

CHANNELADVISOR CORP  
Form 10-K  
February 26, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number 001-35940

CHANNELADVISOR CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

56-2257867

(IRS Employer  
Identification No.)

2701 Aerial Center Parkway

Morrisville, NC

(Address of principal executive offices)

27560

(Zip Code)

Registrant's telephone number, including area code: (919) 228-4700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Common Stock, \$0.001 par value

Name of Each Exchange on which Registered  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 Web site, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.



## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual Report") contains 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, or the Exchange Act, that involve substantial risks and uncertainties. The forward-looking statements are contained principally in Part I, Item 1. "Business," Part I, Item 1A. "Risk Factors," and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," but are also contained elsewhere in this Annual Report. In some cases, you can identify forward-looking statements by the words "may," "might," "will," "could," "would," "should," "expect," "intend," "plan," "objective," "anticipate," "believe," "estimate," "predict," "project," "potential," "ongoing," or the negative of these terms, or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Annual Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. Forward-looking statements include statements about:

- the growth of the e-commerce industry and the software-as-a-service, or SaaS, enterprise application software market in general and particularly in our markets;
- the expected growth of advertising dollars spent on paid search and gross merchandise value, or GMV, sold on comparison shopping websites;
- consumer adoption of mobile devices and usage for commerce;
- the growth of social networking and commerce applications;
- our growth strategy; and
- our beliefs about our capital expenditure requirements and that our capital resources will be sufficient to meet our anticipated cash requirements through at least the next 12 months.

You should refer to Item 1A. "Risk Factors" section of this Annual Report for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Annual Report.

## TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>3</u>
<u>Item 1A. Risk Factors</u>	<u>14</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>26</u>
<u>Item 2. Properties</u>	<u>26</u>
<u>Item 3. Legal Proceedings</u>	<u>27</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>27</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6. Selected Financial Data</u>	<u>31</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>50</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>74</u>
<u>Item 9A. Controls and Procedures</u>	<u>74</u>
<u>Item 9B. Other Information</u>	<u>74</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>75</u>
<u>Item 11. Executive Compensation</u>	<u>75</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>75</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>75</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>75</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>76</u>
<u>Signatures</u>	<u>79</u>

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

We are a leading provider of SaaS solutions that enable our retailer and manufacturer customers to integrate, manage and optimize their merchandise sales across hundreds of online channels. 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 eBay, Amazon, Newegg and Sears, search engines and comparison shopping websites, such as Google, Microsoft's Bing, and Nextag, and emerging channels, such as Facebook 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 a Where to Buy solution that allows branded manufacturers to send visitors to their website directly to authorized resellers and to gain insight into consumer behavior. Our proprietary cloud-based technology platform delivers significant breadth, scalability and flexibility. In 2014, our customers processed approximately \$5.7 billion in GMV through our platform.

We serve customers across a wide range of industries and geographies. As of December 31, 2014, we had over 2,800 customers worldwide, including 32% of the top 500 U.S. internet retailers, as ranked by Internet Retailer magazine based on 2013 sales, up from 16% of the top 500 U.S. internet retailers, based on 2007 sales, as of December 31, 2007. Our customers include both traditional and online retailers.

E-commerce has grown significantly over the last several years, as consumers have increasingly shifted their retail purchases from traditional brick-and-mortar stores to online stores and marketplaces. This growth has been due to a number of factors, including:

- the availability of a broader selection of merchandise online;
- consumer convenience and ease of use;
- more competitive and transparent pricing;
- increased functionality and reliability of e-commerce websites;
- the emergence of mobile connected devices and specialized websites; and
- the proliferation of online distribution channels.

As a result of these factors, consumers today have more options than ever before to discover, research and purchase products online.

While these e-commerce growth drivers create significant opportunity for retailers and manufacturers, they also create additional complexity and challenges. Retailers and manufacturers seeking new avenues to expand their online sales must manage product data and transactions across hundreds of highly fragmented online channels where data attributes vary, requirements change frequently and the pace of innovation is rapid and increasing.

We address these challenges by offering retailers and manufacturers SaaS solutions that enable them to integrate, manage and optimize their merchandise sales on our platform across these disparate online channels, as well as with our Where to Buy solution. We generate the majority of our revenue from our customers' access to and usage of our SaaS solutions, which are organized into modules. Each module integrates with a particular type of channel, such as third-party marketplaces, digital marketing websites and authorized reseller websites, or supports specific online functionality aimed at customers wanting to establish their own e-commerce presence or enhance the effectiveness of their existing storefronts, such as creating webstores or employing rich media solutions on their websites. Using our solutions, customers can:

- connect with new channels and more easily integrate with channels they already use;
- access emerging online sources of consumer demand, such as social networks and mobile devices;
- adapt to the frequently changing policies and requirements of each channel;
- manage real-time inventory allocation and availability across channels;
- implement dynamic pricing and promotion strategies across channels;

## Table of Contents

- efficiently manage, evaluate and optimize customer traffic to their own e-commerce websites;
- more easily sell into new geographic territories worldwide;
- provide a seamless consumer journey from manufacturer websites to the e-commerce sites of authorized resellers;
- reduce dependence on in-house information technology staff and avoid significant up-front capital expenses; and
- access in real-time the latest product and software upgrades that we regularly release on our SaaS platform to keep up with the rapid pace of change and innovation in the market.

We derive our revenue primarily 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 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 believe that our subscription fee pricing model aligns our interests with those of our customers. We also receive implementation fees, which may include fees for providing launch assistance and training.

Our reported operating results include revenue attributable to the products from two small legacy acquisitions prior to 2008. We do not consider these products to be a core part of our strategic focus going forward. In this Annual Report, we may refer to core revenue, which is our revenue excluding revenue attributable to these non-core, legacy products, and core customers, which are customers who subscribe to any of our solutions other than these non-core, legacy products. These metrics are described in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Key Operating and Financial Performance Metrics."

### Industry Background

Increasing complexity and fragmentation for retailers and manufacturers selling online

E-commerce is a large and global market that continues to expand as retailers and manufacturers continue to increase their online sales. However, it is also an increasingly complex and fragmented market due to the hundreds of channels available to retailers and manufacturers and the rapid pace of change and innovation across those channels.

Historically, a retailer or manufacturer might have simply established an online storefront and used a basic paid search program to drive traffic to its website. Today, in order to gain consumers' attention in a more crowded and competitive online marketplace, many retailers and an increasing number of manufacturers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In addition, retailers and manufacturers often seek to sell their products in multiple countries, each with its own local consumer preferences and behaviors.

Several significant trends have contributed to this increasing complexity and fragmentation, including:

Emergence and growth of online third-party marketplaces. Third-party marketplaces, which are marketplaces that aggregate many sellers, are an increasingly important driver of growth for a number of large online retailers. Some of these marketplaces, such as Amazon, offer products from their own inventory, known as first-party products, as well as products sold by others, known as third-party products; other marketplaces, such as eBay, offer only third-party products. In addition, several of the largest traditional brick-and-mortar retailers, including Walmart, Best Buy, Sears and Tesco, have incorporated third-party marketplaces into their online storefronts, allowing other retailers and manufacturers to market their products to consumers they might not otherwise reach.

Mainstream adoption of mobile devices for e-commerce. Mobile internet-enabled devices, such as smartphones and tablets, enable new consumer shopping behaviors, such as in-store barcode scanning to find online promotions, better pricing or alternative products, a practice commonly known as "showrooming." While benefiting consumers by increasing the transparency and accessibility of e-commerce, the proliferation of mobile devices and mobile commerce requires retailers and manufacturers to build additional device-specific optimization and functionality into their sites, increasing the complexity of managing their online presences.

Growth of additional online consumer touch points. As consumers have moved more of their shopping and product discovery online, paid search and comparison shopping sites, as well as branded manufacturer websites,

## Table of Contents

have emerged as key influencers and important points of product research for consumers making purchase decisions. Global growth in e-commerce driving opportunities for international selling. The growth in e-commerce globally presents an opportunity for retailers and manufacturers to engage in international sales. However, country-specific marketplaces are often the market share leaders in their regions, as is the case for MercadoLibre in much of Latin America and Alibaba in Asia. Retailers and manufacturers seeking to increase international e-commerce often need to extend their online presence to include a variety of these international channels.

Widespread use of social networking and commerce applications. The rapid growth of social networking and commerce applications provides a nascent but potentially valuable channel through which retailers and manufacturers can connect to consumers.

### Challenges with alternative e-commerce solutions

The fragmentation and increasing complexity of e-commerce channels is placing greater demands on retailers and manufacturers that seek to grow their online sales. These retailers and manufacturers need solutions that will enable them to easily integrate their product offerings and inventory across multiple online channels. Traditional solutions, however, typically suffer from several limitations, including the following:

In-house solutions are costly and may be slow to adapt to industry change and innovation. To keep up with the pace of change and innovation of online channels, retailers and manufacturers that rely on in-house capabilities are required to invest in and maintain significant technological infrastructure, human resources and industry relationships. Successful in-house solutions typically require long periods of setup time, substantial up-front capital expenditures and significant ongoing maintenance expense.

Point solutions are limited in functionality and channels supported. There are numerous narrowly tailored, or point, solutions available for retailers and manufacturers to help them manage single online channels or a single category of channels, but these point solutions often do not address the needs of retailers and manufacturers seeking to manage pricing and inventory across multiple channels through a single, unified platform.

Solutions provided by the channels are not aligned with customers' broader online goals. Most online channels offer their own solutions that help retailers and manufacturers connect with their specific channel and provide basic inventory control and data reporting functionality. By their very nature, however, these solutions are not channel independent and cannot help customers coordinate or optimize their online sales across the multiple online avenues available to them. As with point solutions, retailers and manufacturers must work with disparate third-party providers to connect with a broad array of channels, which requires significant time and costs.

SaaS solutions generally offer customers several distinct advantages over traditional in-house models, known as on-premises solutions, including lower upfront and ongoing costs, faster speed of implementation and less reliance on internal IT staff.

### The ChannelAdvisor Solution

Our suite of SaaS solutions allows our customers to more easily integrate, manage and optimize their online sales across hundreds of available channels through a single, integrated platform. Our suite of solutions includes a number of individual offerings, or modules. Each module integrates with a particular type of channel, such as third-party marketplaces, digital marketing websites or authorized reseller websites, or supports specific online functionality aimed at customers wanting to establish their own e-commerce presence or enhance the effectiveness of their existing online storefronts, such as creating webstores or employing rich media solutions on their websites.

Using our cloud-based platform, customers can connect to multiple, disparate channels through a single, user-friendly solution instead of separately integrating with each channel. We provide a single code base and multi-tenant architecture for our platform customers, which means that all platform customers operate on the same version of our software and we do not customize our products for individual platform customers. We provide our customers with access to new and existing online channels and new sources of demand for their products, which can ultimately lead to increased revenue for our customers.

Table of Contents

The following diagram illustrates our comprehensive cloud-based technology platform:

We believe our suite of solutions offers the following key benefits for our customers:

Single, fully integrated solution. Through our SaaS platform, we provide our platform customers with a single web-based interface as the central location for them to control, analyze and manage their online sales across hundreds of available channels and multiple geographies. This unified view enables our customers to more cost-effectively manage product listings, inventory availability, pricing optimization, search terms, data analytics and other critical functions across channels based on the customer's specified rules and performance metrics in order to drive traffic and increase revenue.

Reduced integration costs, time to market and dependence on in-house resources. Customers can more easily and quickly introduce their products, both to channels on which they already have a presence and to new channels, without the costs related to installing and maintaining their own hardware and software infrastructure. A customer's initial installation and integration of our solutions can often be completed in less than two months, with additional modules of our software generally available immediately without incurring significant additional resources to integrate. We manage and host our solutions on behalf of our customers, thereby reducing the customer's cost and dependency on dedicated IT staff or on-premises systems.

Scalable technology platform. In 2014, our customers processed approximately \$5.7 billion in GMV through our platform. We believe that the scalability of our platform allows us to quickly and efficiently support an increasing number of product listings and transactions processed through our platform as we add new customers, integrate new channels and accommodate seasonal surges in consumer demand.

Flexibility to adapt and instantaneous access to our most up-to-date capabilities. Channels are frequently updating their product information requirements, policies, merchandising strategies and integration specifications, requiring customers to frequently revise their product listings, attributes, business rules and possibly even their overall online business strategies. Without the ability to quickly adapt to these changes, customers risk losing



## Table of Contents

revenue. Through our single code base and multi-tenant architecture, we provide platform customers the latest channel updates through regular product upgrades. When we develop and deploy new features, functions and capabilities, or make changes to keep up with the changing priorities and requirements of each channel, our customers simultaneously benefit from those new capabilities and changes.

**Robust data and reporting analytics.** Through our robust data and reporting analytics, we provide our customers with insight into the latest channel and consumer trends and general product performance. Our dashboards highlight sales trends, top performing products, seller reputation and repricing activity, among other key performance indicators, and alert customers to issues and errors in product listings. These capabilities provide actionable insights that allow customers to evaluate and, if necessary, improve the efficiency of their business rules on existing or new channels.

### **Our Products**

#### **Key Elements of the ChannelAdvisor Platform**

We automate the workflow through which retailers and manufacturers manage their sales through online channels.

Our suite of solutions includes the following key capabilities:

**Inventory and order management.** We provide a platform for our customers to upload and modify their product catalog data, monitor inventory stock levels and create a single inventory feed that serves multiple available online channels. Managing inventory and order data is the foundation for much of the customer activity on our platform. We offer a variety of ways for customers to enter and modify product data, including through a sophisticated user interface, file exchange and application programming interfaces, or APIs. Our inventory system is capable of scaling across thousands of customers during critical selling periods, such as the year-end holiday season. The flexibility of the system allows each customer to customize the inventory data specific to its products, such as size, color, height and width, and to vary the format of the data to meet the specific requirements of each channel. Our platform provides various features that allow a customer to list products on multiple channels while mitigating the risk of overselling. These features include the ability to allocate inventory across channels, set buffer quantities to avoid overselling and receive automatic updates based on changes to the customer's inventory.

