

CHANNELADVISOR CORP
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-35940

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

Delaware 56-2257867
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer Accelerated filer

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

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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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of the close of business on October 19, 2016 was 25,784,734.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ChannelAdvisor Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,731	\$60,474
Accounts receivable, net of allowance of \$416 and \$785 as of September 30, 2016 and December 31, 2015, respectively	15,282	18,949
Prepaid expenses and other current assets	7,108	9,356
Total current assets	87,121	88,779
Property and equipment, net	14,352	16,696
Goodwill	21,632	21,632
Intangible assets, net	2,806	3,246
Other assets	760	603
Total assets	\$ 126,671	\$ 130,956
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,393	\$ 2,435
Accrued expenses	8,696	9,908
Deferred revenue	23,413	19,835
Other current liabilities	4,272	4,188
Total current liabilities	38,774	36,366
Long-term capital leases, net of current portion	1,515	2,031
Lease incentive obligation	4,425	5,084
Other long-term liabilities	3,111	3,551
Total liabilities	47,825	47,032
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 25,783,626 and 25,230,958 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	26	25
Additional paid-in capital	249,303	240,360
Accumulated other comprehensive loss	(1,073)	(893)
Accumulated deficit	(169,410)	(155,568)
Total stockholders' equity	78,846	83,924
Total liabilities and stockholders' equity	\$ 126,671	\$ 130,956

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$27,992	\$ 24,379	\$81,437	\$ 71,151
Cost of revenue	6,811	6,290	20,587	19,107
Gross profit	21,181	18,089	60,850	52,044
Operating expenses:				
Sales and marketing	13,824	12,339	43,064	42,115
Research and development	4,512	4,010	13,077	12,313
General and administrative	5,525	6,484	18,768	18,011
Total operating expenses	23,861	22,833	74,909	72,439
Loss from operations	(2,680)	(4,744)	(14,059)	(20,395)
Other income (expense):				
Interest expense, net	11	(60)	(11)	(142)
Other income (expense), net	90	14	137	140
Total other income (expense)	101	(46)	126	(2)
Loss before income taxes	(2,579)	(4,790)	(13,933)	(20,397)
Income tax (benefit) expense	(27)	1	(91)	(126)
Net loss	\$(2,552)	\$(4,791)	\$(13,842)	\$(20,271)
Net loss per share:				
Basic and diluted	\$(0.10)	\$(0.19)	\$(0.54)	\$(0.81)
Weighted average common shares outstanding:				
Basic and diluted	25,723,742	25,110,212	25,513,105	25,020,154

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (2,552)	\$ (4,791)	\$ (13,842)	\$ (20,271)
Other comprehensive loss:				
Foreign currency translation adjustments	(78)	95	(180)	(726)
Total comprehensive loss	\$ (2,630)	\$ (4,696)	\$ (14,022)	\$ (20,997)

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net loss	\$(13,842)	\$(20,271)
Adjustments to reconcile net loss to cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	5,961	6,363
Bad debt expense	246	1,253
Stock-based compensation expense	10,207	9,273
Other items, net	(769)	(150)
Changes in assets and liabilities:		
Accounts receivable	2,820	(4,170)
Prepaid expenses and other assets	1,832	(2,071)
Accounts payable and accrued expenses	(1,251)	1,924
Deferred revenue	4,162	3,045
Cash and cash equivalents provided by (used in) operating activities	9,366	(4,804)
Cash flows from investing activities		
Purchases of property and equipment	(920)	(3,472)
Payment of internal-use software development costs	(195)	(129)
Cash and cash equivalents used in investing activities	(1,115)	(3,601)
Cash flows from financing activities		
Repayment of capital leases	(2,079)	(1,592)
Proceeds from exercise of stock options	821	490
Payment of contingent consideration	(338)	—
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(2,085)	(588)
Cash and cash equivalents used in financing activities	(3,681)	(1,690)
Effect of currency exchange rate changes on cash and cash equivalents	(313)	713
Net increase (decrease) in cash and cash equivalents	4,257	(9,382)
Cash and cash equivalents, beginning of period	60,474	68,366
Cash and cash equivalents, end of period	\$64,731	\$58,984
Supplemental disclosure of cash flow information		
Cash paid for interest	\$126	\$143
Cash paid for income taxes, net	\$110	\$243
Supplemental disclosure of noncash investing and financing activities		
Accrued capital expenditures	\$439	\$—
Capital lease obligations entered into for the purchase of fixed assets	\$1,771	\$3,372
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 that allow retailers and branded manufacturers to integrate, manage and monitor their merchandise sales across hundreds of online channels. The Company is headquartered in Morrisville, North Carolina and has international offices in England, Ireland, Germany, Australia, Brazil and China.

