements. The Company's estimated aggregate VDA liability is $2.5 million, which was recorded as a one-time charge in general and administrative expense in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2017. This amount represents the Company's estimate of its potential unpaid sales tax liability through the anticipated look-back periods including interest, where applicable, in all jurisdictions in which the Company intends to enter into VDAs. If any of the tax authorities reject the Company's VDA applications or offer terms that are other than what the Company is anticipating, or if the VDAs do not resolve all potential unpaid sales tax obligations, then it is possible that the actual aggregate unpaid sales tax liability may be higher or lower than the Company's estimate. The Company expects to have the VDA process complete within the next nine months following the date of filing this Quarterly Report on Form 10-Q.

6. STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche. Stock-based compensation expense is included in the following line items in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$197	$342	$494	$611
Sales and marketing	1,214	1,369	1,990	2,490
Research and development	503	546	1,071	989
General and administrative	1,454	1,660	2,737	3,252
	$3,368	$3,917	$6,292	$7,342

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During the six months ended June 30, 2017, the Company granted the following share-based awards:

	Number of Shares Underlying Grant	Weighted Average Grant Date Fair Value
Stock options	597,034	$ 4.21
Restricted stock units ("RSUs")	1,278,347	10.45
Total share-based awards	1,875,381	8.46

7. NET LOSS PER SHARE

Diluted net loss per share is the same as basic net loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss. The following securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the three and six months ended June 30, 2017 and 2016:

	Three and Six Months Ended June 30,	
	2017	2016
Stock options	2,196,719	1,814,252
RSUs	2,616,117	2,496,454

8. INCOME TAXES

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used to determine the income tax provision or benefit on a year-to-date basis and may change in subsequent interim periods.

The Company's effective tax rate was (2.2)% and 0.3% for the three months ended June 30, 2017 and 2016, respectively, and (1.4)% and 0.6% for the six months ended June 30, 2017 and 2016, respectively. The tax (expense) benefit for each of the periods was based on state, local and foreign taxes. The Company's effective tax rate for these periods is lower than the U.S. federal statutory rate of 34% primarily due to operating losses which are subject to a valuation allowance. The Company cannot recognize the tax benefit of operating loss carryforwards generated in certain jurisdictions due to uncertainties relating to future taxable income in those jurisdictions in terms of both its timing and its sufficiency, which would enable the Company to realize the benefits of those carryforwards. The Company began recognizing tax expense during the 2017 interim periods compared to having recognized tax benefits during the 2016 interim periods. This was in part a result of releasing valuation allowances in certain foreign jurisdictions during the fourth quarter of 2016. In addition, during the interim periods in 2017, the Company no longer had sufficient deferred tax liabilities in one of its foreign subsidiaries necessary to realize the tax benefit of all of its deferred tax assets for that same foreign subsidiary. The Company recorded a valuation allowance against the deferred tax assets of that foreign subsidiary, net of deferred tax liabilities. As a result, the Company is not currently permitted to recognize the tax benefit of that subsidiary's losses.

9. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") for purposes of allocating resources and evaluating financial performance. The Company's CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company's operations constitute a single operating segment and one reportable segment.

Substantially all assets were held in the United States during the six months ended June 30, 2017 and 2016. The table below summarizes revenue by geography for the three and six months ended June 30, 2017 and 2016 (in thousands). The Company categorizes domestic and international revenue from customers based on their billing address.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Domestic	$23,691	$21,049	$46,198	$41,473
International	6,313	6,049	12,135	11,972
Total revenue	$30,004	$27,098	$58,333	$53,445

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions, or the negative of such words or phrases, are intended to identify "forward-looking statements." We have based these forward-looking statements on our current expectations and projections about future events. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include those below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II – Item 1A, "Risk Factors," and our other filings with the Securities and Exchange Commission. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim, any obligation to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes for the year ended December 31, 2016, which are included in our Annual Report on Form 10-K for fiscal 2016.

We are a leading provider of software-as-a-service, or SaaS, solutions and our mission is to connect and optimize the world's commerce. Our e-commerce cloud platform helps retailers and branded manufacturers worldwide improve their online performance by expanding sales channels, connecting with consumers around the world, optimizing their operations for peak performance and providing actionable analytics to improve competitiveness. Our customers include the online businesses of traditional retailers, online retailers and branded manufacturers (manufacturers that market the products they produce under their own name), as well as advertising agencies that use our solutions on behalf of their clients. Through our platform, we enable our customers to connect with new and existing sources of demand for their products, including e-commerce marketplaces, such as Amazon, eBay, Jet.com, Newegg, Sears and Walmart, search engines and comparison shopping websites, such as Google, Microsoft's Bing and Nextag, and social channels, such as Facebook, Instagram and Pinterest. Our suite of solutions, accessed through a standard web browser, provides our customers with a single, integrated user interface to manage their product listings, inventory availability, pricing optimization, search terms, orders and fulfillment, as well as data analytics and other critical functions across these channels. We also offer solutions that allow branded manufacturers to send their web visitors or digital marketing audiences directly to authorized resellers and to gain insight into consumer behavior. Our proprietary cloud-based technology platform delivers significant breadth, scalability and flexibility.

EXECUTIVE OVERVIEW

FINANCIAL RESULTS

- Total revenue of $30.0 million and $58.3 million for the three and six months ended June 30, 2017 increased 10.7% and 9.1%, respectively, from the comparable prior year periods;
- Average revenue per customer of $41,029 for the twelve months ended June 30, 2017 increased 10.9% compared with $37,000 for the twelve months ended June 30, 2016;
- Revenue was comprised of 75.3% and 24.7% fixed and variable subscription fees, respectively, for the three months ended June 30, 2017 compared with fixed and variable subscription fees of 77.3% and 22.7%, respectively, for the three months ended June 30, 2016. Revenue was comprised of 76.6% and 23.4% fixed and variable subscription fees, respectively, for the six months ended June 30, 2017, compared with fixed and variable subscription fees of 77.1% and 22.9%, respectively, for the six months ended June 30, 2016;

- Revenue derived from customers located outside of the United States as a percentage of total revenue was 21.0% and 20.8% for the three and six months ended June 30, 2017, respectively, compared to 22.3% and 22.4% for the comparable prior periods;

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- Gross margin of 78.3% and 77.1% for the three and six months ended June 30, 2017, respectively, improved by 360 basis points and 290 basis points, respectively, from the comparable prior year periods;
- Operating margin of (13.2)% and (20.6)% for the three and six months ended June 30, 2017, respectively, improved compared to operating margin of (24.9)% and (21.3)% for the comparable prior year periods;
- Net loss of $(4.0) million for the three months ended June 30, 2017 decreased compared to net loss of $(6.7) million for the comparable prior year period, and net loss of $(12.0) million for the six months ended June 30, 2017 increased compared to net loss of $(11.3) million for the comparable prior year period;
- Adjusted EBITDA of $1.1 million and $0.3 million for the three and six months ended June 30, 2017, respectively, increased compared to adjusted EBITDA of $(0.9) million and $0.1 million for the comparable prior year periods;
- Cash and cash equivalents was $57.9 million at June 30, 2017 compared with $65.4 million at December 31, 2016; and
- Operating cash flow was $(0.1) million for the six months ended June 30, 2017 compared to $6.2 million for the six months ended June 30, 2016.

TRENDS IN OUR BUSINESS

The following trends have contributed to the results of our consolidated operations, and we anticipate that they will continue to impact our future results:

- Growth in Online Shopping. Consumers continue to move more of their retail spending from offline to online retail. The continuing shift to online shopping and overall growth has contributed to our historical growth and we expect that this online shift will continue to benefit our business.
- Product Offering Expansion. As online shopping evolves, we continue to expand our product offerings to reflect the needs of companies seeking to attract consumers. This expansion may result in additional research and development investment.
- Growth in Mobile Usage. We believe the shift toward mobile commerce will increasingly favor aggregators such as Amazon, eBay and Google Shopping, all of which are focal points of our platform. These aggregators understand the identity of the buyer, helping to reduce friction in the mobile commerce process, while offering a wide selection of merchandise in a single location. The growth in mobile commerce may result in increased revenue for us.
- Shift to Larger Customers. We believe that the growth in online shopping increasingly favors larger enterprises. This move impacts our business both in longer sales cycles as well as increased average revenue per customer.
- Evolving Fulfillment Landscape. Consumers have been conditioned to expect fast, efficient delivery of products. We believe that determining and executing on a fulfillment strategy is critical to success for online sellers. Therefore, it will be increasingly important for us to facilitate and optimize fulfillment services on behalf of our customers, which in turn may result in additional research and development investment. We believe our acquisition of HubLogix will further enhance the Company's fulfillment offering and strategy.
- Focus on Employees. None of our success would be possible without our team. We strive to provide our employees competitive compensation and benefits programs to help drive the success of our customers. We increased headcount by 9.0% from June 30, 2016 to June 30, 2017 to help drive revenue growth and support our overall operations.
- Shifts in Foreign Currency. Our operations in the United Kingdom were impacted by the 11.4% decline in the average exchange rate of the British Pound Sterling against the U.S. Dollar for the six months ended June 30, 2017 as compared to the comparable prior year period. The decline of the British Pound Sterling against the U.S. Dollar resulted in a $0.5 million decrease in revenue for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and a $1.0 million decrease in revenue for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.
- Seasonality. Our revenue fluctuates as a result of seasonal variations in our business, principally due to the peak consumer demand and related increased volume of our customers' gross merchandise value, or GMV, during the year-end holiday season. As a result, we have historically had higher revenue in our fourth quarter than other quarters due to increased GMV processed through our platform, resulting in higher variable subscription fees.