**Product matching.** Once inventory is loaded into the platform, we provide features that improve our customer's ability to successfully list its products on the various channels. Depending on the needs of the particular channel, we are able to pre-validate the customer's data and formats before sending them to the channel, reducing errors caused by poor data quality and thus reducing the time it takes to list products on that channel. On some channels, we employ advanced product-matching algorithms that are designed to accurately place the customer's product offerings within the channel's product classification taxonomy.

**Business rules and templates.** Our platform offers tools that enable a customer to develop and manage sophisticated business rules and product listing templates that automatically determine how and when the product will be displayed in each channel. Through a single interface, a platform customer can utilize these tools to customize product listing descriptions across various channels using different attributes, such as price, time of day and competitive dynamics. For example, a consumer electronics retailer can automatically advertise tens of thousands of products on multiple channels while ensuring real-time accuracy of product availability, optimizing price and managing to specific margin thresholds, all at an individual product level.

**Price optimization.** Our platform provides customers the ability to dynamically price their products across some of our available channels based on a number of factors, such as prices of competitors, margin thresholds and promotions. Prices can vary by channel and, using our sophisticated technology, a customer can automatically update pricing based on the competitive environment. The customer avoids the manual effort of monitoring the competition and changing prices, while preserving the ability to remain price competitive.

**Proprietary reporting and analytics.** We provide proprietary reporting and analytics capabilities that allow our customers to view general product performance and trends affecting their consumer base across multiple channels and to obtain detailed performance data at a channel or stock-keeping unit level that can be used in a particular online sales campaign. Our dashboards highlight sales trends, top performing products, seller reputation and repricing activity, among other key performance indicators. The dashboards also alert customers to issues or errors, such as data that is in a form inconsistent with the requirements of a particular channel. These capabilities provide actionable insights that allow customers to revise their business rules and listings on a real-time basis with the goal of improving

their sales and profitability.

• **Developer ecosystem.** We offer third-party developers of complementary e-commerce solutions access to our platform through APIs. These APIs enable these third-party developers to build connections to our platform that

7

---

## Table of Contents

meet their specific needs without requiring us to offer customized software code to them. We currently provide APIs to approximately 220 third-party developers who have integrated their solutions with ours. For example, our API integrates our platform with online storefronts provided by Demandware, another provider of SaaS e-commerce solutions, to further streamline our joint customers' e-commerce operations.

### Individual Modules

We offer our software suite to customers through a series of modules. Generally, each of our modules is priced individually and is integrated with our platform's underlying inventory management system, templates, rules and reporting systems. The primary modules we offer are:

**Marketplaces.** Our Marketplaces module connects customers to third-party marketplaces, including Amazon, Best Buy, eBay, La Redoute, Newegg, Sears.com, Tesco and TradeMe.

**Digital Marketing.** Our Digital Marketing module connects customers to comparison shopping websites such as Google Shopping, Nextag and PriceGrabber, allows customers to advertise products on search engines such as Google, Bing and Yahoo! and connects customers to social commerce sites such as Facebook, Polyvore and Pinterest. Our Digital Marketing module also includes Flex Feeds, which allow customers to generate and send customized product data feeds to their partners, such as affiliate networks, retargeting vendors, personalization vendors and product review platforms.

**Where to Buy.** Our Where to Buy solution allows brands to provide their website visitors with up-to-date information about the authorized resellers that carry their products and the availability of those products. This gives consumers an easy way to find and purchase branded products from an authorized reseller of their choice. The solution improves the consumer experience and helps brands gain a better understanding of consumer behavior through detailed data about the flow of traffic between the brand and retailer.

We also offer two additional modules aimed at customers that want to establish their own e-commerce storefronts or to enhance the effectiveness of their existing storefronts.

**Webstores Amplifier.** Our Webstores Amplifier module allows customers to connect their product data to a webstore platform such as Shopify and BigCommerce. This connection enables product data on their website to be synchronized with the product catalog data entered in ChannelAdvisor. Additionally, order and post-transaction information is synchronized with their ChannelAdvisor account.

**Rich Media.** Our Rich Media module provides enhanced media asset management, image zoom, color swatching and video capabilities and is targeted to customers seeking to enhance product merchandising and their consumers' online experience on their e-commerce websites, thereby improving conversion rates.

### Our Customers

As of December 31, 2014, we had over 2,800 core customers worldwide, including retail and manufacturer customers across many consumer product categories, and served 32% of the Internet Retailer Top 500 based on 2013 sales. For the year ended December 31, 2014, our ten largest customers in the aggregate accounted for 6.2% of our total revenue. No single customer accounted for more than 2% of our total revenue during the year ended December 31, 2014.

Table of Contents

The following chart provides a breakdown of our core customer base as of December 31, 2014 by retail category:  
The following chart shows the breakdown of our core customer base as of December 31, 2014 by geography:  
The percentages in the charts above reflect the number of core customers in the specified categories. We assign each customer to one of the retail categories shown in the first chart based on the primary category of merchandise it sells or promotes online, even though some customers may sell merchandise in more than one category. We categorize U.S. and international customers based on their billing address.

## Table of Contents

We also classify our platform customers into self-service accounts and managed-service accounts. Self-service customers operate our software themselves, while managed-service customers generally outsource most or all of the management of one or more channels to our professional services team, which then operates our software on the customer's behalf based on instructions provided to us by the customer. Our self-service customers account for a majority of our revenue.

### Our Technology Platform

We have developed our proprietary technology platform over more than a decade with a focus on delivering industry-leading breadth, scalability, reliability and flexibility. Our platform has always been cloud-based and SaaS, with a single code base and multi-tenant software architecture. Because of this, there is no need for our customers to download, install or upgrade software.

We develop our software using agile software development methodologies, which allow us to rapidly iterate by developing small, incremental changes that are continuously integrated into our code base. We generally release new versions of our software approximately every 30 days, except during the year-end holiday season. Through our single code base and multi-tenant software architecture, our customers benefit from our new capabilities simultaneously. We do not need to maintain multiple versions of our software code for different customers.

We physically host our platform in three secure third-party data center facilities located in North America. We deploy both hardware we own and hardware we lease, including servers, networking systems and storage systems, in these data center facilities. We use hardware and software virtualization to maximize the utilization we achieve from our hardware systems. The data center facilities are biometrically secured, environmentally controlled and redundantly powered. We employ system security, including firewalls, encryption technology and antivirus software, and we conduct regular system tests and vulnerability and intrusion assessments. In the event of failure, we have engineered our systems with backup and recovery capabilities designed to provide for business continuity within each data center. We also make use of third-party cloud-based systems, such as content delivery networks, to push some of our storage and processing into the cloud.

### Research and Development

Our research and development efforts are focused on enhancing the architecture of our technology platform, creating additional functionality for our customers, enhancing our external developer APIs and maintaining and extending the various points of integration we have to the online channels we support. As of December 31, 2014, we had a total of 102 employees engaged in research and development functions.

### Competition

The market for products that help retailers and manufacturers reach online consumers is competitive. The competitive dynamics of our market are unpredictable because it is in an early stage of development, rapidly evolving, fragmented and subject to potential disruption by new technological innovations and the ability of channels to compete with us or make changes to which we need to rapidly adapt.

Several competitors provide solutions that compete with some of the capabilities of our platform, including those who provide software or services to connect retailers and manufacturers with one or more online channels. We also compete with in-house solutions used by retailers and manufacturers that elect to build and maintain their own proprietary integrations to online channels. In addition, we compete with the channels themselves, which typically offer software tools, often for free, allowing retailers and manufacturers to connect to them.

We believe the principal competitive factors in our industry include:

- industry expertise and thought leadership;
- relationships with leading online channels;
- relationships with leading retailers and manufacturers;
- channel independence;
- breadth of online channels supported;
- integration of capabilities;
- proven and scalable technology; and
- brand awareness and reputation.



## Table of Contents

We believe that we compete favorably with respect to all of these factors.

### Intellectual Property

Our ability to protect our intellectual property, including our technology, will be an important factor in the success and continued growth of our business. We protect our intellectual property through trade secrets law, patents, copyrights, trademarks and contracts. Some of our technology relies upon third-party licensed intellectual property.

We have two patent applications pending in the United States and one patent application pending in Brazil. We expect to apply for additional patents to protect our intellectual property as appropriate. We own U.S., European Union and Australian trademark registrations for ChannelAdvisor and have trademark registrations pending in other countries. In addition to the foregoing, we have established business procedures designed to maintain the confidentiality of our proprietary information, including the use of confidentiality agreements and assignment-of-inventions agreements with employees, independent contractors, consultants and companies with which we conduct business.

### Backlog

Backlog represents the total committed subscription fees to be received under our customer contracts that has not yet been recognized as revenue. As of December 31, 2014 and 2013, our backlog was approximately \$43.4 million and \$38.2 million, respectively. As described in this report, our customer contracts usually have a term of one year, and therefore the substantial majority of our backlog is expected to be recognized as revenue within the one-year contract term. However, because revenue for any period is a function of revenue recognized from deferred revenue and backlog under contracts in existence at the beginning of the period, as well as contract renewals and new customer contracts during the period, our backlog at the beginning of any period is not necessarily indicative of our future performance. Our presentation of backlog may differ from other companies in our industry.

### Government Regulation

The legal environment of the internet is evolving rapidly in the United States and elsewhere. The manner in which existing laws and regulations will be applied to the internet in general, and how they will relate to our business in particular, both in the United States and internationally, are often unclear. For example, we often cannot be certain how existing laws will apply in the e-commerce and online context, including with respect to such topics as privacy, pricing, credit card fraud, advertising, taxation, content regulation, quality of products and services and intellectual property ownership and infringement. Furthermore, it is not clear how existing laws governing issues such as sales and other taxes and personal privacy will apply to the internet, as many of these laws were adopted prior to the advent of the internet and do not contemplate or address the unique issues raised by the internet or e-commerce. It is also unclear how the laws that do reference the internet will be interpreted by courts, which may impact their applicability and scope. Compliance may be costly and may require us to modify our business practices and product offerings. In addition, it is possible that governments of one or more countries may seek to censor content available on the websites of our customers or may even attempt to completely block access to those websites. Noncompliance or perceived noncompliance could also subject us to significant penalties and negative publicity. Accordingly, adverse legal or regulatory developments could substantially harm our business.

Customers load product information and other content onto our platform, generally without any control or oversight by us, at which point we may legally be considered to be the distributor of that content. This presents legal challenges to our business and operations, such as rights of privacy or intellectual property rights related to the content loaded onto our platform. Both in the United States and internationally, we must monitor and comply with a host of legal concerns regarding the content loaded onto our platform. The scope of our liability for third-party content loaded to our platform for delivery to various online e-commerce channels may vary from jurisdiction to jurisdiction and may vary depending on the type of claim, such as privacy, infringement or defamation claims. Our ability to employ processes to quickly remove infringing or offending content from our platform, for example, is an important tool in protecting us from exposure for the potentially infringing activities of our users worldwide. We also incorporate protections in customer contracts that allow us to take steps, if needed, to limit our risk regarding much of the content loaded onto, and collected by, our platform and solutions.

Numerous laws and regulatory schemes have been adopted at the national and state level in the United States and internationally that have a direct impact on our business and operations. These laws include, but are not limited to, the following:

Copyright and trademark. The Copyright Act of 1976 and the statutes and regulations associated with copyrights and trademarks and enforced by the United States Patent and Trademark Office are intended to protect the rights of third parties from infringement. Using our automated service, customers can generally upload any content they designate for use with our



Table of Contents

solutions. We maintain an active copyright and trademark infringement policy and respond to take-down requests by third-party intellectual property right owners that might result from content posted by our customers using our solutions. As our business expands to other countries, we must also respond to regional and country-specific intellectual property considerations, including take-down and cease and desist notices in foreign languages, and we must build infrastructure to support these processes. The Digital Millennium Copyright Act, or DMCA, also applies to our business. This statute provides relief for claims of circumvention of copyright-protected technologies but includes a safe harbor that is intended to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights of others. Our copyright and trademark infringement policy is intended to satisfy the DMCA safe harbor in order to reduce our liability for customer-generated materials incorporated into our platform.

**Data privacy and security.** Data privacy and security with respect to the collection of personally identifiable information continues to be a focus of worldwide legislation and compliance review. Examples include statutes adopted by the State of California that require online services to report breaches of the security of personal data, and to report to California customers when their personal data might be disclosed to direct marketers. In the European Union, where U.S. companies must meet specified privacy and security standards, the Data Protection Directive requires comprehensive information privacy and security protections for consumers with respect to information collected about them. Compliance requirements include disclosures, consents, transfer restrictions, notice and access provisions for which we may in the future need to build further infrastructure to support. We adhere to the Data Protection Directive's Safe Harbor Privacy Principles and comply with the U.S.-E.U. Safe Harbor Framework as agreed to and set forth by the U.S. Department of Commerce and the European Union concerning U.S. companies doing business in Europe and collecting personal information from European citizens. Under the Safe Harbor Framework, we post on our website our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, the Safe Harbor Framework, U.S. Federal Trade Commission, or FTC, requirements or other privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition.

In this regard, there are a large number of legislative proposals before the U.S. Congress and various state legislative bodies regarding privacy issues that could affect our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in customers and revenue. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before prospective buyers can interact with our customers. For example, we have had to work with our customers to comply with the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 instituted by the United Kingdom, commonly referred to as the UK Cookie Law, which was designed to protect computer users from technologies identifying their computers and specified activities conducted on those computers without the users' consent. We use tracking technology to track purchases from our customers through our platform, in order to calculate variable subscription fees owed by our customers, among other things. Prohibiting or inhibiting such tracking could make it difficult or impossible to monitor our variable subscription fees. The interpretation and implementation of processes to comply with the UK Cookie Law continues to evolve, and we cannot predict how any new laws will apply to us or our business. Similar "do not track" legislative proposals have been considered in the United States at the federal level, although none have been enacted to date. If enacted, such legislative proposals could prohibit or restrict the use of certain technologies, including tracking technology.