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 nine months ended September 30, 2016 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, 2015 (“fiscal 2015”), which are included in the Company’s Annual Report on Form 10-K for fiscal 2015. 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 2015.

Reclassification

Certain prior period amounts included on the condensed consolidated statements of operations have been reclassified to conform to the current period’s presentation. Previously, depreciation and amortization expense was presented separately from cost of revenue and operating expenses in the condensed consolidated statements of operations. Beginning with the first quarter of 2016, the Company included depreciation and amortization expense in cost of revenue and operating expenses in the condensed consolidated statements of operations and in each financial statement line item in the notes to its unaudited condensed consolidated financial statements. In addition, the Company revised the classification of certain operating expenses to better align the income statement line items with how operations are managed. All reclassifications had no effect on the Company’s reported gross profit and net loss for the three and nine months ended September 30, 2015.

The tables below summarize these reclassifications (in thousands):

	Three Months Ended September 30, 2015		
	As Previously Reported	Reclassification	As Reclassified
Cost of revenue	\$4,954	\$ 1,336	\$ 6,290
Depreciation - Cost of revenue	1,336	(1,336)	—
Sales and marketing	11,879	460	12,339
Research and development	3,874	136	4,010
General and administrative	6,075	409	6,484
Depreciation and amortization	1,005	(1,005)	—

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	Nine Months Ended September 30, 2015		
	As Previously Reported	Reclassification	As Reclassified
Cost of revenue	\$ 15,571	\$ 3,536	\$ 19,107
Depreciation - Cost of revenue	3,536	(3,536)	—
Sales and marketing	40,790	1,325	42,115
Research and development	11,955	358	12,313
General and administrative	16,867	1,144	18,011
Depreciation and amortization	2,827	(2,827)	—

Depreciation and amortization expense is included in the following line items in the accompanying unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of revenue	\$ 1,109	\$ 1,336	\$ 3,497	\$ 3,536
Sales and marketing	266	334	853	913
Research and development	111	136	345	358
General and administrative	420	535	1,266	1,556
Total depreciation and amortization expense	\$ 1,906	\$ 2,341	\$ 5,961	\$ 6,363

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides new guidance for revenue recognition. ASU 2014-09 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. In March 2016, the FASB issued ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), which clarifies implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which clarifies the identification of performance obligations and the licensing implementation guidance in ASU 2014-09. In addition, in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which clarifies the guidance on assessing collectibility, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition. These updates are effective for fiscal years beginning after December 15, 2017. Early adoption for these standards is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that fiscal year. The Company continues to evaluate the permitted adoption methods and the impact these standards will have on its consolidated financial statements. The Company has commenced a comprehensive project plan to direct the implementation of these new standards, including an analysis of its contract portfolio, evaluation of new revenue system requirements and IT updates, and assessment of the impact to business processes. The Company anticipates selecting an adoption method for these new standards by the end of 2016.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740) ("ASU 2015-17"), which requires that all deferred tax assets and liabilities, including any related valuation allowance, be classified as noncurrent on the balance sheet. The update is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. The guidance may be applied either prospectively or retrospectively. The Company elected to adopt ASU 2015-17 prospectively in the first quarter of 2016. As such, prior period results in the

Company's consolidated financial statements have not been retrospectively adjusted.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) ("ASU 2016-09"), which 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 update is effective for fiscal years beginning after December 15, 2016, including interim reporting periods within that fiscal year. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13"), which replaces the incurred loss impairment methodology in current U.S. GAAP 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 amended guidance is effective for fiscal years beginning after December 15, 2019 including interim reporting periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230) ("ASU 2016-15"), which addresses eight specific cash flow matters with the objective of reducing diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that fiscal year. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

The Company has reviewed other new accounting pronouncements that were issued as of September 30, 2016 and does not believe that these pronouncements are applicable to the Company, or that they will have a material impact on its financial position or results of operations.