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OPPORTUNITIES AND RISKS

- Dynamic E-commerce Landscape. We will need to continue to innovate in the face of a rapidly changing e-commerce landscape if we are to remain competitive, and we will need to effectively manage our growth, especially related to our international expansion.
- Retailers and Branded Manufacturers. As consumer preferences potentially shift away from smaller retailers, we need to continue to add large retailers and branded manufacturers as profitable customers. These larger customers generally pay a lower percentage of GMV as fees to us based on the relatively higher volume of their GMV processed through our platform. To help drive our future growth, we have made significant investments in our sales force and allocated resources focused on growing our customer base of large retailers and branded manufacturers. We continue to focus our efforts on increasing value for our customers to support higher rates.
- Increasing Complexity and Fragmentation of E-commerce. Although e-commerce continues to expand as retailers and branded manufacturers continue to increase their online sales, it is also becoming more complex and fragmented due to the hundreds of channels available to retailers and branded manufacturers and the rapid pace of change and innovation across those channels. In order to gain consumers' attention in a more crowded and competitive online marketplace, many retailers and an increasing number of branded manufacturers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In particular, third-party marketplaces are an increasingly important driver of growth for a number of large online retailers and branded manufacturers, and as a result we need to continue to support multiple channels in a variety of geographies in order to support our targeted revenue growth. As of June 30, 2017, we supported over 70 marketplaces.
- Global Growth in E-commerce. We believe the growth in e-commerce globally presents an opportunity for retailers and branded manufacturers to engage in international sales. However, country-specific marketplaces are often the market share leaders in their regions, as is the case for Alibaba in Asia. In order to help our customers capitalize on this potential market opportunity, and to address our customers' needs with respect to cross-border trade, we intend to continue to invest in our international operations, specifically in the Asia Pacific region. Doing business overseas involves substantial challenges, including management attention and resources needed to adapt to multiple languages, cultures, laws and commercial infrastructure, as further described in this report under the caption "Risks Related to our International Operations."

Our senior management continuously focuses on these and other trends and challenges, and we believe that our culture of innovation and our history of growth and expansion will contribute to the success of our business. We cannot, however, assure you that we will be successful in addressing and managing the many challenges and risks that we face.

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KEY FINANCIAL AND OPERATING METRICS

The average revenue generated by our customers is a primary determinant of our revenue. We calculate this metric by dividing our revenue for a particular period by the average monthly number of customers during the period, which is calculated by taking the sum of the number of customers at the end of each month in the period and dividing by the number of months in the period. We typically calculate average revenue per customer in absolute dollars on a trailing twelve-month, or TTM, basis, but we may also calculate percentage changes in average revenue per customer on a quarterly basis in order to help us evaluate our period-over-period performance. For purposes of this metric and the number of customers metric described below, we include all customers who subscribe to at least one of our solutions, excluding customers acquired from our acquisition of HubLogix and customers subscribing only to certain legacy product offerings that are no longer part of our strategic focus.

The number of customers increased slightly during the second quarter of 2017 compared to the second quarter of 2016. The graphical presentation above does not include approximately 50 net new customers acquired from our acquisition of HubLogix during the second quarter of 2017. We continue our focus on obtaining large retailer and branded manufacturer customers, which may represent a smaller number of customers, but a potentially larger source of predictable or sustaining recurring revenue.

Adjusted EBITDA represents our earnings before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted to eliminate stock-based compensation expense and, for the six months ended June 30, 2017, a $2.5 million one-time charge in connection with our decision to enter into VDAs with certain jurisdictions. Refer to Note 5 to our unaudited condensed consolidated financial statements included elsewhere in this report for additional information regarding this one-time charge. We believe that adjusted EBITDA provides useful information to management and others in understanding and evaluating our operating results. However, adjusted EBITDA is not a measure calculated in accordance with U.S. GAAP and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with U.S. GAAP. In addition, adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate adjusted EBITDA in the same manner that we do. Please refer to "—Adjusted EBITDA" below for a discussion of the limitations of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most comparable U.S. GAAP measurement.

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Adjusted EBITDA

Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect interest or tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider adjusted EBITDA together with U.S. GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other U.S. GAAP results. The following table presents a reconciliation of net loss to adjusted EBITDA for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$(3,985)	$(6,727)	$(12,041)	$(11,290)
Adjustments:				
Interest (income) expense, net	(54)	1	(82)	22
Income tax expense (benefit)	84	(22)	172	(64)
Depreciation and amortization expense	1,703	1,960	3,436	4,055
Total adjustments	1,733	1,939	3,526	4,013
EBITDA	(2,252)	(4,788)	(8,515)	(7,277)
Stock-based compensation expense	3,368	3,917	6,292	7,342
One-time charge for VDAs related to sales taxes	—	—	2,539	—
Adjusted EBITDA	$1,116	$(871)	$316	$65

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RESULTS OF OPERATIONS

The following tables set forth our condensed consolidated statement of operations data and such data expressed as a percentage of revenues for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,		Period-to-Period Change			
	2017	2016	2017	2016	Q2 2017 to Q2 2016		YTD 2017 to YTD 2016	
(dollars in thousands)								
Revenue	$30,004	$27,098	$58,333	$53,445	$2,906	10.7 %	$4,888	9.1 %
Cost of revenue	6,520	6,863	13,362	13,776	(343)	(5.0)	(414)	(3.0)
Gross profit	23,484	20,235	44,971	39,669	3,249	16.1	5,302	13.4
Operating expenses:							—	
Sales and marketing	15,627	15,743	31,666	29,240	(116)	(0.7)	2,426	8.3
Research and development	5,147	4,410	10,118	8,565	737	16.7	1,553	18.1
General and administrative	6,678	6,822	15,208	13,243	(144)	(2.1)	1,965	14.8
Total operating expenses	27,452	26,975	56,992	51,048	477	1.8	5,944	11.6
Loss from operations	(3,968)	(6,740)	(12,021)	(11,379)	2,772	(41.1)	(642)	5.6
Other income (expense):								
Interest income (expense), net	54	(1)	82	(22)	55	*	104	*
Other income (expense), net	13	(8)	70	47	21	*	23	*
Total other income (expense)	67	(9)	152	25	76	*	127	*
Loss before income taxes	(3,901)	(6,749)	(11,869)	(11,354)	2,848	(42.2)	(515)	4.5
Income tax expense (benefit)	84	(22)	172	(64)	106	*	236	*
Net loss	$(3,985)	$(6,727)	$(12,041)	$(11,290)	$2,742	(40.8)	$(751)	6.7

* Not meaningful.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(as a percentage of revenue)		(as a percentage of revenue)	
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue	21.7	25.3	22.9	25.8
Gross profit	78.3	74.7	77.1	74.2
Operating expenses:				
Sales and marketing	52.1	58.1	54.3	54.7
Research and development	17.2	16.3	17.3	16.0
General and administrative	22.3	25.2	26.1	24.8
Total operating expenses	91.5	99.6	97.7	95.5
Loss from operations	(13.2)	(24.9)	(20.6)	(21.3)
Other income (expense):				
Interest income (expense), net	0.2	0.0	0.1	0.0
Other income (expense), net	0.0	0.0	0.1	0.1
Total other income (expense)	0.2	0.0	0.3	0.1
Loss before income taxes	(13.0)	(24.9)	(20.3)	(21.2)
Income tax expense (benefit)	0.3	(0.1)	0.3	(0.1)
Net loss	(13.3)%	(24.8)%	(20.6)%	(21.1)%

Depreciation and Amortization

Depreciation and amortization expense is included in the following line items in the accompanying unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$1,066	$1,145	$2,125	$2,388
Sales and marketing	256	280	529	587
Research and development	111	112	222	234
General and administrative	270	423	560	846
Total depreciation and amortization expense	$1,703	$1,960	$3,436	$4,055

REVENUE

We derive the majority of our revenue from subscription fees paid to us by our customers for access to and usage of our SaaS solutions for a specified contract term, which is usually one year. A portion of the subscription fee is typically fixed and based on a specified minimum amount of GMV or advertising spend that a customer expects to process through our platform. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV or advertising spend processed through our platform in excess of the customer's specified minimum GMV or advertising spend amount. In most cases, the specified percentage of excess GMV or advertising spend on which the variable portion of the subscription is based is fixed and does not vary depending on the amount of the excess. We also receive implementation fees, which may include fees for providing launch assistance and training.