**Unsolicited e-mails and communications.** The CAN-SPAM Act of 2003 and similar laws adopted by a number of states regulate unsolicited commercial e-mails, create criminal penalties for unmarked sexually-oriented material and e-mails containing fraudulent headers and control other abusive online marketing practices. Similarly, FTC guidelines impose responsibilities upon us and our customers for communications with consumers and impose fines and liability for any failure to comply with rules relating to advertising or marketing practices that the FTC may deem misleading or deceptive. The European Union also maintains standards and regulations with respect to communications with consumers that we must comply with as we expand our marketing practices into those countries or with which our

customers, utilizing our solutions, must comply. Some ways we seek to comply with these measures include requiring our customers to communicate with their consumers in order to comply with laws concerning spam and unsolicited emails and establishing processes to allow direct receivers of e-mail marketing communications from us to opt out of future communications.

Credit card protections. We collect credit card data in processing the fees paid to us by our customers, as well as consumer credit card information when our customers use some of our solutions. Several major credit card companies have formed the Payment Card Industry Council, or PCI Council, in order to establish and implement security standards for companies that transmit, store or process credit card data. The PCI Council has created the Payment Card Industry Data Security Standard, or PCI DSS. Though the PCI DSS is not law, merchants using PCI Council members to process transactions are required to comply with the PCI DSS, with associated fines and penalties for non-compliance. Elements of the PCI DSS have begun to emerge as law in some states, however, and we expect the trend to continue as to further laws and restrictions in collecting and using credit card information. All of our solutions, to the extent they involve the collection of consumer credit

Table of Contents

card information, are PCI DSS compliant. We have also engaged a third-party compliance adviser to assess our compliance with the PCI DSS on an annual basis.

Employees

As of December 31, 2014, we had 683 employees, most of whom are located in the United States. Certain of our employees in various countries outside of the United States are subject to laws providing representation rights. We consider our relationship with our employees to be good.

Information about Segment and Geographic Revenue

Information about segment and geographic revenue is set forth in Part II, Item 8. "Note 12 - Segment and Geographic Information" of this Annual Report.

Corporate Information

We were incorporated under the laws of the State of Delaware in June 2001. Our principal executive offices are located at 2701 Aerial Center Parkway, Morrisville, North Carolina. Our telephone number is (919) 228-4700.

Available Information

Our internet website address is [www.channeladvisor.com](http://www.channeladvisor.com). In addition to the information about us and our subsidiaries contained in this Annual Report, information about us can be found on our website. Our website and information included in or linked to our website are not part of this Annual Report.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission, or SEC. The public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally the SEC maintains an internet site that contains reports, proxy and information statements and other information. The address of the SEC's website is [www.sec.gov](http://www.sec.gov).

Table of Contents

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 Annual Report, 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 we expect our operating expenses to increase significantly in the foreseeable future, which may make it more difficult for us to achieve profitability.

We incurred net losses of \$34.5 million and \$20.6 million during the years ended December 31, 2014 and 2013, respectively, and we had an accumulated deficit of \$134.6 million as of December 31, 2014. We anticipate that our operating expenses will increase substantially in the foreseeable future as we invest in increased sales and marketing and research and development efforts. As a result, we can provide no assurance as to whether or when we will achieve profitability. In addition, as we became a public company in 2013, we will continue to incur significant accounting, legal and other expenses that we did not incur as a private company. To achieve profitability, we will need to either increase our revenue sufficiently to offset these higher expenses or significantly 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 gross merchandise value, or 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 manufacturers to be able to sell their merchandise on particular channels. 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 on the part of channels. 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.

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.

## Table of Contents

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 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.

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

Our solutions enable retailers and manufacturers to manage their merchandise sales through hundreds of disparate online channels. One of the key attractions of our solutions to retailers and 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 manufacturers have been increasing, at the same time the share of online sales made through a small number of larger channels, particularly Amazon and eBay, has also been increasing. If the trend toward consolidation around a few large online channels accelerates, the difficulties faced by retailers and manufacturers could decline, which might make our solutions less important to retailers and 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.

15

---

## Table of Contents

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.

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. Third-party cookies can be specifically blocked by browser settings, and, for example, the Safari internet browser blocks third-party cookies by default. 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 can 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.

Table of Contents

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.

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 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 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 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 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

17

---

## Table of Contents

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 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.

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, particularly Scot Wingo, our chief executive officer, Aris Buinevicius, our chief technology officer, David Spitz, our president and chief operating officer, and John Baule, our chief financial officer. 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:



## Table of Contents

- 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.

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, legislation currently moving through the U.S. Senate and the U.S. House of Representatives, called the Marketplace Fairness Act, 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, while the current Senate and House legislation includes an exception for small retailers, some of the state efforts do not and 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 income 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.

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

## Table of Contents

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 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

Table of Contents

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.

**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;
- 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



## Table of Contents

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 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 sought patent protection for some of our technologies and currently have two U.S. patent applications and one international patent application on file, although there can be no assurance that these patents will ultimately be issued. We are also pursuing the registration of our domain names, trademarks and service marks in the United States and in jurisdictions outside the United States. Effective trade secret, copyright, trademark, domain name and patent protection is expensive to

## Table of Contents

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 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.

Prior to our initial public offering, or IPO, in May 2013, there was no public market for our common stock. 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.

Since our IPO 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;

## Table of Contents

• stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the software industry;

• 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 January 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 current executive officers. We are currently evaluating the claims asserted in these two matters. These cases, and additional 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;





Table of Contents

• 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.

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 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 Securities and Exchange Commission, or SEC, or other regulatory authorities.

25

---

## Table of Contents

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.

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

As a newly public company listed in the United States, we have begun, and will continue, particularly after we cease to be an "emerging growth company," to incur significant additional legal, accounting and other costs. 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, availability under our existing credit facility and net proceeds from our public offerings, 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. In addition, pursuant to the terms of our credit facility, we may be restricted from using the net proceeds of financing transactions for our operating objectives. 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.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

Our principal offices occupy approximately 67,000 square feet of leased office space in Morrisville, North Carolina pursuant to a lease agreement that expires in September 2021. In August 2014, we entered into a lease agreement for the lease of approximately 137,000 square feet of office space to replace our current corporate headquarters. The building containing the leased space is being constructed, and the lease term will commence on the date that the construction of the leased premises is substantially complete, which is targeted to be October 2015. Refer to Part II, Item 8. "Note 6 - Commitments and Contingencies" of this Annual Report for additional information.

We also maintain sales, service, support or research and development offices in Seattle, Washington; London, England; Limerick, Ireland; Berlin, Germany; Melbourne, Australia; Sydney, Australia; Sao Paulo, Brazil; Shanghai, China; and Shenzhen, China.

Table of Contents

We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

**ITEM 3. LEGAL PROCEEDINGS**

Dice v. ChannelAdvisor Corporation et al. and Gracia v. ChannelAdvisor Corporation et al. On January 23, 2015, plaintiff Justin Dice filed a purported class action complaint in the U.S. District Court for the Southern District of New York, alleging violations of the federal securities laws against us and certain of our executive officers. Plaintiff alleges that the defendants engaged in a fraudulent scheme to artificially inflate the price of our common stock by making false and misleading statements to investors concerning our financial guidance for the fourth quarter of 2014. On January 26, 2015, plaintiff David Gracia also filed a purported class action complaint in the U.S. District Court for the Southern District of New York, in which Plaintiff brings the same claims, against the same named defendants, as in the action brought by Mr. Dice. The complaint names us and certain of our executive officers. We are currently evaluating the claims asserted in these two matters.

In addition, from time to time, we are subject to litigation and claims arising in the ordinary course of business but except as stated above, 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information for Common Stock

Our common stock commenced trading on the NYSE under the symbol "ECOM" on May 23, 2013. Prior to our IPO, there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low reported sales prices of our common stock as reported on the NYSE:

	2013 *		2014	
	High	Low	High	Low
First quarter			\$49.90	\$35.41
Second quarter	\$19.77	\$14.25	\$39.36	\$19.11
Third quarter	\$41.25	\$15.16	\$27.16	\$15.31
Fourth quarter	\$44.08	\$31.90	\$22.47	\$11.83

\* Beginning on May 23, 2013.

## Stock Performance Graph

The graph set forth below compares the cumulative total stockholder return on an initial investment of \$100 in our common stock between May 23, 2013, the date on which our common stock began trading on the New York Stock Exchange, and December 31, 2014, with the comparative cumulative total return of such amount on (i) the Dow Jones Industrial Average Total Return and (ii) the NASDAQ Computer Index over the same period. We have not paid any cash dividends and, therefore, the cumulative total return calculation for us is based solely upon our stock price appreciation or depreciation and does not include any reinvestment of cash dividends. The graph assumes our closing sales price on May 23, 2013 of \$18.44 per share as the initial value of our common stock.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Table of Contents

The information presented above in the stock performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933, as amended, or a filing under the Securities Exchange Act of 1934, as amended.

Dividend Policy

We have never declared or paid any dividends on our common stock. We anticipate that we will retain all of our future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of the agreements governing our credit facility.

Stockholders

As of February 11, 2015, there were 107 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Use of Proceeds from Initial Public Offering of Common Stock

On May 22, 2013, our Registration Statement on Form S-1, as amended (File No. 333-187865) was declared effective in connection with our IPO, pursuant to which we sold 6,612,500 shares of our common stock, including the full exercise of the underwriters' option to purchase additional shares, at a price to the public of \$14.00 per share. The offering closed on May 29, 2013, and, as a result, we received net proceeds of approximately \$82.0 million (after underwriters' discounts and commissions of approximately \$6.5 million and additional offering related costs of approximately \$4.1 million). The joint managing underwriters of the offering were Goldman Sachs & Co. and Stifel, Nicolaus & Company, Incorporated.

No expenses incurred by us in connection with our IPO were paid directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors as compensation for board or board committee service.



Table of Contents

There has been no material change in the planned use of proceeds from our IPO from that described in the final prospectus filed by us with the Securities and Exchange Commission on May 23, 2013. During the period from the closing of the IPO through December 31, 2014, we used the proceeds from the IPO as follows: approximately \$27.9 million to fund operations, approximately \$16.5 million for debt and capital lease repayments, approximately \$10.9 million for capital expenditures and approximately \$8.0 million for the acquisition of E-Tale Holdings Limited, or E-Tale.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Parties

None.

30

---

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 is derived from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, independent registered public accounting firm. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data should be read together with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in conjunction with the consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except share and per share data)				
Consolidated statement of operations data:					
Revenue	\$84,901	\$68,004	\$53,587	\$43,570	\$36,688
Cost of revenue	24,220	18,088	14,749	12,248	12,164
Gross profit	60,681	49,916	38,838	31,322	24,524
Operating expenses:					
Sales and marketing	55,829	37,458	24,326	19,106	14,867
Research and development	16,585	12,669	10,109	8,842	8,416
General and administrative	22,275	14,154	8,252	6,551	6,111
Total operating expenses	94,689	64,281	42,687	34,499	29,394
Loss from operations	(34,008 )	(14,365 )	(3,849 )	(3,177 )	(4,870 )
Total other (expense) income	(465 )	(6,060 )	(1,154 )	(636 )	258
Loss before income taxes	(34,473 )	(20,425 )	(5,003 )	(3,813 )	(4,612 )
Income tax expense (benefit)	41	203	(70)	51	112
Net loss	\$(34,514 )	\$(20,628 )	\$(4,933 )	\$(3,864 )	\$(4,724 )
Net loss per share—basic and diluted	\$(1.40 )	\$(1.51 )	\$(4.23 )	\$(3.45 )	\$(4.77 )
Weighted average shares of common stock outstanding used in computing net loss per share—basic and diluted	24,619,714	13,695,804	1,164,942	1,120,902	989,780
Stock-based compensation expense included above:					
Cost of revenue	\$533	\$204	\$64	\$15	\$21
Sales and marketing	2,911	607	224	16	59
Research and development	864	348	105	58	38
General and administrative	3,673	940	245	111	216
Other financial data:					
Adjusted EBITDA(1)	\$(19,532 )	\$(8,532 )	\$(277 )	\$(910 )	\$(422 )

We define adjusted EBITDA as net loss plus or (minus): income tax expense (benefit), interest expense, depreciation and amortization, stock-based compensation, acquisition-related costs and loss on extinguishment of (1)debt. Please see “—Adjusted EBITDA” for more information and for a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States, or GAAP.

	As of December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	\$68,366	\$104,406	\$10,865	\$4,998	\$6,939

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Accounts receivable, net	14,619	13,951	9,571	7,677	6,235
Restricted cash	633	685	687	886	890
Total assets	127,047	148,786	48,022	35,777	36,029
Long-term debt, including current portion	—	—	10,972	4,826	5,330
Series A and Series C warrants liability	—	—	3,235	592	331
Total liabilities	33,399	31,006	33,706	17,217	13,973
Total redeemable convertible preferred stock	—	—	90,495	90,413	90,363
Additional paid-in capital	228,370	218,330	3,584	2,932	2,684
Total stockholders' equity (deficit)	93,648	117,780	(76,179	) (71,853	) (68,307

31

---

Table of Contents

## Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have provided within this Annual Report adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation below of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this Annual Report because it is a key measure used by our management and board of directors to understand and evaluate our operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of some expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business. Accordingly, we believe that adjusted EBITDA provides useful information to investors in understanding and evaluating our operating results.

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 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 other GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

The following table presents a reconciliation of net loss to adjusted EBITDA for each of the periods indicated:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Net loss	\$(34,514 )	\$(20,628 )	\$(4,933 )	\$(3,864 )	\$(4,724 )
Adjustments:					
Interest expense, net	209	2,960	1,185	642	486
Income tax expense (benefit)	41	203	(70 )	51	112
Depreciation and amortization expense	6,264	3,722	2,903	2,061	3,370
Total adjustments, net	6,514	6,885	4,018	2,754	3,968
EBITDA	(28,000 )	(13,743 )	(915 )	(1,110 )	(756 )
Stock-based compensation expense	7,981	2,099	638	200	334
Acquisition-related costs	487	—	—	—	—
Loss on extinguishment of debt	—	3,112	—	—	—
Adjusted EBITDA	\$(19,532 )	\$(8,532 )	\$(277 )	\$(910 )	\$(422 )

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review Item 1A. "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a leading provider of software-as-a-service, or SaaS, solutions that enable our retailer and manufacturer customers to integrate, manage and optimize their merchandise sales across hundreds of online channels. 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 eBay, Amazon and Newegg, search engines and comparison shopping websites, such as Google, Bing, Nextag and Sears, and emerging channels, such as Facebook 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 a Where to Buy solution that allows branded manufacturers to send visitors to their website directly to authorized resellers and to gain insight into consumer behavior. Our proprietary cloud-based technology platform delivers significant breadth, scalability and flexibility to our customers. In 2014, our customers processed approximately \$5.7 billion in gross merchandise value, or GMV, through our platform.