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.

3. Stockholders' Equity

The following table summarizes the stockholders' equity activity for the nine months ended September 30, 2016 (in thousands):

Balance as of December 31, 2015	\$83,924
Exercise of stock options and vesting of restricted stock units	822
Stock-based compensation expense	10,207
Statutory tax withholding related to net-share settlement of restricted stock units	(2,085)
Net loss	(13,842)
Foreign currency translation adjustments	(180)
Balance as of September 30, 2016	\$78,846

4. Goodwill and Intangible Assets

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

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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 \$0.1 million and \$0.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$0.4 million and \$0.7 million for the nine months ended September 30, 2016 and 2015, respectively.

There have been no changes to the Company's goodwill during the nine months ended September 30, 2016.

5. Fair Value of Financial Instruments

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. The three tiers are defined as follows:

- Level 1. Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their respective fair values due to their short-term nature.

The acquisition of E-Tale Holdings Limited ("E-Tale") on October 31, 2014 included a contingent consideration arrangement that allows for adjustment of payments based upon achievement of specified quarterly revenue targets through June 2017. Contingent consideration was measured at fair value at the acquisition date and is remeasured to fair value at each reporting date until the contingency is resolved. The fair value is reported within current and non-current liabilities on the condensed consolidated balance sheets. Increases or decreases in any valuation inputs in isolation may result in a significantly lower or higher fair value measurement in the future. Subsequent changes in the fair value of contingent consideration are recognized within general and administrative expenses in the Company's condensed consolidated statements of operations.

The fair value of contingent consideration related to the E-Tale acquisition is based on projected quarterly revenue targets for E-Tale through June 2017. The Company discounted the expected future earn-out payments to net present value using Level 3 inputs. A key assumption used in the measurement of fair value of contingent consideration includes a discount rate of 22% as of September 30, 2016 and December 31, 2015. The Company believes the discount rate used to discount the earn-out payments reflects market participant assumptions. Projected revenue is based on the Company's internal projections and analysis of the current customer base and expected customer growth, target market and sales potential.

The following table presents changes to the Company's liability for acquisition-related contingent consideration for the nine months ended September 30, 2016 (in thousands):

Balance as of December 31, 2015	\$697
Settlement of contingent consideration liability	(338)
Change in contingent consideration fair value	(201)
Balance as of September 30, 2016	\$158

6. Guarantee

In June 2014, the Company assigned its previous lease of office space in London, England to a third party pursuant to an assignment agreement and a transfer agreement. In accordance with the assignment agreement, the Company is not required to collect any payments from the third party and therefore will not recognize any revenue associated with this assignment. All payments associated with the assigned lease will be made directly by the third party to the lessor and appropriate regulatory authorities. However, the Company has guaranteed the lease payments through the remainder

of the lease term, which is until

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March 2017. As of September 30, 2016, the remaining lease payments under this lease totaled £0.2 million (\$0.2 million based on the exchange rate as of September 30, 2016). This amount represents the maximum potential liability for future payments under the guarantee and will decrease over time as payments are made by the third party. In the event of default, the indemnity clauses in the transfer agreement govern the Company's ability to pursue and recover damages incurred. As of September 30, 2016, the Company does not anticipate any default by the third party. Therefore, no liability associated with this transaction has been recorded on the Company's condensed consolidated balance sheet as of September 30, 2016.

7. 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 nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of revenue	\$330	\$238	\$941	\$777
Sales and marketing	1,161	1,208	3,651	3,822
Research and development	496	397	1,485	1,295
General and administrative	878	1,254	4,130	3,379
	\$2,865	\$3,097	\$10,207	\$9,273

During the nine months ended September 30, 2016, the Company granted the following share-based awards:

	Number of Shares Underlying Grant	Weighted Average Grant Date Fair Value
Stock options	432,985	\$ 4.72
Restricted stock units ("RSUs")	1,089,280	11.28
Total share-based awards	1,522,265	9.41

8. Net Loss Per Share

Diluted loss per share is the same as basic 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 nine months ended September 30, 2016 and 2015:

	Three and Nine Months Ended September 30, 2016		2015
Stock options	1,657,549	1,594,507	
RSUs	2,342,444	2,082,248	

9. 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 1.0% and 0.0% for the three months ended September 30, 2016 and 2015, respectively, compared to 0.7% and 0.6% for the nine months ended September 30, 2016 and 2015, 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 expected 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 due to uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable the Company to realize the federal carryforward benefit.