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Because our customer contracts generally contain both fixed and variable pricing components, changes in GMV between periods do not translate directly or linearly into changes in our revenue. We use customized pricing structures for each of our customers depending upon the individual situation of the customer. For example, some customers may commit to a higher specified minimum GMV amount per month in exchange for a lower fixed percentage fee on that committed GMV. In addition, the percentage fee assessed on the variable GMV in excess of the committed minimum for each customer is typically higher than the fee on the fixed, committed portion. As a result, our overall revenue could increase or decrease even without any change in overall GMV between periods, depending on which customers generated the GMV. In addition, changes in GMV from month to month for any individual customer that are below the specified minimum amount would have no effect on our revenue from that customer, and each customer may alternate between being over the committed amount or under it from month to month. For these reasons, while GMV is an important qualitative and long-term directional indicator, we do not regard it as a useful quantitative measurement of our historic revenues or as a predictor of future revenues.

We recognize revenue derived from fixed subscription fees and implementation fees ratably over the contract period once four conditions have been satisfied:

- The contract has been signed by both parties;
- The customer has access to our platform and transactions can be processed;
- The fees are fixed or determinable; and
- Collection is reasonably assured.

We generally invoice our customers for the fixed portion of the subscription fee in advance, in monthly, quarterly, semi-annual or annual installments. We invoice our customers for the implementation fee at the inception of the arrangement. Fixed subscription and implementation fees that have been invoiced are initially recorded as deferred revenue and are generally recognized ratably over the contract term.

We invoice and recognize revenue from the variable portion of subscription fees in the period in which the related GMV or advertising spend is processed, assuming that the four conditions specified above have been met.

Comparison of Q2 2017 to Q2 2016

Revenue increased by 10.7%, or $2.9 million, to $30.0 million for the three months ended June 30, 2017 due to an increase in the average revenue per customer as well as an increase in the number of customers.

On a trailing three-month basis, average revenue per customer increased 10.4%, to $10,415 for the three months ended June 30, 2017 as compared to $9,435 for the three months ended June 30, 2016. The increase in the average revenue per customer was primarily driven by the growth of our marketplaces solution. This growth was largely attributable to an overall increase in transaction volume and, to a lesser extent, to modest overall increases in the percentage fees assessed on the fixed and variable portions of GMV under our contractual arrangements with some of our customers during the period. Because we generally enter into annual contracts with our customers, we may renegotiate either or both of the fixed and variable components of the pricing structure of a customer’s contract each year. In addition, the increase in average revenue per customer was due in part to our established customers who have increased their revenue over time on our platform. In general, as customers mature they generate a higher amount of GMV from which we derive revenue and in some cases they may subscribe to additional modules on our platform, thereby increasing our subscription revenue.

Comparison of YTD 2017 to YTD 2016

Revenue increased by 9.1%, or $4.9 million, to $58.3 million for the six months ended June 30, 2017 due to an increase in the average revenue per customer as well as an increase in the number of customers.

On a trailing six-month basis, average revenue per customer increased 9.1%, to $20,238 for the six months ended June 30, 2017 as compared to $18,549 for the six months ended June 30, 2016.

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COST OF REVENUE

Cost of revenue primarily consists of:

- Salaries and personnel-related costs for employees providing services to our customers and supporting our platform infrastructure, including benefits, bonuses and stock-based compensation;
- Co-location facility costs for our data centers;
- Infrastructure maintenance costs; and
- Fees we pay to credit card vendors in connection with our customers' payments to us.

Comparison of Q2 2017 to Q2 2016

Cost of revenue decreased by 5.0%, or $0.3 million, to $6.5 million for the three months ended June 30, 2017, with the change being comprised primarily of a decrease in compensation and employee-related costs, including stock-based compensation expense.

Comparison of YTD 2017 to YTD 2016

Cost of revenue decreased by 3.0%, or $0.4 million, to $13.4 million for the six months ended June 30, 2017, with the change being comprised primarily of a decrease in compensation and employee-related costs, including stock-based compensation expense.

OPERATING EXPENSES

SALES AND MARKETING EXPENSE

Sales and marketing expense consists primarily of:

- Salaries and personnel-related costs for our sales and marketing and customer support employees, including benefits, bonuses, stock-based compensation and commissions;
- Marketing, advertising and promotional event programs; and
- Corporate communications.

Comparison of Q2 2017 to Q2 2016

Sales and marketing expense decreased by 0.7%, or $0.1 million, to $15.6 million for the three months ended June 30, 2017, with the change being comprised of a $0.6 million decrease in our marketing and advertising expenses, promotional event programs and travel, mainly due to costs associated with our annual Catalyst event and the timing of the event. Our Catalyst event was held during the first quarter in 2017 compared to the second quarter in 2016. This decrease was partially offset by

a $0.6 million increase in compensation and employee-related costs, mainly due to additional headcount to drive revenue growth.

Comparison of YTD 2017 to YTD 2016

Sales and marketing expense increased by 8.3%, or $2.4 million, to $31.7 million for the six months ended June 30, 2017, with the change being comprised of increases of:

- $1.5 million in compensation and employee-related costs, mainly due to additional headcount; and
- $0.9 million in marketing and advertising expenses, promotional event programs and travel costs.

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RESEARCH AND DEVELOPMENT EXPENSE

Research and development expense consists primarily of:

- Salaries and personnel-related costs for our research and development employees, including benefits, bonuses and stock-based compensation;
- Costs related to the development, quality assurance and testing of new technology and enhancement of our existing platform technology; and
- Consulting expenses.

Comparison of Q2 2017 to Q2 2016

Research and development expense increased by 16.7%, or $0.7 million, to $5.1 million for the three months ended June 30, 2017, with the change being comprised primarily of an increase of $0.6 million in compensation and employee-related costs, mainly due to additional headcount to support our growth and the enhancement of our product offerings.

Comparison of YTD 2017 to YTD 2016

Research and development expense increased by 18.1%, or $1.6 million, to $10.1 million for the six months ended June 30, 2017, with the change being comprised of increases of:

- $1.3 million in compensation and employee-related costs, mainly due to additional headcount; and
- $0.3 million increase in software and hosting expenses.

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GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense consists primarily of:

- Salaries and personnel-related costs for administrative, finance and accounting, information systems, legal and human resource employees, including benefits, bonuses and stock-based compensation;
- Consulting and professional fees;
- Insurance;
- Bad debt expense; and
- Costs associated with compliance with the Sarbanes-Oxley Act and other regulations governing public companies.

Comparison of Q2 2017 to Q2 2016

General and administrative expense decreased by 2.1%, or $0.1 million, to $6.7 million for the three months ended June 30, 2017, with the change being comprised primarily of a decrease of $0.2 million in compensation and employee-related costs, specifically stock-based compensation expense, partially offset by $0.3 million of expenses incurred in conjunction with our acquisition of HubLogix during the second quarter of 2017.

Comparison of YTD 2017 to YTD 2016

General and administrative expense increased by 14.8%, or $2.0 million, to $15.2 million for the six months ended June 30, 2017, with the change being comprised primarily of increases (decreases) of:

- $2.5 million one-time charge in connection with entering into VDAs with certain jurisdictions related to our potential unpaid sales tax obligations;
- $0.3 million of expenses incurred in conjunction with our acquisition of HubLogix during the second quarter of 2017;
- $(0.3) million in bad debt expense driven by lower bad debt write-offs and reductions to our allowance for doubtful accounts based on collections activities; and
- $(0.2) million in compensation and employee-related costs, primarily related to a decrease in stock-based compensation expense, partially offset by increases due to additional headcount.