We sell subscriptions to our SaaS solutions primarily through our direct sales force. Our customers include the online businesses of traditional retailers, online retailers and branded manufacturers, as well as advertising agencies that use our solutions on behalf of their retailer clients. As of December 31, 2014, we had over 2,800 core customers worldwide, including 32% of the top 500 U.S. internet retailers, as identified by Internet Retailer magazine based on their 2013 online sales.

We operate in one segment and derive a majority of our revenue from our customers' access to and usage of our SaaS solutions, which are organized into modules. Each module integrates with a particular type of channel, such as third-party marketplaces, digital marketing websites and authorized reseller websites, or supports a specific online functionality, such as creating webstores or employing rich media solutions on their websites. 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 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 also receive implementation fees, which may include fees for providing launch assistance and training.

We have grown our total revenue from \$53.6 million for the year ended December 31, 2012 to \$84.9 million for the year ended December 31, 2014, a compound annual growth rate of 25.9%. Our revenue growth has been driven primarily by an increase in the number of core customers utilizing our solutions and an increase in the average revenue per core customer, as well as by an increase in the amount of our customers' GMV processed through our platform. During 2014, 22.0% of our core revenue and 22.5% of our total revenue was derived from customers located outside of the United States. We currently offer the same solutions internationally as we do in the United States, and we intend to continue expanding our international operations.

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 plan to grow our revenue by adding new customers, helping our existing customers increase their GMV processed through our platform by taking full advantage of its functionality and selling additional module subscriptions to existing customers to allow them to sell merchandise through new channels.

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 based on the high

## Table of Contents

volume of their GMV processed through the platform. 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 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 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 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 support our targeted revenue growth. As of December 31, 2014, we supported 41 marketplaces, up from 35 at December 31, 2013.

We believe the growth in e-commerce globally presents an opportunity for retailers and 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 and MercadoLibre in much of Latin America. In order to help our customers capitalize on this potential market opportunity, and to address our customers' needs with respect to cross-border trade, during 2013 and 2014, we have expanded our presence in the Asia-Pacific and Latin America regions through the opening of two offices in China, an office in Brazil and an additional office in Australia. 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. We discuss revenue, gross margin and the components of net loss in the section below entitled "—Components of Operating Results." In addition, we utilize other key metrics as described below.

#### Core Revenue

Our reported operating results include revenue attributable to the products from two small legacy acquisitions, both of which occurred prior to 2008 and focused on solutions for lower-volume eBay sellers. We do not consider these products to be a core part of our strategic focus going forward. Each of these acquisitions contributed a relatively large number of customers with revenue per customer substantially lower than is characteristic of the rest of our business. We exclude the revenue attributable to these non-core, legacy products in calculating a measure we refer to as core revenue. We anticipate that the revenue associated with these non-core, legacy products will continue to decline over time both in absolute terms and as a percentage of our total revenue.

#### Number of Core Customers

The number of customers subscribing to our solutions is a primary determinant of our core revenue. We refer to the customers who subscribe to any of our solutions, other than the non-core, legacy products described above, as our core customers. The number of core customers was 2,841, 2,429 and 1,928 as of December 31, 2014, 2013 and 2012, respectively.

#### Average Revenue per Core Customer

The average revenue generated by our core customers is the other primary determinant of our core revenue. We calculate this metric by dividing our total core revenue for a particular period by the average monthly number of core customers during the period, which is calculated by taking the sum of the number of core 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

core customer in absolute dollars on a rolling twelve-month basis, but we may also calculate percentage changes in average revenue per core customer on a quarterly basis in order to help us evaluate our period-over-period performance. Our average revenue per core customer was \$31,400, \$30,670 and \$28,050 for the years ended December 31, 2014, 2013 and 2012, respectively.



## Table of Contents

### Subscription Dollar Retention Rate

We believe that our ability to retain our core customers and expand the revenue they generate for us over time is an important component of our growth strategy and reflects the long-term value of our customer relationships. We measure our performance on this basis using a metric we refer to as our subscription dollar retention rate. We calculate this metric for a particular period by establishing the cohort of core customers that had active contracts as of the end of the prior period. We then calculate our subscription dollar retention rate by taking the amount of fixed subscription revenue we recognized for the cohort in the period for which we are reporting the rate and dividing it by the fixed subscription revenue we recognized for the same cohort in the prior period. For this purpose, we do not include any revenue from the non-core, legacy products described above, any variable subscription fees paid by our customers or any implementation fees.

Although some customers in any given period elect not to renew their contracts with us, our customers that do renew their subscriptions often increase their fixed subscription pricing levels to align with their increasing GMV volumes processed through our platform and may subscribe to additional modules as well. If our subscription dollar retention rate for a period is over 100%, this means that the increased subscription revenue we recognized from customers that renewed their contracts during the period, or whose contracts did not come up for renewal during the period, more than offset the subscription revenue we lost from customers that did not renew their contracts.

For each of the twelve months ended December 31, 2014, 2013 and 2012, our subscription dollar retention rate exceeded 100%.

### Adjusted EBITDA

Adjusted EBITDA represents our earnings before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted to eliminate stock-based compensation expense, acquisition-related costs and loss on extinguishment of debt. We believe that excluding these expenses in calculating adjusted EBITDA provides our management with a useful measure for period-to-period comparisons of our business. However, adjusted EBITDA is not a measure calculated in accordance with GAAP. Please refer to Item 6. "Selected Financial Data—Adjusted EBITDA" in this Annual Report for a discussion of the limitations of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most comparable GAAP measurement, for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

Adjusted EBITDA should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with 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. We prepare adjusted EBITDA to eliminate the impact of stock-based compensation expense, acquisition-related costs and loss on extinguishment of debt, which we do not consider indicative of our operating performance. We encourage you to evaluate these adjustments, the reasons we consider them appropriate and the material limitations of using non-GAAP measures as described in Item 6. "Selected Financial Data—Adjusted EBITDA."

### Components of Operating Results

#### 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 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. In most cases, the specified percentage of excess GMV 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.

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

35

---

Table of Contents

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. The following table shows the percentage of our total revenue attributable to fixed subscription fees plus implementation fees, as compared to the percentage attributable to variable subscription fees, for each of the periods indicated.

	Year Ended December 31,					
	2014		2013		2012	
	(as a percentage of total revenue)					
Fixed subscription fees plus implementation fees	74.4	%	66.8	%	61.4	%
Variable subscription fees	25.6		33.2		38.6	
Total revenue	100.0	%	100.0	%	100.0	%

We recognize 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 is processed, assuming that the four conditions specified above have been met.

**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. Additional expenses include co-location facility costs for our data centers, depreciation expense for computer equipment directly associated with generating revenue, infrastructure maintenance costs, fees we pay to credit card vendors in connection with our customers' payments to us and other direct costs. We plan to continue to expand our capacity to support our growth, which will result in higher cost of revenue in absolute dollars.

**Operating Expenses**

Operating expenses consist of sales and marketing, research and development and general and administrative expenses. Salaries and personnel-related costs are the most significant component of each of these expense categories. 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. We record expense for commissions at the time of contract signing. Additional expenses include marketing, advertising and promotional event programs, corporate communications and travel.

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. Additional expenses include costs related to the development, quality assurance and testing of new technology and enhancement of our existing platform technology, consulting and travel.

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. Additional expenses include consulting and professional fees, insurance, bad

Table of Contents

debt expense, investor relations, other corporate expenses and travel, as well as costs associated with compliance with the Sarbanes-Oxley Act and other regulations governing public companies.

Other Income (Expense)

Other income (expense) consists primarily of the loss on the extinguishment of our subordinated loan for the year ended December 31, 2013, interest income and interest expense. Interest income represents interest received on our cash and cash equivalents. During the year ended December 31, 2014, interest expense consisted primarily of interest on our capital leases. During the year ended December 31, 2013, interest expense consisted primarily of the interest incurred on outstanding borrowings, the accretion of the debt discount on our subordinated loan prior to extinguishment, the amortization of deferred financing costs, interest on our capital leases and, prior to the closing of our IPO on May 29, 2013, changes in the fair value of our preferred stock warrant liability.

Other income (expense) also includes the net effect of foreign currency revaluation gains and losses.

Income Tax Expense (Benefit)

Income tax expense (benefit) consists of U.S. federal, state and foreign income taxes. We incurred income tax expense for the years ended December 31, 2014 and 2013 and an income tax benefit for the year ended December 31, 2012.

Table of Contents

## Results of Operations

## Comparison of Years Ended December 31, 2014 and 2013

	Year Ended December 31, 2014			Year Ended December 31, 2013		Period-to-Period Change			
	Amount	Percentage of Revenue		Amount	Percentage of Revenue	Amount	Percentage		
	(dollars in thousands)								
Revenue	\$84,901	100.0	%	\$68,004	100.0	%	\$16,897	24.8	%
Cost of revenue	24,220	28.5		18,088	26.6		6,132	33.9	
Gross profit	60,681	71.5		49,916	73.4		10,765	21.6	
Operating expenses:									
Sales and marketing	55,829	65.8		37,458	55.1		18,371	49.0	
Research and development	16,585	19.5		12,669	18.6		3,916	30.9	
General and administrative	22,275	26.2		14,154	20.8		8,121	57.4	
Total operating expenses	94,689	111.5		64,281	94.5		30,408	47.3	
Loss from operations	(34,008)	(40.0)	)	(14,365)	(21.1)	)	(19,643)	136.7	
Other (expense) income:									
Loss on extinguishment of debt	—	—		(3,112)	(4.6)	)	3,112	*	
Interest expense, net	(209)	(0.2)	)	(2,960)	(4.4)	)	2,751	(92.9)	)
Other income, net	(256)	(0.3)	)	12	0.0		(268)	*	
Total other (expense) income	(465)	(0.5)	)	(6,060)	(9.0)	)	5,595	(92.3)	)
Loss before income taxes	(34,473)	(40.5)	)	(20,425)	(30.1)	)	(14,048)	68.8	
Income tax expense	41	—		203	0.3		(162)	(79.8)	)
Net loss	\$(34,514)	(40.5)	)%	\$(20,628)	(30.4)	)%	\$(13,886)	67.3	

\* = not meaningful

## Revenue

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
Revenue	\$84,901	\$68,004	\$16,897	24.8	%

The increase in revenue for the year ended December 31, 2014 was mainly driven by an increase in our core revenue, which is discussed below, and the expansion of our international operations. This growth in core revenue was partially offset by a \$0.5 million, or 30.0%, decrease in our non-core revenue over the same period, as the products associated with our non-core, legacy acquisitions became a less significant part of our overall business focus.

Our revenue from international operations of \$19.1 million, or 22.5% of total revenue, for the year ended December 31, 2014 increased from \$14.2 million, or 20.8% of total revenue, for the year ended December 31, 2013. The increase in revenue from our international operations was primarily attributable to an increase in the number of international customers. During 2014, we continued our expansion in the Asia-Pacific and Latin America regions.

Table of Contents

## Core Revenue

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
Core revenue	\$83,648	\$66,215	\$17,433	26.3	%
Percentage of total revenue	98.5	% 97.4	%		
Non-core revenue	\$1,253	\$1,789	\$(536)	(30.0)	)%
Percentage of total revenue	1.5	% 2.6	%		
Total revenue	\$84,901	\$68,004	\$16,897	24.8	%

The growth in core revenue was primarily attributable to a 17.0% increase in the number of core customers using our platform at December 31, 2014 as compared to December 31, 2013. The increase in core customers accounted for 88.8% of the increase in core revenue during the year ended December 31, 2014.

In addition, we experienced a 2.4% increase in the average revenue per core customer during the year ended December 31, 2014 as compared to the year ended December 31, 2013, which accounted for 11.2% of the increase in core revenue during the period. The increase in the average revenue per core customer was primarily 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 year. 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 core 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.

## Cost of Revenue

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
Cost of revenue	\$24,220	\$18,088	\$6,132	33.9	%
Percentage of total revenue	28.5	% 26.6	%		

The increase in cost of revenue was primarily attributable to a \$4.0 million increase in salaries and personnel-related costs, as we increased the number of employees providing services to our expanding customer base and supporting our platform infrastructure from 144 at December 31, 2013 to 159 at December 31, 2014. In addition, we experienced a \$1.6 million increase in co-location facility costs and depreciation expense associated with equipment for our data centers. During the year ended December 31, 2014, we also incurred a \$0.6 million charge for translation costs associated with a short-term initiative designed to expand our customers' presence in certain European countries.

## Operating Expenses

## Sales and marketing

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
Sales and marketing	\$55,829	\$37,458	\$18,371	49.0	%
Percentage of total revenue	65.8	% 55.1	%		

The increase in sales and marketing expense was primarily attributable to a \$16.3 million increase in salaries and personnel-related costs, as we increased the number of sales and marketing and customer support personnel to continue driving revenue growth. The number of full-time sales and marketing employees increased from 301 at December 31, 2013 to 361 at December 31, 2014. In addition, we experienced a \$1.7 million increase in our marketing and advertising expenses, promotional event programs and travel costs and a \$0.3 million increase in recruiting and placement costs associated with hiring sales and marketing professionals. The increase in sales and

marketing expense as a percentage of revenue for the year

39

---

Table of Contents

ended December 31, 2014 reflects the implementation of our strategy of adding sales and marketing professionals and expanding our marketing activities in order to continue to grow our business.