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Given the Company's current earnings in certain of its foreign jurisdictions, there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow the Company to reach a conclusion that a significant portion, or all, of the valuation allowance recorded against its foreign net operating losses will no longer be needed. Release of the valuation allowance would result in a decrease to income tax expense in the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that the Company is able to actually achieve.

10. 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 nine months ended September 30, 2016 and 2015. The table below summarizes revenue by geography for the three and nine months ended September 30, 2016 and 2015 (in thousands). The Company categorizes domestic and international revenue from customers based on their billing address.

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Domestic	\$21,985	\$18,247	\$63,458	\$53,783
International	6,007	6,132	17,979	17,368
Total revenue	\$27,992	\$24,379	\$81,437	\$71,151

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, 2015, which are included in our Annual Report on Form 10-K for fiscal 2015.

Overview

We are a leading provider of software-as-a-service, or SaaS, solutions that enable our customers to integrate, manage and optimize their merchandise sales across hundreds of online channels. 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 other 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, data analytics and other critical functions across these channels. We also offer solutions that allow branded manufacturers to send their web visitors directly to authorized resellers

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and to gain insight into consumer behavior. Our proprietary cloud-based technology platform delivers significant breadth, scalability and flexibility to our customers.

We sell subscriptions to our SaaS solutions primarily through our direct sales force. The majority of our revenue is derived 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 is based on a specified minimum amount of gross merchandise value, or GMV, 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 processed through our platform in excess of the customer's specified minimum GMV amount.

We do not take title to any of the merchandise processed through our platform and we generally do not collect payments on behalf of our customers. We do not hold any inventory of merchandise and we are not involved in the physical logistics of shipping merchandise to buyers, which is handled by our customers.

We face a variety of challenges and risks, which we will need to address and manage as we pursue our growth strategy. In particular, 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. In addition, as consumer preferences potentially shift from smaller retailers, we need to continue to add large retailers and branded manufacturers as profitable customers. These 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 made significant investments in our sales force and allocated resources focused on growing our large retailers and branded manufacturer customers beginning in the fourth quarter of 2015. We continue to focus our efforts on increasing value for our customers to support higher rates.

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 as a result we need to continue to support multiple channels in a variety of geographies in order to achieve our targeted revenue growth. As of September 30, 2016, we supported over 60 marketplaces.

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.

Key Financial and Operating Performance Metrics

We regularly monitor a number of financial and operating metrics in order to measure our performance and project our future performance. These metrics aid us in developing and refining our growth strategies and making strategic decisions.

Number of Customers

The number of customers subscribing to our solutions is a primary determinant of our revenue. The number of customers was 2,880 and 2,910 as of September 30, 2016 and 2015, respectively. For purposes of this metric and the average revenue per customer metric described below, we include all customers who subscribe to at least one of our solutions, excluding customers subscribing only to certain legacy product offerings that are no longer part of our

strategic focus. The number of customers as of September 30, 2016 decreased from September 30, 2015 as a result of our continued focus on larger retailer and branded manufacturer customers, which represent a smaller number of customers, but a potentially larger source of revenue.

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Average Revenue per Customer

Average revenue per customer is calculated 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 rolling twelve-month 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. Our average revenue per customer increased 17.3% to \$38,400 for the twelve months ended September 30, 2016 as compared to \$32,748 for the twelve months ended September 30, 2015, reflecting our continued strategy to focus on attaining higher-revenue customers.

Adjusted EBITDA

Adjusted EBITDA represents our earnings before interest expense, income tax (benefit) expense and depreciation and amortization, adjusted to eliminate stock-based compensation expense, which is a non-cash item, and, for the nine months ended September 30, 2015, one-time severance and related costs. We believe that the exclusion of the expenses eliminated in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA provides useful information to investors 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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$(2,552)	\$(4,791)	\$(13,842)	\$(20,271)
Adjustments:				
Interest expense, net	(11) 60	11	142
Income tax (benefit) expense	(27) 1	(91) (126
Depreciation and amortization expense				