GROSS AND OPERATING MARGINS

Comparison of Q2 2017 to Q2 2016

Gross margin improved by 360 basis points to 78.3% during the three months ended June 30, 2017 as a result of the increase in revenue and decrease in cost of revenue noted above. Our improved gross margin was a result of our continuing strategic efforts to achieve increasing scale in our business operations.

Operating margin improved by 1170 basis points to (13.2)% during the three months ended June 30, 2017 due to our 10.7% increase in revenue and 5.0% decrease in cost of revenue, which exceeded increases in operating expenses of 1.8%.

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Comparison of YTD 2017 to YTD 2016

Gross margin improved by 290 basis points to 77.1% during the six months ended June 30, 2017 as a result of the increase in revenue and decrease in cost of revenue noted above.

Operating margin improved by 70 basis points to (20.6)% during the six months ended June 30, 2017 due to our 9.1% increase in revenue and 3.0% decrease in cost of revenue, which exceeded increases in operating expenses of 11.6%.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, and to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. During the six months ended June 30, 2017, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K for fiscal 2016.

Recent Accounting Pronouncements

Refer to Note 2 to our condensed consolidated financial statements included in this report for a full description of recent accounting pronouncements.

LIQUIDITY AND CAPITAL RESOURCES

We derive our liquidity and operating capital primarily from cash flows from operations. Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and our existing cash balances will be sufficient to meet our cash requirements for at least the next 12 months.

CASH FLOWS

Operating activities cash flows are largely driven by:

- The amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business;

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- The amount and timing of customer payments; and
- The seasonality of our business, as noted above, which results in variations in the timing of invoicing and the receipt of payments from our customers.

Investing activities cash flows are largely driven by:

- Acquisitions, net of cash acquired;
- Capitalized expenditures to create internally developed software and implement software purchased for internal use; and
- Purchases of property and equipment to support the expansion of our infrastructure and acquisitions.

Financing activities cash flows are largely driven by:

- Proceeds from the exercises of stock options;
- Payments on capital lease obligations;
- Tax withholdings related to the net-share settlement of restricted stock units; and
- Acquisition-related contingent consideration.

YTD 2017

Operating Activities

Our cash used in operating activities consisted of a net loss of $12.0 million adjusted for certain non-cash items totaling $9.6 million, which consisted of stock-based compensation expense, depreciation and amortization expense, bad debt expense and other non-cash items, principally the amortization of a lease incentive obligation related to our corporate headquarters.

The net increase in cash resulting from changes in working capital of $2.4 million primarily consisted of:

- a $3.1 million increase in deferred revenue as a result of an increased number of customers prepaying for subscription services invoiced on a semi-annual and annual basis;
- a $1.2 million decrease in prepaid expenses and other assets, primarily related to certain customer arrangements for which we collect and remit monthly activity-based fees incurred for specific channels on behalf of our customers. We record the amounts due from customers as a result of these arrangements as other receivables; and
- a $2.4 million increase in accrued expenses primarily due to a one-time charge in connection with our decision to enter into VDAs related to our potential unpaid sales tax obligations, partially offset by a $2.1 million decrease in accounts payable primarily driven by timing of payments to our vendors during the period; partially offset by a decrease in cash due to
- a $2.2 million increase in accounts receivable which is a result of increased revenue and customer growth.

Investing Activities

Our cash used in investing activities consisted of:

- $2.2 million for the acquisition of HubLogix, net of cash acquired;
- $0.5 million of capital expenditures primarily related to the purchase of computer equipment; and
- $0.2 million of internal-use software development costs.

Financing Activities

Our cash used in financing activities consisted of:

- $2.5 million used for the payment of taxes related to the net-share settlement of restricted stock units;
- $2.4 million used for the repayment of capital leases; and
- $0.3 million in cash received upon the exercise of stock options.

YTD 2016

Operating Activities

Our cash provided by operating activities consisted of a net loss of $11.3 million adjusted for certain non-cash items totaling $11.3 million, which consisted of stock-based compensation expense, depreciation and amortization expense and bad debt expense.

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The net increase in cash resulting from changes in working capital of $6.2 million primarily consisted of:

- a $4.3 million increase in deferred revenue of as a result of an increased number of customers prepaying for subscription services invoiced on a semi-annual and annual basis;
- a $2.2 million decrease in prepaid expenses and other assets, primarily related to the receipt of cash for a lease incentive related to our corporate headquarters, as well as increased collections for certain customer arrangements whereby we collect and remit monthly activity-based fees incurred on specific channels on behalf of our customers; and
- a $1.1 million increase in accounts payable that was primarily driven by timing of payments to our vendors during the period; partially offset by a decrease in cash due to
- a $1.5 million decrease in accrued expenses, primarily driven by accrued bonuses related to the year ended December 31, 2015 that were paid in the first quarter of 2016.

Investing Activities

Our cash used in investing activities consisted of:

- $0.7 million of capital expenditures primarily related to the purchase of computer equipment; and
- $0.2 million of internal-use software development costs.

Financing Activities

Our cash used in financing activities consisted of:

- $1.9 million used for the payment of taxes related to the net-share settlement of restricted stock units;
- $1.5 million used for the repayment of capital leases;
- $0.4 million in cash received upon the exercise of stock options; and
- $0.2 million used for the payment of our acquisition-related contingent consideration in connection with our acquisition of E-Tale Holdings Limited in 2014.

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission, or SEC, Regulation S-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We are exposed to market risk related to changes in foreign currency exchange rates. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into exchange rate hedging arrangements to manage foreign currency exchange risk. During the six months ended June 30, 2017, there were no material changes to our market risks, which are disclosed in our Annual Report on Form 10-K for fiscal 2016.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Security and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date at the reasonable assurance level.

(b) Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal controls over financial reporting during our fiscal quarter ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to litigation and claims arising in the ordinary course of business, but we are not currently a party to any material legal proceedings and we are not aware of any pending or threatened legal proceeding against us that we believe could have a material adverse effect on our business, operating results, cash flows or financial condition.

ITEM 1A. RISK FACTORS

Our business is subject to numerous risks. You should carefully consider the following risks, as well as general economic and business risks, and all of the other information contained in this Quarterly Report on Form 10-Q, together with any other documents we file with the SEC. Any of the following risks could have a material adverse effect on our business, operating results and financial condition and cause the trading price of our common stock to decline.

RISKS RELATED TO OUR BUSINESS

We have incurred significant net losses since inception, and it is possible that our operating expenses will increase in the foreseeable future, which may make it more difficult for us to achieve profitability.

We incurred net losses of $12.0 million and $8.0 million during the six months ended June 30, 2017 and the year ended December 31, 2016, respectively, and we had an accumulated deficit of $175.6 million as of June 30, 2017. It is possible that our operating expenses will increase in the foreseeable future as we invest in increased sales and marketing and research and development efforts. To achieve profitability, we will need to either increase our revenue sufficiently to offset increasing expenses or reduce our expense levels. Our recent revenue growth may not be sustainable, and if we are forced to reduce our expenses, our growth strategy could be compromised. If we are not able to achieve and maintain profitability, the value of our company and our common stock could decline significantly.

A significant portion of our revenue is attributable to sales by our customers on the Amazon and eBay marketplaces and through advertisements on Google. Our inability to continue to integrate our solutions with these channels would make our solutions less appealing to existing and potential new customers and could significantly reduce our revenue.

A substantial majority of the GMV that our customers process through our platform is derived from merchandise sold on the Amazon and eBay marketplaces or advertised on Google, and a similar portion of our variable subscription fees is attributable to sales by our customers through these channels. These channels, and the other channels with which our solutions are integrated, have no obligation to do business with us or to allow us access to their systems, and they may decide at any time and for any reason to significantly curtail or inhibit our ability to integrate our solutions with their channels. Additionally, Amazon, eBay or Google may decide to make significant changes to their respective business models, policies, systems or plans, and those changes could impair or inhibit our customers' ability to use our solutions to sell their products on those channels, or may adversely affect the volume of GMV that our customers can sell on those channels or reduce the desirability of selling on those channels. Further, Amazon, eBay or Google could decide to compete with us more vigorously. Any of these results could cause our customers to reevaluate the value of our products and services and potentially terminate their relationships with us and significantly reduce our revenue.

We may not be able to respond to rapid changes in channel technologies or requirements, which could cause us to lose revenue and make it more difficult to achieve profitability.