## Research and development

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
Research and development	\$16,585	\$12,669	\$3,916	30.9	%
Percentage of total revenue	19.5	% 18.6	%		

The increase in research and development expense was primarily attributable to a \$4.0 million increase in salaries and personnel-related costs associated with an increase in research and development personnel. The number of full-time research and development employees increased from 93 at December 31, 2013 to 102 at December 31, 2014.

## General and administrative

	Year Ended December 31,		Period-to-Period Change		
	2014	2013	Amount	Percentage	
	(dollars in thousands)				
General and administrative	\$22,275	\$14,154	\$8,121	57.4	%
Percentage of total revenue	26.2	% 20.8	%		

The increase in general and administrative expense was primarily attributable to a \$5.6 million increase in salaries and personnel-related costs associated with an increase in general and administrative personnel to support our growing business and fulfill our obligations as a public company as well as an increase in stock-based compensation expense. The number of full-time general and administrative employees increased from 56 at December 31, 2013 to 61 at December 31, 2014. Bad debt expense increased by \$1.0 million due to our revenue growth and an increase in the number of our customers. We also experienced a \$0.7 million increase in professional fees related to legal, consulting, audit and tax services to support our growing business and fulfill our obligations as a public company. Lastly, we incurred transaction costs related to the acquisition of E-Tale of \$0.5 million during the year ended December 31, 2014. See Note 3 to our consolidated financial statements appearing elsewhere in this Annual Report for additional information regarding this acquisition.



Table of Contents

## Comparison of Years Ended December 31, 2013 and 2012

	Year Ended December 31, 2013		2012		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	\$68,004	100.0	% \$53,587	100.0	% \$14,417	26.9
Cost of revenue	18,088	26.6	14,749	27.5	3,339	22.6
Gross profit	49,916	73.4	38,838	72.5	11,078	28.5
Operating expenses:						
Sales and marketing	37,458	55.1	24,326	45.4	13,132	54.0
Research and development	12,669	18.6	10,109	18.9	2,560	25.3
General and administrative	14,154	20.8	8,252	15.4	5,902	71.5
Total operating expenses	64,281	94.5	42,687	79.7	21,594	50.6
Loss from operations	(14,365)	(21.1)	(3,849)	(7.2)	(10,516)	273.2
Other (expense) income:						
Loss on extinguishment of debt	(3,112)	(4.6)	—	—	(3,112)	*
Interest expense, net	(2,960)	(4.4)	(1,185)	(2.2)	(1,775)	149.8
Other income, net	12	0.0	31	0.1	(19)	(61.3)
Total other (expense) income	(6,060)	(9.0)	(1,154)	(2.1)	(4,906)	425.1
Loss before income taxes	(20,425)	(30.1)	(5,003)	(9.3)	(15,422)	308.3
Income tax expense (benefit)	203	0.3	(70)	(0.1)	273	*
Net loss	\$(20,628)	(30.4)	%) \$(4,933)	(9.2)	%) \$(15,695)	318.2

\* = not meaningful

## Revenue

	Year Ended December 31, 2013		2012		Period-to-Period Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(dollars in thousands)					
Revenue	\$68,004		\$53,587		\$14,417	26.9

The increase in revenue for the year ended December 31, 2013 was mainly driven by the expansion of our international operations and an increase in our core revenue, which is discussed below. This growth in core revenue was partially offset by a \$0.6 million, or 24.3%, decrease in our non-core revenue over the same period, as the products associated with our non-core, legacy acquisitions became a less significant part of our overall business focus. Our revenue from international operations of \$14.2 million, or 20.8% of total revenue, for the year ended December 31, 2013 increased from \$11.4 million, or 21.4% of total revenue, for the year ended December 31, 2012. The increase in revenue from our international operations was primarily attributable to an increase in the number of international customers. During 2013, we expanded our presence in the Asia-Pacific and Latin America regions.

## Core Revenue

	Year Ended December 31, 2013		2012		Period-to-Period Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(dollars in thousands)					
Core revenue	\$66,215		\$51,224		\$14,991	29.3
Percentage of total revenue	97.4	%	95.6	%		
Non-core revenue	\$1,789		\$2,363		\$(574)	(24.3)
Percentage of total revenue	2.6	%	4.4	%		
Total revenue	\$68,004		\$53,587		\$14,417	26.9



Table of Contents

The growth in core revenue was primarily attributable to a 26.0% increase in the number of core customers using our platform at December 31, 2013 as compared to December 31, 2012. The increase in core customers accounted for 62.3% of the increase in core revenue during the year ended December 31, 2013.

In addition, we experienced a 9.3% increase in the average revenue per core customer during the year ended December 31, 2013 as compared to the year ended December 31, 2012, which accounted for 37.7% of the increase in core revenue during the period. The increase in the average revenue per core customer was primarily 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 year. 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 core customer was due in part to a general shift in our customer base toward a greater proportion of larger enterprise customers, all of which are core customers. Our enterprise customers generally commit to a higher specified minimum amount of GMV per month, which results in a higher proportion of fixed subscription fees.

## Cost of Revenue

	Year Ended December 31,		Period-to-Period Change		
	2013	2012	Amount	Percentage	
	(dollars in thousands)				
Cost of revenue	\$18,088	\$14,749	\$3,339	22.6	%
Percentage of total revenue	26.6	% 27.5	%		

The increase in cost of revenue was primarily attributable to a \$2.2 million increase in salaries and personnel-related costs, as we increased the number of employees providing services to our expanding customer base and supporting our platform infrastructure from 110 at December 31, 2012 to 144 at December 31, 2013. In addition, we experienced a \$0.7 million increase in depreciation expense associated with equipment for our data centers and a \$0.3 million increase in credit card vendor transaction fees. As a percentage of revenue, cost of revenue declined from 27.5% for the year ended December 31, 2012 to 26.6% for the year ended December 31, 2013.

## Operating Expenses

## Sales and marketing

	Year Ended December 31,		Period-to-Period Change		
	2013	2012	Amount	Percentage	
	(dollars in thousands)				
Sales and marketing	\$37,458	\$24,326	\$13,132	54.0	%
Percentage of total revenue	55.1	% 45.4	%		

The increase in sales and marketing expense was primarily attributable to a \$9.6 million increase in salaries and personnel-related costs, as we increased the number of sales and marketing and customer support personnel to continue driving revenue growth. The number of full-time sales and marketing employees increased from 189 at December 31, 2012 to 301 at December 31, 2013. In addition, we experienced a \$3.1 million increase in our marketing and advertising expenses, promotional event programs and travel costs. The increase in sales and marketing expense as a percentage of revenue for the year ended December 31, 2013 reflects the implementation of our strategy of hiring new sales and marketing professionals and expanding our marketing activities in order to continue to grow our business.

## Research and development

	Year Ended December 31,		Period-to-Period Change		
	2013	2012	Amount	Percentage	
	(dollars in thousands)				
Research and development	\$12,669	\$10,109	\$2,560	25.3	%
Percentage of total revenue	18.6	% 18.9	%		

The increase in research and development expense was primarily attributable to a \$2.1 million increase in salaries and personnel-related costs associated with an increase in research and development personnel. The number of full-time research

42

---

Table of Contents

and development employees increased from 70 at December 31, 2012 to 93 at December 31, 2013. In addition, we experienced a \$0.2 million increase in contractor and consulting expenses primarily related to translation services for our products as we expanded our international operations.

## General and administrative

	Year Ended December 31,		Period-to-Period Change		
	2013	2012	Amount	Percentage	
	(dollars in thousands)				
General and administrative	\$ 14,154	\$ 8,252	\$ 5,902	71.5	%
Percentage of total revenue	20.8	% 15.4	%		

The increase in general and administrative expense was primarily attributable to a \$2.9 million increase in salaries and personnel-related costs associated with an increase in general and administrative personnel to support our growing business and fulfill our obligations as a newly public company. The number of full-time general and administrative employees increased from 36 at December 31, 2012 to 56 at December 31, 2013. We also experienced a \$1.5 million increase in professional fees related to legal, consulting and audit and tax services and a \$0.8 million increase in insurance and tax costs. In addition, we incurred a \$0.6 million increase in other general corporate costs necessary to support the overall growth in our business.

## Loss on Extinguishment of Debt

During the year ended December 31, 2013, we recognized a loss on extinguishment of debt of \$3.1 million as a result of the prepayment of our subordinated loan, representing the difference between the par value and payoff amount of the subordinated loan, increased by the write-off of unamortized debt issuance costs and accelerated amortization of the remaining debt discount.

## 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' GMV during the year-end holiday season. As a result, we have historically had higher revenue in our fourth quarter than other quarters in a given year due to increased GMV processed through our platform, resulting in higher variable subscription fees.

## Liquidity and Capital Resources

## Sources of Liquidity

Prior to our IPO in May 2013, we funded our operations primarily through cash from operating activities, bank and subordinated debt borrowings and private placements of our redeemable convertible preferred stock.

We have a loan and security agreement with a bank, which was last amended on September 17, 2014. Under the loan and security agreement, as amended, we have a borrowing capacity under a revolving line of credit in the amount of \$10.0 million. The revolving line of credit has a term through September 17, 2016 and requires interest-only payments to be made monthly on any outstanding advances at the bank's prime rate, which was 3.25% at December 31, 2014, plus 0.25%. We are also obligated to pay an unused facility fee in the amount of 0.15% per year on any unused borrowing capacity. At December 31, 2014, we did not have any amounts outstanding under the revolving line of credit. We previously had an equipment line of credit of up to \$1.0 million with the same bank, although the equipment line of credit expired in June 2014.

The revolving line of credit is collateralized by all of our assets, excluding our intellectual property, although we may not encumber our intellectual property without the consent of the bank. Under the terms of the loan and security agreement, we are required to meet and maintain specified financial and nonfinancial covenants. As of December 31, 2014, we were in compliance with all such covenants.

During 2013, we also had a loan and security agreement with a subordinated lender. Under the agreement, we borrowed \$5.0 million in March 2012 and an additional \$5.0 million in December 2012. Borrowings under the agreement accrued interest at an annual rate of 10.5%. We were scheduled to make interest-only payments on

outstanding balances through March 1, 2015, after which the debt was to be paid in monthly installments of both principal and interest through February 2017. In November 2013, we prepaid in full all amounts due and owing under our subordinated loan agreement.

Table of Contents

## Public Offerings of Common Stock

On May 29, 2013, we closed our IPO in which we sold an aggregate of 6,612,500 shares of common stock, including the full exercise of the underwriters' option to purchase additional shares, for net proceeds of \$82.0 million after deducting underwriting discounts and offering-related expenses. Upon closing of the IPO, all of the convertible preferred stock then outstanding automatically converted into 13,401,499 shares of common stock. In addition, outstanding warrants to purchase Series C convertible preferred stock automatically converted into warrants to purchase 206,038 shares of common stock, and our preferred stock warrant liability of \$3.6 million as of May 29, 2013 was reclassified to additional paid-in capital.

On November 12, 2013, we closed a public offering in which we sold 1,000,000 shares of common stock for net proceeds of \$31.9 million, after deducting underwriting discounts and offering-related expenses.

## Working Capital

The following table summarizes our cash and cash equivalents, accounts receivable, working capital and cash flows for the periods indicated:

	As of and for the Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cash and cash equivalents	\$68,366	\$104,406	\$10,865
Accounts receivable, net of allowance	14,619	13,951	9,571
Working capital	60,666	94,383	3,006
Cash (used in) provided by:			
Operating activities	(21,535 )	(5,314 )	1,191
Investing activities	(14,851 )	(5,218 )	(2,094 )
Financing activities	361	104,164	6,806

Our cash at December 31, 2014 was held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide liquidity. Accordingly, our cash is invested primarily in demand deposit accounts and short-term money market accounts that are currently providing only a minimal return. Of our total cash and cash equivalents, approximately 4% was held outside of the United States at December 31, 2014. Our international operations primarily consist of selling and marketing functions supported by our U.S. operations, and we are dependent on our U.S. operations for our international working capital needs. If our cash and cash equivalents held outside of the United States were ever needed for our operations inside the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. We currently intend to permanently reinvest these foreign amounts outside the United States, and our current plans do not demonstrate a need to repatriate the foreign amounts to fund our U.S. operations.

## Cash Flows

## Operating Activities

Our cash flows from operating activities are largely driven by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business, the increase in the amount of customers using our platform and the amount and timing of customer payments. Our cash flows from operations are affected by the seasonality of our business as noted above. As a result, we experience variations in the timing of invoicing and the receipt of payments from our customers.

For the year ended December 31, 2014, our cash used in operating activities of \$21.5 million consisted of a net loss of \$34.5 million and \$2.7 million of cash used in changes in working capital, partially offset by \$15.7 million in adjustments for non-cash items. Adjustments for non-cash items primarily consisted of non-cash stock compensation expense of \$8.0 million, depreciation and amortization expense of \$6.3 million and bad debt expense of \$1.3 million. The decrease in cash resulting from changes in working capital primarily consisted of a decrease in accounts payable

and accrued expenses of \$2.7 million, primarily driven by timing of payments to our vendors. Further, we experienced an increase in accounts receivable of \$1.4 million as a result of increased revenue and customer growth and an increase in prepaid expenses and other assets of \$1.1 million due to prepayments of general corporate expenses that we did not incur in 2013. These decreases in cash were partially



Table of Contents

offset by an increase in operating cash flow due to an increase in deferred revenue of \$2.4 million as a result of an increased number of customers prepaying for subscription services.

For the year ended December 31, 2013, our net cash used in operating activities of \$5.3 million consisted of a net loss of \$20.6 million, partially offset by \$11.1 million in adjustments for non-cash items and \$4.2 million of cash provided by changes in working capital. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of \$3.7 million, loss on extinguishment of debt of \$3.1 million, non-cash stock compensation expense of \$2.1 million, change in fair value of preferred stock warrants of \$1.1 million, which was reclassified to additional paid-in capital upon the closing of our IPO, accretion of debt discount of \$0.5 million and bad debt expense of \$0.5 million. The increase in cash resulting from changes in working capital primarily consisted of an increase in accounts payable and accrued expenses of \$5.7 million, primarily driven by increased operating costs during the period, and an increase in deferred revenue of \$4.5 million as a result of an increased number of customers prepaying for subscription services. These increases were partially offset by decreases in operating cash flow due to a \$4.9 million increase in accounts receivable, primarily driven by increased revenue during the year as we continued to expand our operations, both domestically and internationally, and an increase in prepaid expenses and other assets of \$1.0 million.

For the year ended December 31, 2012, our net cash provided by operating activities of \$1.2 million consisted of a net loss of \$4.9 million, offset by \$1.4 million of cash provided by changes in working capital and \$4.7 million in adjustments for non-cash items. Adjustments for non-cash items primarily consisted of depreciation and amortization expense of \$2.9 million, non-cash stock compensation expense of \$0.6 million, non-cash rent expense of \$0.5 million and accretion of debt discount of \$0.4 million. The increase in cash resulting from changes in working capital primarily consisted of an increase in deferred revenue of \$3.9 million as a result of an increased number of customers prepaying for subscription services and an increase in accounts payable and accrued expenses of \$0.4 million, primarily driven by increased operating costs during the period. These increases were partially offset by decreases in operating cash flow due to a \$2.0 million increase in accounts receivable, primarily driven by increased revenue during the year as we continue to expand our operations, both domestically and internationally, and an increase in prepaid expenses and other assets of \$1.1 million.

**Investing Activities**

Our cash flows from investing activities generally consist of acquisitions, 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 workforce. As our business grows, we expect our capital expenditures and our investment activity to continue to increase.

For the year ended December 31, 2014, net cash used in investing activities was \$14.9 million, consisting of \$8.0 million paid for the acquisition of E-Tale, net of cash acquired, as well as \$6.0 million for the purchase of property and equipment and \$0.8 million for the payment of internal-use software development costs.

For the year ended December 31, 2013, net cash used in investing activities was \$5.2 million, consisting of \$3.7 million for the purchase of property and equipment and \$1.5 million for the payment of internal-use software development costs.

For the year ended December 31, 2012, net cash used in investing activities was \$2.1 million, consisting of \$1.9 million for the purchase of property and equipment and \$0.2 million for the payment of internal-use software development costs.

**Financing Activities**

Our cash flows from financing activities consist of proceeds from issuance of our common stock, as well as proceeds from and payments on debt obligations entered into to fund our operations. In addition, our cash flows from financing activities include proceeds from the exercises of stock options and common stock warrants.

For the year ended December 31, 2014, net cash provided by financing activities was \$0.4 million, consisting of \$2.1 million in cash received upon the exercise of stock options, partially offset by \$1.7 million used for the repayment of capital leases.

For the year ended December 31, 2013, net cash provided by financing activities was \$104.2 million, consisting of \$118.5 million in proceeds from the issuance of common stock in two public offerings, net of underwriting discounts and commissions but before offering expenses, \$2.4 million in cash received upon the exercise of stock options and

\$1.6 million in cash received upon the exercise of common stock warrants. These amounts were partially offset by \$14.2 million in repayments of debt and capital leases, \$2.9 million in payments of costs related to our public offerings that had been deferred and \$1.2 million in debt extinguishment costs related to the prepayment of our subordinated loan.

Table of Contents

For the year ended December 31, 2012, net cash provided by financing activities was \$6.8 million, consisting of \$9.9 million in net borrowings under our subordinated loan and \$0.2 million in cash received upon the exercise of stock options, offset by \$1.5 million in repayments of debt and capital leases, \$1.5 million in payments of costs in connection with our IPO that had been deferred and \$0.2 million used to repurchase common stock from two former employees.

**Operating and Capital Expenditure Requirements**

Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and existing cash balances, which include the net proceeds from our public offerings, will be sufficient to meet our cash requirements for at least the next 12 months. During this period, we expect our capital expenditure requirements to be approximately \$10.0 million to \$12.0 million, which will primarily consist of computer hardware, purchased software and furniture and office equipment.

**Contractual Obligations**

Our principal commitments consist of non-cancelable leases for our office space and computer equipment and purchase commitments for our co-location and other support services. Our operating lease obligations exclude the impact of future expected sublease income. The following table summarizes these contractual obligations at December 31, 2014. Future events could cause actual payments to differ from these estimates.

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Operating lease obligations	\$48,723	\$3,976	\$19,369	\$18,922	\$6,456
Capital lease obligations	3,992	1,887	2,105	—	—
Purchase commitments	2,808	2,059	749	—	—
Total	\$55,523	\$7,922	\$22,223	\$18,922	\$6,456

Because we are unable to reasonably estimate the timing of settlements and any future payments related to uncertain tax positions, such liabilities are not included in the above table. However, as of December 31, 2014, we have recognized a total of \$0.1 million related to such liabilities, which are included in other long-term liabilities in our consolidated balance sheets included in this Annual Report.

On January 26, 2015, we entered into a sublease agreement to lease a portion of our office space in London, England through December 2018. We anticipate receiving \$0.6 million in annual rental payments during the term of the sublease agreement, based on the exchange rate as of December 31, 2014.

**Off-Balance Sheet Arrangements**

As of December 31, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

**Critical Accounting Policies and Significant Judgments and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with 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.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements appearing elsewhere in this Annual Report, we believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our consolidated financial statements.



## Table of Contents

### Revenue Recognition and Deferred 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 platform for a specified contract term, which is typically one year. A portion of the subscription fee is typically fixed and is based on a specified minimum amount of GMV that a customer expects to process through our platform over the contract term. 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 also receive implementation fees, which may include fees for providing launch assistance and training. Customers do not have the contractual right to take possession of our software at any time.

### Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable are stated at realizable value, net of an allowance for doubtful accounts that we maintain for estimated losses expected to result from the inability of some customers to make payments as they become due. Our estimate is based on historical collection experience and a review of the current status of accounts receivable. Historically, our actual collection experience has not varied significantly from our estimates, due primarily to our collection policies and the financial strength of our customers. However, adverse changes in general economic conditions could affect our allowance estimates, collectibility of accounts receivable, cash flows and results of operations. At December 31, 2014, our allowance for doubtful accounts was 4.4% of our gross accounts receivable. A hypothetical 1% increase or decrease in the value of our allowance for doubtful accounts receivable as of December 31, 2014 would have resulted in an increase or decrease of \$0.2 million to our pre-tax net loss for the year ended December 31, 2014.

### Business Combinations

We account for acquired businesses using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Transaction and integration costs are expensed as incurred. Any excess of the acquisition price over the estimated fair value of net assets acquired is recorded as goodwill.

Significant estimates and assumptions are required to value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. These estimates are inherently uncertain and subject to refinement and typically include the calculation of an appropriate discount rate and projection of the cash flows associated with each acquired asset. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. In addition, deferred tax assets, deferred tax liabilities, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items periodically based upon facts and circumstances that existed as of the acquisition date and any adjustments to its preliminary estimates are recorded to goodwill if identified within the measurement period. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

### Goodwill

We test goodwill for impairment annually on December 31 or more frequently if events or changes in business circumstances indicate the asset might be impaired. Under Accounting Standards Update (ASU) No. 2011-08, Goodwill and Other (Topic 350): Testing Goodwill for Impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount. The qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company-specific events, changes in circumstances and after-tax cash flows.

If the qualitative factors indicate that the fair value of the reporting unit is greater than the carrying value of the net assets assigned to the reporting unit, then we do not consider the assigned goodwill to be impaired. However, if the qualitative factors indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we then test goodwill for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of the reporting unit to the carrying value of the net assets assigned to the reporting unit. If the fair value of the reporting unit is greater than the carrying value of the net assets assigned to the reporting unit, the

assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's carrying value, step two is performed to measure the amount of the impairment, if any. In the second step, the fair value of goodwill is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if the reporting unit had just been acquired and the fair value was being initially allocated. If we determine that the carrying value of goodwill exceeds the implied fair value, we

## Table of Contents

would record an impairment charge in the period in which the determination is made. As of December 31, 2014, we concluded that there was no impairment of goodwill.

In connection with the acquisition of E-Tale in October 2014, we recorded a \$5.4 million increase in goodwill. See Note 3 to our consolidated financial statements appearing elsewhere in this Annual Report for information regarding the purchase price allocation and recording of goodwill in connection with this acquisition.

### Stock-Based Compensation

Stock-based compensation awards, which include stock options and restricted stock units, or RSUs, are measured at fair value at each grant date. Prior to our IPO, we considered what we believed to be comparable publicly traded companies, discounted free cash flows, and an analysis of our enterprise value in estimating the fair value of our common stock. We recognize 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. Options generally vest quarterly over a four-year period. RSUs generally vest annually over a four year period.

The determination of the fair value of stock options is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Refer to Note 10 to our consolidated financial statements appearing elsewhere in this Annual Report for the assumptions used for estimating the fair value of stock options granted to employees.

We have assumed no dividend yield because we do not expect to pay dividends in the future, which is consistent with our history of not paying dividends. The risk-free interest rate assumption is based on observed interest rates for constant maturity U.S. Treasury securities consistent with the expected life of our employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is presumed to be the midpoint between the vesting date and the end of the contractual term. We used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options.

Prior to our IPO in May 2013, we were a private company with no active public market for our common stock. Therefore, in response to Section 409A of the Internal Revenue Code of 1986, as amended, related regulations issued by the Internal Revenue Service and accounting standards related to stock-based compensation, we periodically determined for financial reporting purposes the estimated per share fair value of our common stock at various dates using contemporaneous valuations performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation."

Following our IPO, the fair value of our common stock, for purposes of determining the grant date fair value of option and RSU awards, has been determined by using the closing market price per share of our common stock as quoted on the New York Stock Exchange on the date of grant.

Our estimate of pre-vesting forfeitures, or forfeiture rate, is based on our historical experience and is reviewed on an annual basis, at a minimum. The estimated forfeiture rate is applied to the total estimated fair value of the awards to compute the stock-based compensation expense, net of pre-vesting forfeitures, to be recognized in our consolidated statements of operations. A hypothetical increase of 1% in our forfeiture rate assumption would have resulted in a \$0.2 million decrease in stock-based compensation expense for the year ended December 31, 2014. A hypothetical decrease of 1% in our forfeiture rate assumption would have resulted in a \$0.1 million increase in stock-based compensation expense for the year ended December 31, 2014.

Stock-based compensation expense is expected to increase in 2015 compared to 2014 as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees.

**Income Taxes**

We account for income taxes under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. We measure deferred tax



Table of Contents

assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. We recognize the effect of a change in tax rates on deferred tax assets and liabilities in the results of operations in the period that includes the enactment date. We reduce the measurement of a deferred tax asset, if necessary, by a valuation allowance if it is more likely than not that we will not realize some or all of the deferred tax asset.

We account for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is more likely than not that the position will be sustained upon examination. We recognize potential accrued interest and penalties associated with unrecognized tax positions within our global operations in income tax expense.

**Recent Accounting Pronouncements**

Refer to Note 2 to our consolidated financial statements appearing elsewhere in this Annual Report for a full description of recent accounting pronouncements.

**ITEM 7A. 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 interest rates and 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 the risks described below.

**Interest Rate Risk**

We are only marginally exposed to interest rate risk through our portfolio of cash and cash equivalents. Interest rates that may affect these items in the future will depend on market conditions and may differ from the rates we have experienced in the past.

We may be subject to interest rate risk in connection with borrowings under our revolving line of credit, which are subject to a variable interest rate. As of December 31, 2014, we did not have any borrowings outstanding under our revolving line of credit. Any debt we incur in the future may also bear interest at variable rates.

**Foreign Currency Exchange Risk**

With international operations, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and if our exposure increases, adverse movement in foreign currency exchange rates could have a material adverse impact on our financial results. Historically, our primary exposures have been related to non-U.S. dollar denominated operating expenses in the United Kingdom, Europe, Australia, Brazil, China and Hong Kong. As a result, our results of operations would generally be adversely affected by a decline in the value of the U.S. dollar relative to these foreign currencies. However, based on the size of our international operations and the amount of our expenses denominated in foreign currencies, a 10% change in foreign exchange rates would have had only a minimal impact on our results of operations for the year ended December 31, 2014. The majority of our sales contracts are currently denominated in U.S. dollars. Therefore, we have minimal foreign currency exchange risk with respect to our revenue.

**Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm</u>	<u>51</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>52</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>	<u>53</u>
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012</u>	<u>54</u>
<u>Consolidated Statements of Changes in Stockholders' (Deficit) Equity for the years ended December 31, 2014, 2013 and 2012</u>	<u>55</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements</u>	<u>57</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of ChannelAdvisor Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of ChannelAdvisor Corporation and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChannelAdvisor Corporation and Subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
Raleigh, North Carolina  
February 26, 2015

Table of Contents

ChannelAdvisor Corporation and Subsidiaries  
 Consolidated Balance Sheets  
 (in thousands, except share and per share data)

	December 31, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$68,366	\$104,406
Accounts receivable, net of allowance of \$673 and \$561 as of December 31, 2014 and 2013, respectively	14,619	13,951
Prepaid expenses and other current assets	4,940	3,571
Total current assets	87,925	121,928
Property and equipment, net	12,603	9,088
Goodwill	21,518	16,106
Intangible assets, net	4,083	670
Restricted cash	633	685
Other assets	285	309
Total assets	\$127,047	\$148,786
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$564	\$4,237
Accrued expenses	7,292	7,492
Deferred revenue	16,840	14,093
Other current liabilities	2,563	1,723
Total current liabilities	27,259	27,545
Long-term capital leases, net of current portion	2,014	1,558
Other long-term liabilities	4,126	1,903
Total liabilities	33,399	31,006
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of December 31, 2014 and 2013, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 24,915,510 and 23,643,872 shares issued and outstanding as of December 31, 2014 and 2013, respectively	25	24
Additional paid-in capital	228,370	218,330
Accumulated other comprehensive loss	(130	) (471
Accumulated deficit	(134,617	) (100,103
Total stockholders' equity	93,648	117,780
Total liabilities and stockholders' equity	\$127,047	\$148,786

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ChannelAdvisor Corporation and Subsidiaries  
 Consolidated Statements of Operations  
 (in thousands, except share and per share data)

	Year Ended December 31,			
	2014	2013	2012	
Revenue	\$84,901	\$68,004	\$53,587	
Cost of revenue	24,220	18,088	14,749	
Gross profit	60,681	49,916	38,838	
Operating expenses:				
Sales and marketing	55,829	37,458	24,326	
Research and development	16,585	12,669	10,109	
General and administrative	22,275	14,154	8,252	
Total operating expenses	94,689	64,281	42,687	
Loss from operations	(34,008	) (14,365	) (3,849	)
Other (expense) income:				
Loss on extinguishment of debt	—	(3,112	) —	)
Interest expense, net	(209	) (2,960	) (1,185	)
Other income, net	(256	) 12	31	)
Total other (expense) income	(465	) (6,060	) (1,154	)
Loss before income taxes	(34,473	) (20,425	) (5,003	)
Income tax expense (benefit)	41	203	(70	)
Net loss	\$(34,514	) \$(20,628	) \$(4,933	)
Net loss per share:				
Basic and diluted	\$(1.40	) \$(1.51	) \$(4.23	)
Weighted average common shares outstanding:				
Basic and diluted	24,619,714	13,695,804	1,164,942	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ChannelAdvisor Corporation and Subsidiaries  
 Consolidated Statements of Comprehensive Loss  
 (in thousands)

	Year Ended December 31,			
	2014	2013	2012	
Net loss	\$ (34,514	) \$ (20,628	) \$ (4,933	)
Other comprehensive loss:				
Foreign currency translation adjustments	341	(182	) (45	)
Total comprehensive loss	\$ (34,173	) \$ (20,810	) \$ (4,978	)

The accompanying notes are an integral part of these consolidated financial statements.