The e-commerce market is characterized by rapid technological change and frequent changes in rules, specifications and other requirements for retailers and branded manufacturers to be able to sell their merchandise on particular channels, as well as developments in technologies that can impede the display and tracking of advertisements. Our ability to retain existing customers and attract new customers depends in large part on our ability to enhance and improve our existing solutions and introduce new solutions that can adapt quickly to these technological changes. To achieve market acceptance for our solutions, we must effectively anticipate and offer solutions that meet frequently changing channel requirements in a timely manner. If our solutions fail to do so, our ability to renew our contracts with existing customers and our ability to create or increase demand for our solutions will be impaired.

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If we are unable to retain our existing customers, our revenue and results of operations could be adversely affected.
We sell our solutions pursuant to contractual arrangements that generally have one-year terms. Therefore, our revenue growth depends to a significant degree upon subscription renewals. Our customers have no obligation to renew their subscriptions after the subscription term expires, and these subscriptions may not be renewed or, if renewed, may not be renewed on the same or more favorable terms for us. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our solutions, the cost of our solutions, the cost of solutions offered by our competitors and reductions in our customers' spending levels. If our customers do not renew their subscriptions, renew on less favorable terms or for fewer modules, or do not purchase additional modules, our revenue may grow more slowly than expected or decline, and our ability to become profitable may be compromised.
As more of our sales efforts are targeted at larger customers, our sales cycle may become more time-consuming and expensive, and we may encounter pricing pressure, which could harm our business and operating results.
The cost and length of our sales cycle varies by customer. As we target more of our sales efforts at selling to larger customers, we may face greater costs, longer sales cycles and less predictability in completing some of our sales. These types of sales often require us to provide greater levels of education regarding our solutions. In addition, larger customers may demand more training and other professional services. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.
We may not be able to compete successfully against current and future competitors. If we do not compete successfully, we could experience lower sales volumes and pricing pressure, which could cause us to lose revenues, impair our ability to pursue our growth strategy and compromise our ability to achieve profitability.
We face intense competition in the market for online channel management solutions and services, and we expect competition to intensify in the future. We have competitors, including some of the channels themselves, with longer operating histories, larger customer bases and greater financial, technical, marketing and other resources than we do. Increased competition may result in reduced pricing for our solutions, longer sales cycles or a decrease in our market share, any of which could negatively affect our revenue and future operating results and our ability to grow our business.
A number of competitive factors could cause us to lose potential sales or to sell our solutions at lower prices or at reduced margins, including:

- Potential customers may choose to continue using or to develop applications in-house, rather than pay for our solutions;
- The channels themselves, which typically offer software tools, often for free, that allow retailers and branded manufacturers to connect to them, may decide to compete more vigorously with us;
- Competitors may adopt more aggressive pricing policies and offer more attractive sales terms, adapt more quickly to new technologies and changes in customer requirements, and devote greater resources to the promotion and sale of their products and services than we can;
- Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and expand their markets, and consolidation in our industry is likely to intensify. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share;
- Current and potential competitors may offer software that addresses one or more online channel management functions at a lower price point or with greater depth than our solutions and may be able to devote greater resources to those solutions than we can; and
- Software vendors could bundle channel management solutions with other solutions or offer such products at a lower price as part of a larger product sale.

We may not be able to compete successfully against current and future competitors, including any channels that decide to compete against us more vigorously. In addition, competition may intensify as our competitors raise additional capital and as established companies in other market segments or geographic markets expand into our

market segments or geographic markets. If we cannot compete successfully against our competitors, our business and our operating and financial results could be adversely affected.

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If the e-commerce industry consolidates around a limited number of online channels, or if the complexities and challenges faced by retailers and branded manufacturers seeking to sell online otherwise diminish, demand for our solutions could decline.

Our solutions enable retailers and branded manufacturers to manage their merchandise sales through hundreds of disparate online channels. One of the key attractions of our solutions to retailers and branded manufacturers is the ability to help address the complexity and fragmentation of selling online. Although the number and variety of online channels available to retailers and branded manufacturers have been increasing, at the same time the share of online sales made through a small number of larger channels, particularly Amazon, has also been increasing. If the trend toward consolidation around a few large online channels accelerates, the difficulties faced by retailers and branded manufacturers could decline, which might make our solutions less important to retailers and branded manufacturers and could cause demand for our solutions to decline.

Our growth depends in part on the success of our strategic relationships with third parties.

We anticipate that we will continue to depend on our relationships with various third parties, including marketplaces and technology and content providers, in order to grow our business. Identifying, negotiating and documenting relationships with these third parties may require significant time and resources as does integrating their content and technology with our solutions. If the third-party content or technology integrated with our solutions is not well received by our customers, our brand and reputation could be negatively affected. Our agreements with third-party business partners are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing services. If and to the extent that any of these third parties compete with us, it could hurt our growth prospects.

If the e-commerce market does not grow, or grows more slowly than we expect, particularly on the channels that our solutions support, demand for our online channel management solutions could be adversely affected.

For our existing customers and potential customers to be willing to subscribe to our solutions, the internet must continue to be accepted and widely used for selling merchandise. As e-commerce continues to evolve, regulation by federal, state or foreign agencies may increase. Any regulation imposing greater fees for internet use or restricting information exchanged over the internet could result in a decline in the use of the internet, which could harm our business.

In addition, if consumer utilization of our primary e-commerce channels, such as Amazon, eBay and Google, does not grow or grows more slowly than we expect, demand for our solutions would be adversely affected, our revenue would be negatively impacted and our ability to pursue our growth strategy and become profitable would be compromised.

Software errors, defects or failures or human error could cause our solutions to oversell our customers' inventory or misprice their offerings or could cause other errors, which would hurt our reputation and reduce customer demand.

Complex software applications such as ours may contain errors or defects, particularly when first introduced or when new versions or enhancements are released. Despite our testing and testing by our customers, our current and future products may contain defects. Our customers rely on our solutions to automate the allocation of their inventory simultaneously across multiple online channels, as well as to ensure that their sales comply with the policies of each channel and sometimes to dynamically determine product pricing at any given moment. Some customers subscribe to our solutions on a managed-service basis, in which case our personnel operate our solutions on behalf of the customer. In the event that our solutions do not function properly, or if there is human error on the part of our service staff, errors could occur, including that our customers might inadvertently sell more inventory than they actually have in stock, make sales that violate channel policies or underprice or overprice their offerings. Overselling their inventory could force our customers to cancel orders at rates that violate channel policies. Underpricing would result in lost revenue to our customers and overpricing could result in lost sales. In addition, our pricing policies with our customers are largely based upon our customers' expectations of the levels of their GMV that will be processed through our platform over the term of their agreement with us, and errors in our software or human error could cause transactions to be incorrectly processed that would cause GMV to be in excess of our customers' specified minimum amounts, in which case our variable subscription fee-based revenue could be overstated. Any of these results or other errors could reduce demand for our solutions and hurt our business reputation. Customers could also seek recourse against us in these cases and, while our contractual arrangements with customers typically provide that we are not

liable for damages such as these, it is possible that these provisions would not be sufficient to protect us.

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If the use of "cookie" tracking technologies is restricted, regulated or otherwise blocked, or if changes in our industry cause cookies to become less reliable or acceptable as a means of tracking consumer behavior, the amount or accuracy of GMV processed on our platform, and our related revenue, could decrease.

Cookies are small data files that are sent by websites and stored locally on an internet user's computer or mobile device. Our customers enable cookies on their sites and monitor internet user activity, such as viewing pages and completing transactions. We collect data via cookies that we ultimately use to report GMV, which translates to revenue. However, internet users can easily disable, delete and block cookies directly through browser settings or through other software, browser extensions or hardware platforms that physically block cookies from being created and stored.

Third-party cookies are downloaded from domains not associated with the address currently being viewed in an internet user's browser. Cookies can be specifically blocked by browser settings, and, for example, the Safari internet browser blocks third-party cookies by default. Internet users can also download free or paid “ad blocking” software that prevents third-party cookies from being stored on a user’s device. On the other hand, first-party cookies are downloaded directly from the address domain of an internet user, and are generally considered safer by privacy concerns. We currently collect data from both first-party and third-party cookie implementations. Our customers currently implementing our third-party cookie solution might be slow to migrate their sites to first-party cookie technologies, which could result in less cookie data that we can collect, and therefore less reported revenue data that we can store.

Privacy regulations might also restrict how our customers deploy our cookies on their sites, and this could potentially increase the number of internet users that choose to proactively disable cookies on their systems. In the European Union, the Directive on Privacy and Electronic Communications requires users to give their consent before cookie data can be stored on their local computer or mobile device. Users can decide to opt out of any cookie data creation, which could negatively impact the revenue we might recognize.

There have been efforts within our industry to replace cookies with alternative tracking technologies. To the extent these efforts are successful, we may have difficulty adapting to those new tracking technologies and we may become dependent on third parties for access to tracking data.

We may have to develop alternative systems to collect user revenue data if users block cookies or regulations introduce barriers to collecting cookie data. In addition, third parties may develop technology or policies to harvest user data including through next-generation web browsers or other means, which could subsequently prevent us from directly importing data to our systems. We may not be able to develop adequate alternatives to cookie data collection, which could negatively impact our ability to reliably measure GMV.

We rely on non-redundant data centers and cloud computing providers to deliver our SaaS solutions. Any disruption of service from these providers could harm our business.

We manage our platform and serve all of our customers from third-party data center facilities and cloud computing providers that are non-redundant, meaning that the data centers and providers are currently not configured as backup for each other. While we engineer and architect the actual computer and storage systems upon which our platform runs, we do not control the operation of the facilities at which they are deployed.

The owners of our data facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our solutions could harm our reputation and damage our customers’ businesses. Interruptions in our services could reduce our revenue, require us to issue credits to customers, subject us to potential liability, cause our existing customers to not renew their agreements or adversely affect our ability to attract new customers.

Our data centers and cloud computing providers are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, cyber-attacks and similar events. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, a decision to close the facilities without adequate notice or other

unanticipated problems could result in lengthy interruptions in the availability of our SaaS solutions or impair their functionality. Our business, growth prospects and operating results would also be harmed if our customers and potential customers are not confident that our solutions are reliable.

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We rely in part on a pricing model under which a variable portion of the subscription fees we receive from customers is based upon the amount of GMV or advertising spend that those customers process through our platform, and any change in the attractiveness of that model or any decline in our customers' sales could adversely affect our financial results.

We have adopted a pricing model under which a portion of the subscription fees we receive from most of our customers is variable, based on the amount of our customers' GMV or advertising spend processed through our platform that exceeds a specified amount established by contract, which we refer to as variable subscription fees. Most of our customer contracts include this variable subscription fee component. If sales or advertising spend by our customers processed through our platform were to decline, or if more of our customers require fully fixed pricing terms that do not provide for any variability based on their GMV or advertising spend processed through our platform, our revenue and margins could decline.

Our quarterly operating results have fluctuated in the past and may do so in the future, which could cause our stock price to decline.

Our operating results have historically fluctuated due to changes in our business, and our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. You should not rely on period-to-period comparisons of our operating results as an indication of our future performance. Factors that may cause fluctuations in our quarterly operating results include, but are not limited to, the following:

- seasonal patterns in consumer spending;
- the addition of new customers or the loss of existing customers;
- changes in demand for our software;
- the timing and amount of sales and marketing expenses;
- changes in the prospects of the economy generally, which could alter current or prospective customers' spending priorities, or could increase the time it takes us to close sales;
- changes in our pricing policies or the pricing policies of our competitors;
- costs necessary to improve and maintain our software platform; and
- costs related to acquisitions of other businesses.

Our operating results may fall below the expectations of market analysts and investors in some future periods, which could cause the market price of our common stock to decline substantially.

The seasonality of our business creates significant variance in our quarterly revenue, which makes it difficult to compare our financial results on a sequential quarterly basis.

Our customers are retailers and branded manufacturers that typically realize a significant portion of their online sales in the fourth quarter of each year during the holiday season. As a result of this seasonal variation, our subscription revenue fluctuates, with the variable portion of our subscription fees being higher in the fourth quarter than in other quarters and with revenue generally declining in the first quarter sequentially from the fourth quarter. Our business is therefore not necessarily comparable on a sequential quarter-over-quarter basis and you should not rely solely on quarterly comparisons to analyze our growth.

Failure to adequately manage our growth could impair our ability to deliver high-quality solutions to our customers, hurt our reputation and compromise our ability to become profitable.

We have experienced, and may continue to experience, significant growth in our business. If we do not effectively manage our growth, the quality of service of our solutions may suffer, which could negatively affect our reputation and demand for our solutions. Our growth has placed, and is expected to continue to place, a significant strain on our managerial, operational and financial resources and our infrastructure. Our future success will depend, in part, upon the ability of our senior management to manage growth effectively. This will require us to, among other things:

- hire additional personnel, both domestically and internationally;
- implement additional management information systems;
- maintain close coordination among our engineering, operations, legal, finance, sales and marketing and client service and support organizations; and
- further develop our operating, administrative, legal, financial and accounting systems and controls.

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Moreover, if our sales continue to increase, we may be required to concurrently deploy our hosting infrastructure at multiple additional locations or provide increased levels of customer service. Failure to accomplish any of these requirements could impair our ability to continue to deliver our solutions in a timely fashion, fulfill existing customer commitments or attract and retain new customers.

If we do not retain our senior management team and key employees, or if we fail to attract and retain additional highly skilled sales talent, we may not be able to sustain our growth or achieve our business objectives.

Our future success is substantially dependent on the continued service of our senior management team. Our future success also depends on our ability to continue to attract, retain, integrate and motivate highly skilled technical, sales and administrative employees. Competition for these employees in our industry is intense. As a result, we may be unable to attract or retain these management and other key personnel that are critical to our success, resulting in harm to our key client relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs. The loss of the services of our senior management or other key employees could make it more difficult to successfully operate our business and pursue our business goals.

Our business and growth objectives also may be hindered if our efforts to expand our sales team do not generate a corresponding increase in revenue. In particular, if we are unable to hire, develop and retain talented sales personnel or if our new sales personnel are unable to achieve expected productivity levels in a reasonable period of time, we may not be able to significantly increase our revenue and grow our business.

Our strategy of pursuing opportunistic acquisitions or investments may be unsuccessful and may divert our management's attention and consume significant resources.

A part of our growth strategy is to opportunistically pursue acquisitions of, or investments in, other complementary businesses or individual technologies. Any acquisition or investment may require us to use significant amounts of cash, issue potentially dilutive equity securities or incur debt. In addition, acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the operations, technologies, services and personnel of acquired businesses, especially if those businesses operate outside of our core competency of providing e-commerce software solutions;
- cultural challenges associated with integrating employees from acquired businesses into our organization;
- ineffectiveness or incompatibility of acquired technologies or services;
- failure to successfully further develop the acquired technology in order to recoup our investment;
- potential loss of key employees of acquired businesses;
- inability to maintain the key business relationships and the reputations of acquired businesses;
- diversion of management's attention from other business concerns;
- litigation for activities of acquired businesses, including claims from terminated employees, customers, former stockholders or other third parties;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- costs necessary to establish and maintain effective internal controls for acquired businesses; and
- increased fixed costs.

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If current efforts to allow states to require online retailers to collect sales tax on their behalf are successful, e-commerce in general could decline, our solutions could become less attractive and the amount of GMV processed through our platform, and our related revenue, could decline.

Although current U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales, an increasing number of states have considered or adopted laws that attempt to require out-of-state retailers to collect sales taxes on their behalf. In addition, the U.S. Senate and the U.S. House of Representatives are currently considering a variety of legislation, most notably the Marketplace Fairness Act, which would override the Supreme Court rulings and enable states to require that online retailers collect sales tax from the states' residents. Some larger online retailers, including Amazon, have announced their support for legislation along these lines. This is a rapidly evolving area and we cannot predict whether this or other similar legislation will ultimately be adopted or what form it might take if adopted. For example, the current Senate and House legislation includes an exception for small retailers, although there can be no assurance that any legislation ultimately adopted would include such an exception. If the states or Congress are successful in these attempts to require online retailers to collect state or local sales taxes on out-of-state purchases, buying online would lose some of its current advantage over traditional retail models and could become less attractive to consumers. This could cause e-commerce to decline, which would, in turn, hurt the business of our customers, potentially make our products less attractive and cause the amount of GMV processed through our platform, and ultimately our revenue, to decline. In addition, it is possible that one or more states or the federal government or foreign countries may seek to impose a tax collection, reporting or record-keeping obligation on companies like us that facilitate e-commerce, even though we are not an online retailer. Similar issues exist outside of the United States, where the application of value-added tax or other indirect taxes on online retailers and companies like us that facilitate e-commerce is uncertain and evolving.

We may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales, which could harm our business.

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of such taxes to our platform in various jurisdictions is unclear. Further, these jurisdictions' rules regarding tax nexus are complex and vary significantly. As a result, we could face the possibility of tax assessments and audits, and our liability for these taxes and associated penalties could exceed our original estimates. A successful assertion that we should be collecting additional sales, use, value added or other taxes in those jurisdictions where we have not historically done so and do not accrue for such taxes could result in substantial tax liabilities and related penalties for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

Evolving domestic and international data privacy regulations may restrict our ability, and that of our customers, to solicit, collect, process, disclose and use personal information or may increase the costs of doing so, which could harm our business.

Federal, state and foreign governments and supervising authorities have enacted, and may in the future enact, laws and regulations concerning the solicitation, collection, processing, disclosure or use of consumers' personal information. Evolving regulations regarding personal data and personal information, in the European Union and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business. Such laws and regulations require or may require us or our customers to implement privacy and security policies, permit consumers to access, correct or delete personal information stored or maintained by us or our customers, inform individuals of security incidents that affect their personal information, and, in some cases, obtain consent to use personal information for specified purposes. Other proposed legislation could, if enacted, impose additional requirements and prohibit the use of specific technologies, such as those that track individuals' activities on web pages or record when individuals click on a link contained in an email message. Such laws and regulations could restrict our customers' ability to collect and use web browsing data and personal information, which may reduce our customers' demand for our solutions.

Changing industry standards and industry self-regulation regarding the collection, use and disclosure of data may have similar effects. Existing and future privacy and data protection laws and increasing sensitivity of consumers to

unauthorized disclosures and use of personal information may also negatively affect the public's perception of our customers' sales practices. If our solutions are perceived to cause, or are otherwise unfavorably associated with, invasions of privacy, whether or not illegal, we or our customers may be subject to public criticism. Public concerns regarding data collection, privacy and security may also cause some consumers to be less likely to visit our customers' websites or otherwise interact with our customers, which could limit the demand for our solutions and inhibit the growth of our business.

Any failure on our part to comply with applicable privacy and data protection laws, regulations, policies and standards or any inability to adequately address privacy concerns associated with our solutions, even if unfounded, could subject us to

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liability, damage our reputation, impair our sales and harm our business. Furthermore, the costs to our customers of compliance with, and other burdens imposed by, such laws, regulations, policies and standards may limit adoption of and demand for our solutions.

Cybersecurity incidents could harm our business and negatively impact our financial results.

Cybersecurity incidents could endanger the confidentiality, integrity and availability of our information resources and the information we collect, use, store and disclose. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. We believe that we take reasonable steps to protect the security, integrity and confidentiality of the information we collect, use, store, and disclose, but there is no guarantee that inadvertent or unauthorized data access will not occur despite our efforts. For example, we could be impacted by software bugs or other technical malfunctions, as well as employee error or malfeasance. Any unauthorized access or use of information, virus or similar breach or disruption to our, our customers', or our partners' systems and security measures could result in disrupted operations, loss of information, damage to our reputation and customer relationships, early termination of our contracts and other business losses, indemnification of our customers, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, financial penalties, litigation, regulatory investigations, and other significant liabilities, any of which could materially harm our business.

RISKS RELATED TO THE SOFTWARE-AS-A-SERVICE (SAAS) MODEL

If we fail to manage and increase the capacity of our hosted infrastructure, our customers may be unable to process transactions through our platform, which could harm our reputation and demand for our solutions.

We have experienced significant growth in the number of users, transactions and data that our hosting infrastructure supports. We seek to maintain sufficient excess capacity in our hosted infrastructure to be sufficiently flexible and scalable to meet the needs of all of our customers. We also seek to maintain excess capacity to facilitate the rapid provision of new customer deployments and the expansion of existing customer deployments and to handle spikes in usage. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure capacity requirements, particularly in the fourth quarter when we typically experience significant increases in the volume of customer transactions processed through our platform, our customers could experience service outages that may subject us to financial penalties or other liabilities, result in customer losses, harm our reputation and adversely affect our ability to grow our revenue.

We derive most of our revenue from annual subscription agreements, as a result of which a significant downturn in our business may not be immediately reflected in our operating results.

We derive most of our revenue from subscription agreements, which are typically one year in length. As a result, a significant portion of the revenue we report in each quarter is generated from customer agreements entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our financial performance in that quarter but might negatively affect our revenue in future quarters. Accordingly, the effect of significant declines in sales and market acceptance of our solutions may not be reflected in our short-term results of operations.

Our business is substantially dependent upon the continued growth of the market for on-demand SaaS solutions. If this market does not continue to grow, demand for our solutions could decline, which in turn could cause our revenues to decline and impair our ability to become profitable.

We derive, and expect to continue to derive, substantially all of our revenue from the sale of our solutions, which are delivered under a SaaS model. As a result, widespread use and acceptance of this business model is critical to our future growth and success. Under the more traditional license model for software procurement, users of the software typically run the applications in-house on their own hardware. Because many companies are generally predisposed to maintaining control of their information technology systems and infrastructure, there may be resistance to the concept of accessing software functionality as a service provided by a third party. In addition, the market for SaaS solutions is still evolving, and existing and new market participants may introduce new types of solutions and different approaches to enable organizations to address their needs. If the market for SaaS solutions fails to grow or grows more slowly than we currently anticipate, demand for our solutions and our revenue, gross margin and other operating results could

be negatively impacted.

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RISKS RELATED TO OUR INTERNATIONAL OPERATIONS

Our increasing international operations subject us to increased challenges and risks. If we do not successfully manage the risks associated with international operations, we could experience a variety of costs and liabilities and the attention of our management could be diverted.

Since launching our international operations in 2004, we have expanded, and expect to further expand, our operations internationally by opening offices in new countries and regions worldwide. However, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, taxation systems, alternative dispute systems, regulatory systems and commercial infrastructures. International expansion will require us to invest significant funds and other resources. Expanding internationally may subject us to new risks that we have not faced before or increase risks that we currently face, including risks associated with:

- recruiting and retaining employees in foreign countries;
- increased competition from local providers;
- compliance with applicable foreign laws and regulations;
- longer sales or collection cycles in some countries;
- credit risk and higher levels of payment fraud;
- compliance with anti-bribery laws, such as the Foreign Corrupt Practices Act;
- currency exchange rate fluctuations;
- foreign exchange controls that might prevent us from repatriating cash earned outside the United States;
- economic and political instability in some countries, including terrorist attacks and civil unrest;
- less protective intellectual property laws;
- compliance with the laws of numerous foreign taxing jurisdictions in which we conduct business, potential double taxation of our international earnings and potentially adverse tax consequences due to changes in applicable U.S. and foreign tax laws;
- increased costs to establish and maintain effective controls at foreign locations; and
- overall higher costs of doing business internationally.

If our revenue from our international operations does not exceed the expense of establishing and maintaining these operations, our business and operating results will suffer.

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in full compliance with applicable laws. Our solutions are subject to export controls, including the Commerce Department’s Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department’s Office of Foreign Assets Controls, and exports of our solutions must be made in compliance with these laws. If we fail to comply with these U.S. export control laws and import laws, including U.S. Customs regulations, we could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges, fines, which may be imposed on us and responsible employees or managers, and, in extreme cases, the incarceration of responsible employees or managers. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities.

Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment or export of specified products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being provided to U.S. sanctions targets, if our solutions and services were to be exported to those prohibited countries despite such precautions, we could be subject to government investigations, penalties, reputational harm or other negative consequences.

Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions, or in our decreased ability to export or sell our solutions to existing or potential customers with international operations. Additionally, changes in our solutions may be required in response to changes in export and

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import regulations, which could lead to delays in the introduction and sale of our solutions in international markets, prevent our customers with international operations from deploying our solutions or, in some cases, prevent the export or import of our solutions to some countries, governments or persons altogether. Any decreased use of our solutions or limitation on our ability to export our solutions or sell them in international markets would hurt our revenue and compromise our ability to pursue our growth strategy.

RISKS RELATED TO INTELLECTUAL PROPERTY

We operate in an industry with extensive intellectual property litigation. Claims of infringement against us may hurt our business.

Our success depends, in part, upon non-infringement of intellectual property rights owned by others and being able to resolve claims of intellectual property infringement without major financial expenditures or adverse consequences. The internet-related software field generally is characterized by extensive intellectual property litigation. Although our industry is rapidly evolving, many companies that own, or claim to own, intellectual property have aggressively asserted their rights. From time to time, we have been subject to legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties will continue to assert intellectual property claims against us, particularly as we expand the complexity and scope of our business. In addition, most of our subscription agreements require us to indemnify our customers against claims that our solutions infringe the intellectual property rights of third parties.

Future litigation may be necessary to defend ourselves or our customers by determining the scope, enforceability and validity of third-party proprietary rights or to establish our proprietary rights. Some of our competitors have substantially greater resources than we do and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies that focus solely on extracting royalties and settlements by enforcing patent rights may target us. Regardless of whether claims that we are infringing patents or other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend and could:

- hurt our reputation;
- adversely affect our relationships with our current or future customers;
- cause delays or stoppages in providing our services;
- divert management's attention and resources;
- require technology changes to our software that would cause us to incur substantial cost;
- subject us to significant liabilities; and
- require us to cease some or all of our activities.

In addition to liability for monetary damages against us, which may be tripled and may include attorneys' fees, or, in some circumstances, damages against our customers, we may be prohibited from developing, commercializing or continuing to provide some or all of our software solutions unless we obtain licenses from, and pay royalties to, the holders of the patents or other intellectual property rights, which may not be available on commercially favorable terms, or at all.

Our failure to protect our intellectual property rights could diminish the value of our services, weaken our competitive position and reduce our revenue.

We regard the protection of our intellectual property, which includes trade secrets, copyrights, trademarks, domain names and patent applications, as critical to our success. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We have received patent protection for some of our technologies and are seeking patent protection for other of our technologies but there can be no assurance that any patents will ultimately be issued. We have registered domain names, trademarks and service marks in the United States and in jurisdictions outside the United States and are also

pursuing additional registrations both in and outside the United States. Effective trade secret, copyright, trademark, domain name and patent protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. We may be required to protect our intellectual property in an increasing number of jurisdictions, a process

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that is expensive and may not be successful or which we may not pursue in every location. We may, over time, increase our investment in protecting our intellectual property through additional patent filings that could be expensive and time-consuming.

We have licensed in the past, and expect to license in the future, some of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation.

Monitoring unauthorized use of our intellectual property is difficult and costly. Our efforts to protect our proprietary rights may not be adequate to prevent misappropriation of our intellectual property. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Our competitors may also independently develop similar technology. In addition, the laws of many countries, such as China and India, do not protect our proprietary rights to as great an extent as do the laws of European countries and the United States. Further, the laws in the United States and elsewhere change rapidly, and any future changes could adversely affect us and our intellectual property. Our failure to meaningfully protect our intellectual property could result in competitors offering services that incorporate our most technologically advanced features, which could seriously reduce demand for our software solutions. In addition, we may in the future need to initiate infringement claims or litigation. Litigation, whether we are a plaintiff or a defendant, can be expensive, time-consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination that is unfavorable to us. In addition, litigation is inherently uncertain, and thus we may not be able to stop our competitors from infringing upon our intellectual property rights.

Our use of “open source” software could negatively affect our ability to sell our solutions and subject us to possible litigation.

A portion of our technology platform and our solutions incorporates so-called “open source” software, and we may incorporate additional open source software in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to specified conditions, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes open source software we use were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, including being enjoined from the sale of our solutions that contained the open source software and required to comply with the foregoing conditions, which could disrupt the sale of the affected solutions. In addition, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition and require us to devote additional research and development resources to change our products.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

An active trading market for our common stock may not continue to develop or be sustained.

Although our common stock is listed on the New York Stock Exchange, or NYSE, we cannot assure you that an active trading market for our shares will continue to develop or be sustained. If an active market for our common stock does not continue to develop or is not sustained, it may be difficult for investors in our common stock to sell shares without depressing the market price for the shares or to sell the shares at all.

The trading price of the shares of our common stock has been and is likely to continue to be volatile.

Our stock price has been volatile. The stock market in general and the market for technology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price paid for the shares. The market price for our common stock may be influenced by many factors, including:

- actual or anticipated variations in our operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock;

- conditions or trends in our industry;
- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the software industry;

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- announcements by us or our competitors of new product or service offerings, significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- capital commitments;
- investors' general perception of our company and our business;
- recruitment or departure of key personnel; and
- sales of our common stock, including sales by our directors and officers or specific stockholders.

In addition, in the past, stockholders have initiated class action lawsuits against technology companies following periods of volatility in the market prices of these companies' stock. In 2015, two purported class action complaints were filed alleging violations of the federal securities laws against a group of defendants including us and certain of our executive officers. The consolidated case was dismissed in April 2016, and the dismissal was affirmed by the U.S. Court of Appeals for the Fourth Circuit in November 2016. New litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources from our business.

If equity research analysts do not publish research or reports, or publish unfavorable research or reports, about us, our business or our market, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that equity research analysts publish about us and our business. As a newly public company, we have only limited research coverage by equity research analysts. Equity research analysts may elect not to initiate or continue to provide research coverage of our common stock, and such lack of research coverage may adversely affect the market price of our common stock. Even if we have equity research analyst coverage, we will not have any control over the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans or otherwise will dilute all other stockholders.

Our certificate of incorporation authorizes us to issue up to 100,000,000 shares of common stock and up to 5,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us, and the market price of our common stock may be lower as a result.

There are provisions in our certificate of incorporation and bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by some or all of our stockholders. For example, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders may be adversely affected. An issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents also contain other provisions that could have an anti-takeover effect, including:

- only one of our three classes of directors is elected each year;
- stockholders are not entitled to remove directors other than by a 66 2/3% vote and only for cause;
- stockholders are not permitted to take actions by written consent;
- stockholders cannot call a special meeting of stockholders; and
-

stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings.

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In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions by prohibiting Delaware corporations from engaging in specified business combinations with particular stockholders of those companies. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in your best interests. These provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we intend to take advantage of some of the exemptions from reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) December 31, 2018, (2) the last day of the fiscal year in which we have total annual gross revenue of at least $1.0 billion, (3) the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th, and (4) any date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Under Section 107(b) of the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the rules and regulations of the NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting and perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. This requires that we incur substantial professional fees and internal costs to expand our accounting and finance functions and that we expend significant management efforts.

We may discover weaknesses in our system of internal financial and accounting controls and procedures that could result in a material misstatement of our financial statements, and we may in the future discover additional weaknesses that require improvement. In addition, our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our stock could decline and we could be subject to sanctions or investigations by the NYSE, the SEC or other regulatory authorities.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future and our stock may not appreciate in value.

We have not declared or paid cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any existing or future debt agreements may preclude us from paying dividends. There is no guarantee that shares of our common stock will appreciate in value or that the price at which our stockholders have purchased their shares will be able to be maintained.

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We incur significant costs and demands upon management as a result of being a public company.

As a public company listed in the United States, we incur significant additional legal, accounting and other costs, which we expect to increase, particularly after we cease to be an "emerging growth company" under the JOBS Act. These additional costs could negatively affect our financial results. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and stock exchanges, may increase legal and financial compliance costs and make some activities more time consuming. These laws, regulations and standards are subject to varying interpretations and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities. If notwithstanding our efforts to comply with new laws, regulations and standards, we fail to comply, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Failure to comply with these rules might also make it more difficult for us to obtain some types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors or as members of senior management.

We may need additional capital in the future to meet our financial obligations and to pursue our business objectives. Additional capital may not be available on favorable terms, or at all, which could compromise our ability to meet our financial obligations and grow our business.

While we anticipate that our existing cash, together with our cash flow from operations, will be sufficient to fund our operations for at least the next 12 months, we may need to raise additional capital to fund operations in the future or to meet various objectives, including developing future technologies and services, increasing working capital, acquiring businesses and responding to competitive pressures. If we seek to raise additional capital, it may not be available on favorable terms or may not be available at all. Lack of sufficient capital resources could significantly limit our ability to manage our business and to take advantage of business and strategic opportunities. Any additional capital raised through the sale of equity or debt securities with an equity component would dilute our stock ownership. If adequate additional funds are not available, we may be required to delay, reduce the scope of or eliminate material parts of our business strategy, including potential additional acquisitions or development of new technologies.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities
None.
ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index immediately preceding such exhibits, and are incorporated herein by reference.

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SIGNATURES

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

CHANNELADVISOR CORPORATION

Date: August 3, 2017 By: /s/ Mark E. Cook
Mark E. Cook
Chief Financial Officer
(On behalf of the Registrant and as Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number		Description of Document
3.1		Amended and Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 001-35940), filed with the Securities and Exchange Commission on May 29, 2013).
3.2		Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K (File No. 001-35940), filed with the Securities and Exchange Commission on May 29, 2013).
4.1		Specimen stock certificate evidencing shares of Common Stock (incorporated herein by reference to Exhibit 4.2 of the Company's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on May 9, 2013).
31.1	*	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act.
31.2	*	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act.
32.1	**	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act.
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.