54

---

Table of Contents

ChannelAdvisor Corporation and Subsidiaries  
 Consolidated Statements of Changes in Stockholders' (Deficit) Equity  
 (in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount				
Balance, January 1, 2012	1,140,569	\$1	\$2,932	\$ (244 )	\$(74,542 )	\$(71,853 )
Repurchase and retirement of common stock	(25,000 )	—	(193 )	—	—	(193 )
Exercise of stock options	124,624	—	222	—	—	222
Accretion of issuance costs on redeemable convertible preferred stock	—	—	(15 )	—	—	(15 )
Stock-based compensation expense	—	—	638	—	—	638
Net loss	—	—	—	—	(4,933 )	(4,933 )
Foreign currency translation adjustments	—	—	—	(45 )	—	(45 )
Balance, December 31, 2012	1,240,193	1	3,584	(289 )	(79,475 )	(76,179 )
Conversion of redeemable convertible preferred stock to common stock	13,401,499	13	91,137	—	—	91,150
Conversion of redeemable convertible preferred stock warrants to common stock warrants	—	—	3,632	—	—	3,632
Issuance of common stock from public offerings, net of issuance costs	7,612,500	8	113,840	—	—	113,848
Exercise of common stock warrants	662,362	1	1,591	—	—	1,592
Exercise of stock options	727,318	1	2,447	—	—	2,448
Stock-based compensation expense	—	—	2,099	—	—	2,099
Net loss	—	—	—	—	(20,628 )	(20,628 )
Foreign currency translation adjustments	—	—	—	(182 )	—	(182 )
Balance, December 31, 2013	23,643,872	24	218,330	(471 )	(100,103 )	117,780
Exercise of common stock warrants	664,058	1	(1 )	—	—	—
Exercise of stock options	607,580	—	2,060	—	—	2,060
Stock-based compensation expense	—	—	7,981	—	—	7,981

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Net loss	—	—	—	—	(34,514	) (34,514	)
Foreign currency translation adjustments	—	—	—	341	—	341	
Balance, December 31, 2014	24,915,510	\$25	\$228,370	\$ (130	) \$(134,617	) \$93,648	

The accompanying notes are an integral part of these consolidated financial statements.

55

---



Table of Contents

ChannelAdvisor Corporation and Subsidiaries  
Consolidated Statements of Cash Flows  
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net loss	\$(34,514 )	\$(20,628 )	\$(4,933 )
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:			
Depreciation and amortization	6,264	3,722	2,903
Loss on extinguishment of debt	—	3,112	—
Bad debt expense	1,315	527	162
Change in fair value of preferred stock warrants	—	1,052	5
Accretion of debt discount	—	547	372
Non-cash stock-based compensation expense	7,981	2,099	638
Other items, net	142	5	66
Changes in assets and liabilities, net of effects from acquisition:			
Accounts receivable	(1,407 )	(4,917 )	(1,966 )
Prepaid expenses and other assets	(1,106 )	(1,026 )	(1,102 )
Restricted cash	52	(1 )	199
Accounts payable and accrued expenses	(2,709 )	5,723	925
Deferred revenue	2,447	4,471	3,922
Net cash and cash equivalents (used in) provided by operating activities	(21,535 )	(5,314 )	1,191
Cash flows from investing activities			
Purchases of property and equipment	(5,971 )	(3,711 )	(1,930 )
Payment of internal-use software development costs	(846 )	(1,507 )	(164 )
Acquisition, net of cash acquired	(8,034 )	—	—
Net cash and cash equivalents used in investing activities	(14,851 )	(5,218 )	(2,094 )
Cash flows from financing activities			
Proceeds from issuance of common stock, net of underwriting discounts and commissions	—	118,463	—
Proceeds from issuance of debt, net of debt issuance costs	—	—	9,873
Repayment of debt and capital leases	(1,699 )	(14,230 )	(1,548 )
Payment of debt extinguishment costs	—	(1,200 )	—
Payment of deferred offering costs	—	(2,909 )	(1,548 )
Proceeds from exercise of common stock warrants	—	1,592	—
Proceeds from exercise of stock options	2,060	2,448	222
Repurchase and retirement of common stock	—	—	(193 )
Net cash and cash equivalents provided by financing activities	361	104,164	6,806
Effect of currency exchange rate changes on cash and cash equivalents	(15 )	(91 )	(36 )
Net (decrease) increase in cash and cash equivalents	(36,040 )	93,541	5,867
Cash and cash equivalents, beginning of year	104,406	10,865	4,998
Cash and cash equivalents, end of year	\$68,366	\$104,406	\$10,865
Supplemental disclosure of cash flow information			
Cash paid for interest	\$273	\$1,334	\$614

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Cash paid for income taxes, net	\$53	\$92	\$64
Supplemental disclosure of non-cash investing and financing activities			
Conversion of redeemable convertible preferred stock to common stock	\$—	\$91,150	\$—
Conversion of preferred stock warrants to common stock warrants	\$—	\$3,632	\$—
Deferred offering costs included in accounts payable and accrued expenses	\$—	\$73	\$743
Accrued capital expenditures	\$—	\$627	\$—
Capital lease obligations entered into for the purchase of fixed assets	\$2,431	\$1,454	\$2,014
Other acquisition consideration	\$200	\$—	\$—

The accompanying notes are an integral part of these consolidated financial statements.

ChannelAdvisor Corporation and Subsidiaries  
Notes to 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 ("SaaS") solutions that allow retailers and manufacturers to integrate, manage and monitor their merchandise sales across hundreds of online channels. The Company is headquartered in Morrisville, North Carolina and has offices in England, Ireland, Germany, Australia, Brazil and China.

2. Significant Accounting Policies

Principles of Consolidation

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

Public Offerings

On May 29, 2013, the Company closed the initial public offering ("IPO") of its common stock pursuant to a registration statement on Form S-1 that was declared effective on May 22, 2013. In the IPO, the Company sold an aggregate of 6,612,500 shares of common stock, including the full exercise of the underwriters' option to purchase additional shares, at a public offering price of \$14.00 per share. Net proceeds were approximately \$82.0 million, after deducting underwriting discounts and commissions of \$6.5 million and offering expenses of \$4.1 million. Costs directly associated with the IPO were capitalized and recorded as deferred offering costs prior to the closing of the IPO. These costs were recorded as a reduction of the IPO proceeds received in calculating the amount to be recorded in additional paid-in capital.

On November 12, 2013, the Company closed a registered public offering of its common stock pursuant to a registration statement on Form S-1 that was declared effective on November 5, 2013. In the registered public offering, the Company sold and issued 1,000,000 shares of common stock at a public offering price of \$34.00 per share. Net proceeds were approximately \$31.9 million, after deducting underwriting discounts and commissions of \$1.6 million and offering expenses of \$0.5 million.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued 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. ASU 2014-09 will be effective for the Company beginning January 1, 2017 and early adoption is not permitted. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17, Business Combinations (Topic 805): Pushdown Accounting ("ASU 2014-17"). ASU 2014-17 gives acquired entities that are businesses or nonprofit activities the option to apply pushdown accounting in their separate company financial statements when an acquirer obtains control of them. In pushdown accounting, an acquired entity's separate company financial statements reflect the acquirer's new basis of accounting for the acquired entity's assets and liabilities. The guidance also allows any subsidiary of an acquired entity to apply pushdown accounting to its separate company financial statements, regardless of whether the acquired entity elects to apply pushdown accounting. ASU 2014-17 is effective immediately. The Company elected to apply pushdown accounting in connection with its recent acquisition and the adoption of this standard had no impact on its financial position and results of operations.

The Company has reviewed other new accounting pronouncements that were issued as of December 31, 2014 and does not believe that these pronouncements are applicable to the Company, or that they will have a material impact on the Company's financial position or results of operations.

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the 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, assumptions used for purposes of determining stock-based compensation, income taxes, the fair value of the Series A and Series C warrants and the Company’s common stock prior to the closing of the IPO, 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments maturing within ninety days or less at the time of purchase to be cash equivalents. Cash and cash equivalents are comprised of cash and money market funds. Due to the short-term nature and liquidity of these financial instruments, the carrying value of these assets approximates fair value.

Restricted Cash

Restricted cash represents cash that is not readily available for general purpose cash needs. As of December 31, 2014 and 2013, the Company had restricted cash of \$0.6 million related to its operations in the United States. The majority of this amount has been used as collateral for potential chargebacks resulting from the Company’s processing of customers’ credit cards. The remaining restricted cash at December 31, 2014 and 2013 relates to cash set aside as a requirement for leasing the Company’s operating sites or for miscellaneous banking activity as required by the Company’s banks.

In addition, certain of the Company’s foreign subsidiaries had nominal restricted cash balances as of December 31, 2014 and 2013.

Revenue Recognition and Deferred Revenue

The majority of the Company’s revenue is derived from subscription fees paid by customers for access to and usage of the Company’s cloud-based SaaS platform for a specified period of time, which is typically one year. A portion of the subscription fee is typically fixed and is based on a specified minimum amount of gross merchandise value (“GMV”) that a customer expects to process through the Company’s platform over the contract term. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV processed through the Company’s platform in excess of the customer’s specified minimum amount. In addition, other sources of revenue consist primarily of implementation fees, which may include fees for providing launch assistance and training.

Implementation services are provided at the customer’s option and are not essential to the functionality of the Company’s platform, nor is the customer required to purchase these services in order to access the Company’s platform. The Company also generates revenue from fixed subscription fees from its Where to Buy solution. These contracts are generally one year in duration. The Company recognizes revenue when there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fee is reasonably assured and the amount of the fee to be paid by the customer is fixed or determinable. The Company’s contractual arrangements include performance, termination and cancellation provisions, but do not provide for refunds. Customers do not have the contractual right to take possession of the Company’s software at any time.

The Company’s arrangements generally contain multiple elements comprised of subscription and implementation services. The Company evaluates each element in an arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within the Company’s control. The Company’s implementation services are not sold separately from the subscription and there is no alternative use for them. As such, the Company has determined the implementation services do not have standalone value. Accordingly, subscription and

implementation services are combined and recognized as a single unit of accounting.

The Company generally recognizes the fixed portion of subscription fees and implementation fees ratably over the contract term. Recognition begins when the customer has access to the Company's platform or Where to Buy solution and transactions can be processed, provided all other revenue recognition criteria have been met. Some customers elect a managed-

58

---

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

service solution and contract with the Company to manage some or all aspects of the Company's SaaS solutions on the customer's behalf for a specified period of time, which is typically one year. Under these managed-service arrangements, customer transactions cannot be processed through the Company's platform until the completion of the implementation services. As such, revenue is contingent upon the Company's completion of the implementation services and recognition commences when transactions can be processed on the Company's platform, provided all other revenue recognition criteria have been satisfied. At that time, the Company recognizes a pro-rata portion of the fees earned since the inception of the arrangement. The balance of the fees is recognized ratably over the remaining contract term.

The Company recognizes the variable portion of subscription fee revenue in the period in which the related GMV is processed, provided all other revenue recognition criteria have been met.

Sales taxes collected from customers and remitted to government authorities are excluded from revenue.

Deferred revenue represents the unearned portion of fixed subscription fees and implementation fees. Deferred amounts are generally recognized within one year. Those amounts that are expected to be recognized in greater than one year are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheets.

#### Sales Commissions

Sales commissions are expensed when the related subscription agreement is executed by the customer.

#### Cost of Revenue

Cost of revenue primarily consists of personnel and related costs, including salaries, bonuses, payroll taxes and stock compensation, co-location facility costs for the Company's data centers, depreciation expense for computer equipment directly associated with generating revenue, credit card transaction fees and infrastructure maintenance costs. In addition, the Company allocates a portion of overhead, such as rent, additional depreciation and amortization and employee benefits costs, to cost of revenue based on headcount.

#### 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. Prior to the closing of the IPO on May 29, 2013, at which time certain Series C warrants were automatically net exercised and the remaining warrants converted into common stock warrants, the Company's Series A and Series C warrants were recorded at fair value. The Company recorded interest expense of \$1.1 million and \$5,000 for the years ended December 31, 2013 and 2012, respectively, related to the fair value adjustment of the warrants. Upon the closing of the IPO, the preferred stock warrant liability of \$3.6 million was reclassified to additional paid-in capital.

The acquisition of E-Tale includes a contingent consideration arrangement that allows for adjustment of payments based upon achievement of specified quarterly revenue targets through June 2017. Contingent consideration is measured at fair value at the acquisition date and is remeasured to fair value at each reporting date until the contingency is resolved. 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 consolidated statements of operations.





ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

The fair value of contingent consideration related to the E-Tale acquisition is based on a probability-weighted model in which the Company developed various scenarios for E-Tale's projected quarterly revenue targets through June 2017. The Company discounted the expected future earn-out payment of each scenario to net present value using Level 3 inputs and assigned probabilities to achieving each scenario. A key assumption used in the measurement of fair value of contingent consideration included a discount rate of 24%. 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. As of December 31, 2014, the fair value of the contingent consideration was \$0.6 million. Refer to Note 3, "Business Combinations" for additional information on the contingent consideration related to the E-Tale acquisition.

#### Concentration of Credit Risk

Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All of the Company's cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The Company's cash and cash equivalent accounts exceed federally insured limits. The Company has not experienced any losses on cash and cash equivalents to date. To manage accounts receivable risk, the Company maintains an allowance for doubtful accounts.

The Company did not have any customers that individually comprised a significant concentration of its accounts receivable as of December 31, 2014 and 2013, or a significant concentration of its revenue for the years ended December 31, 2014, 2013 and 2012.

#### Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to customers without requiring collateral. Accounts receivable are stated at realizable value, net of an allowance for doubtful accounts. The Company utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of amounts due. The Company's estimate is based on historical collection experience and a review of the current status of accounts receivable. Historically, actual write-offs for uncollectible accounts have not significantly differed from the Company's estimates.

The following table presents the changes in the Company's allowance for doubtful accounts during the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Balance at Beginning of Period	Additions Charged To Expense/ Against Revenue	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2014	\$561	737	(625)	) \$673
Year ended December 31, 2013	\$191	594	(224)	) \$561
Year ended December 31, 2012	\$115	222	(146)	) \$191

#### Other Receivables

Under certain customer arrangements, the Company collects and remits monthly activity-based fees incurred on specific channels on the customers' behalf. The Company records the amounts due from customers as a result of these arrangements as other receivables.

Other receivables of \$1.3 million and \$1.7 million are included in prepaid expenses and other current assets on the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

#### Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized. Depreciation and amortization is provided over the estimated useful lives of the related assets using the straight-line method.

The estimated useful lives for significant property and equipment categories are generally as follows:



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

Purchased software, including internal-use software	3 years
Computer hardware	3 years
Furniture and office equipment	3 to 5 years
Leasehold improvements	Lesser of remaining lease term or useful life
Repairs and maintenance costs are expensed as incurred.	

#### Identifiable Intangible Assets

The Company acquired intangible assets in connection with its business acquisitions. See Note 3 included in this Annual Report for information regarding intangible assets acquired in connection with the acquisition of E-Tale. 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 Lives	Amortization Methodology
Customer relationships	7 to 8 years	Straight-line
Acquired technology	7 years	Straight-line
Proprietary software	8 years	Straight-line
Trade names	3 years	Straight-line

#### Impairment of Long-Lived Assets

The Company reviews long-lived assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset or asset group to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2014 and 2013, management does not believe any long-lived assets are impaired and has not identified any assets as being held for sale.

#### Goodwill

Goodwill represents the excess of the aggregate of the fair value of consideration transferred in a business combination over the fair value of assets acquired, net of liabilities assumed. The Company recorded goodwill in connection with its business acquisitions. See Note 3 and Note 5 below for information regarding goodwill recorded in connection with the acquisition of E-Tale. Goodwill is not amortized, but is subject to an annual impairment test. The Company tests goodwill for impairment annually on December 31, or more frequently if events or changes in business circumstances indicate the asset might be impaired.

The Company has determined that it has a single, entity-wide reporting unit. The Company first assessed qualitative factors to determine whether it was more likely than not that the fair value of its single reporting unit was less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test under ASU No. 2011-08, Goodwill and Other (Topic 350): Testing Goodwill for Impairment. If the qualitative factors had indicated that it was more likely than not that the fair value of the reporting unit was less than its carrying amount, the Company would have tested goodwill for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of the reporting unit to the carrying value of the net assets assigned to the reporting unit. If the fair value of the reporting unit is greater than the carrying value of the net assets assigned to the reporting unit, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's carrying value, step two is performed to measure the amount of the impairment, if any. In the second step, the fair value of goodwill is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if the reporting unit had just been acquired and the fair value was being initially allocated. If the carrying value of goodwill exceeds the implied fair value, an impairment charge

would be recorded in the period the determination is made.

61

---

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

As a result of the Company's annual impairment test as of December 31, 2014 and 2013, goodwill was not considered impaired and, as such, no impairment charges were recorded.

Advertising Costs

The Company expenses advertising costs as incurred. The amount expensed during the years ended December 31, 2014, 2013 and 2012 was \$6.3 million, \$4.6 million and \$2.1 million, respectively.

Software Development Costs

The Company capitalizes certain internal-use software development costs, consisting primarily of direct labor associated with creating the internally developed software and third-party consulting fees associated with implementing software purchased for internal use. Software development projects generally include three stages: the preliminary project stage (in which all costs are expensed as incurred), the application development stage (in which certain costs are capitalized) and the post-implementation/operation stage (in which all costs are expensed as incurred). The costs incurred during the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software once it is ready for its intended use.

Software development costs of \$0.4 million and \$0.3 million related to creating internally developed software and implementing software purchased for internal use were capitalized during the years ended December 31, 2014 and 2013, respectively, and are included in property and equipment in the accompanying consolidated balance sheets. Amortization expense related to capitalized internally developed software was \$0.2 million, \$0.1 million and \$20,000 for the years ended December 31, 2014, 2013 and 2012, respectively, and is included in cost of revenue or general and administrative expense in the accompanying consolidated statements of operations. The net book value of capitalized internally developed software was \$0.6 million and \$0.3 million at December 31, 2014 and 2013, respectively. Software development costs of \$0.3 million and \$1.8 million related to configuring and implementing hosted third-party software applications that the Company will use in its business operations were capitalized during the years ended December 31, 2014 and 2013, respectively, and are included in property and equipment in the accompanying consolidated balance sheets. Amortization expense related to hosted third-party software applications was \$0.7 million and \$0.1 million for the years ended December 31, 2014 and 2013, respectively, and is included in general and administrative expense in the accompanying consolidated statements of operations. The net book value of hosted third-party software applications was \$1.4 million and \$1.7 million as of December 31, 2014 and 2013, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method of accounting. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company applies the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken, in a tax return in the financial statements. Additionally, the guidance also prescribes the treatment for the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company accrues for the estimated amount of taxes for uncertain tax positions if it is more likely than not that the Company would be required to pay such additional taxes. An uncertain tax position will be recognized if it is more likely than not to be sustained. The Company did not have any accrued interest or penalties associated with unrecognized tax positions as of December 31, 2014 and 2013.

Foreign Currency Translation

The functional currency of the Company's non-U.S. operations is the local currency. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical rates in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated into U.S. dollars using the average rates of exchange prevailing during the period. Gains or losses resulting from the translation of assets and liabilities are included as a component of accumulated other

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

comprehensive loss in stockholders' equity. Gains and losses resulting from foreign currency transactions are recognized as other (expense) income.

#### Stock-Based Compensation

The Company accounts for stock-based compensation awards, which include stock options and restricted stock units ("RSUs"), based on the fair value of the award as of the grant date. 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.

The Company uses the Black-Scholes option pricing model for estimating the fair value of stock options. The use of the option valuation model requires the input of the Company's stock price, as well as highly subjective assumptions, including the expected life of the option and the expected stock price volatility based on peer companies. Additionally, the recognition of expense requires the estimation of the number of awards that will ultimately vest and the number of awards that will ultimately be forfeited.

Following the Company's IPO in May 2013, the fair value of the Company's common stock, for purposes of determining the grant date fair value of option and RSU awards, has been determined by using the closing market price per share of common stock as quoted on the New York Stock Exchange on the date of grant.

#### Basic and Diluted Loss per Common Share

The Company uses the two-class method to compute net loss per common share because the Company has issued securities, other than common stock, that contractually entitled the holders to participate in dividends and earnings of the Company. The two-class method requires earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings. Prior to their conversion to common shares, each series of the Company's redeemable convertible preferred stock was entitled to participate on an as-if-converted basis in distributions, when and if declared by the board of directors, that were made to common stockholders, and as a result these shares were considered participating securities. During 2013, certain shares issued as a result of the early exercise of stock options, which were subject to repurchase by the Company, were entitled to receive non-forfeitable dividends during the vesting period and as a result were also considered participating securities.

Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the participating securities have no obligation to fund losses. Diluted net loss per common share is computed under the two-class method by using the weighted average number of shares of common stock outstanding, plus, for periods with net income attributable to common stockholders, the potential dilutive effects of stock options and warrants. In addition, the Company analyzes the potential dilutive effect of the outstanding participating securities under the "if-converted" method when calculating diluted earnings per share, in which it is assumed that the outstanding participating securities convert into common stock at the beginning of the period. The Company reports the more dilutive of the approaches (two-class or "if-converted") as its diluted net income per share during the period. Due to net losses for the years ended December 31, 2014, 2013 and 2012, basic and diluted loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

### 3. Business Combination

On October 31, 2014, the Company's wholly owned subsidiary, ChannelAdvisor UK Limited ("ChannelAdvisor UK"), entered into a Securities Purchase Agreement (the "Purchase Agreement") pursuant to which ChannelAdvisor UK acquired all of the issued and outstanding shares of E-Tale, a UK-based company that offers a global Where to Buy solution. ChannelAdvisor UK acquired E-Tale to expand its e-commerce support for branded manufacturers. The Where to Buy solution allows branded manufacturers to send visitors to their website directly to authorized resellers

and to gain insight into consumer behavior.

Under the Purchase Agreement, ChannelAdvisor UK paid to the shareholders of E-Tale a cash purchase price of \$8.2 million, which amount is subject to adjustment as set forth in the Purchase Agreement and discussed below. The cash consideration includes \$1.0 million that has been placed into escrow to secure the indemnification obligations of E-Tale's

63

---



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

shareholders until April 30, 2016. The aggregate purchase price totaled \$9.0 million, which is comprised of \$8.2 million of cash, \$0.6 million for contingent consideration noted below and \$0.2 million of other items.

In connection with the acquisition of E-Tale, ChannelAdvisor UK incurred an obligation to make contingent earn-out payments up to \$4.0 million to the former shareholders of E-Tale, most of whom are now employees of the Company, based upon the achievement of specified quarterly revenue targets through June 2017. Pursuant to Accounting Standards Codification Topic 805, Business Combinations ("ASC 805"), this contingent consideration is deemed to be part of the purchase price and is recorded as a liability based on the estimated fair value of the consideration ChannelAdvisor UK expects to pay as of the acquisition date. Refer to Note 2, "Significant Accounting Policies—Fair Value of Financial Instruments" for more information regarding the key assumptions used in determining the fair value of the contingent consideration. As of December 31, 2014, \$0.6 million of contingent consideration was recorded as a liability on the Company's consolidated balance sheet.

The acquisition has been accounted for under the acquisition method of accounting in accordance with 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 purchase price allocation in conjunction with the acquisition of E-Tale 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 Company's preliminary allocation of the total purchase consideration is as follows (in thousands):

Cash	\$ 124	
Accounts receivable	506	
Customer relationships	2,100	
Acquired technology	1,700	
Trade names	130	
Deferred tax liability	(794	)
Other assets/liabilities, net	(202	)
Goodwill	5,412	
Total purchase price	\$8,976	

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. Goodwill is not deductible for tax purposes.

During the year ended December 31, 2014, ChannelAdvisor UK incurred transaction costs in connection with the acquisition of \$0.5 million, which are included in general and administrative expense in the accompanying consolidated statements of operations.

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.

#### 4. Property and Equipment

Property and equipment consisted of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Purchased software, including internal-use software	\$9,366	\$6,092
Computer hardware	16,125	12,886
Furniture and office equipment	3,473	3,012
Leasehold improvements	3,166	1,316
Construction in process	426	202
	32,556	23,508
Less: accumulated depreciation	(19,953	) (14,420
	\$12,603	\$9,088

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was \$5.7 million, \$3.1 million and \$2.1 million, respectively.



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

### 5. Goodwill and Intangible Assets

The following table shows the changes in the carrying amount of goodwill for the year ended December 31, 2014 (in thousands):

Balance as of January 1, 2014	\$16,106
Goodwill attributable to the E-Tale acquisition	5,412
Balance as of December 31, 2014	\$21,518

There were no changes to goodwill during the year ended December 31, 2013.

Intangible assets consisted of the following (in thousands):

	December 31, 2014			Weighted Average Useful Life (in years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$4,550	\$(2,312)	\$2,238	7.5
Acquired technology	1,700	(40)	1,660	7.0
Trade names	130	(7)	123	3.0
Proprietary software	710	(648)	62	8.0
Total	\$7,090	\$(3,007)	\$4,083	7.4
	December 31, 2013			Weighted Average Useful Life (in years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$2,450	\$(1,930)	\$520	8.0
Trade names	400	(400)	—	5.0
Proprietary software	710	(560)	150	8.0
Total	\$3,560	\$(2,890)	\$670	7.7

Amortization expense for the years ended December 31, 2014, 2013 and 2012 was \$0.5 million, \$0.6 million and \$0.8 million, respectively. As of December 31, 2014, expected amortization expense over the remaining intangible asset lives is as follows (in thousands):

2015	\$837
2016	586
2017	579
2018	543
2019	543
Thereafter	995
Total	\$4,083

### 6. Commitments and Contingencies

#### Operating and Capital Lease Commitments

The Company leases office facilities and certain equipment under non-cancelable operating and capital leases. Future minimum lease payments on capital leases and future payments on operating leases with remaining terms in excess of one year are as follows (in thousands):

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

	Operating Leases	Capital Leases
Year Ending December 31,		
2015	\$3,976	\$1,887
2016	6,375	1,165
2017	6,459	717
2018	6,535	223
2019	5,768	—
Thereafter	19,610	—
Total minimum lease payments	\$48,723	3,992
Less: imputed interest		(228 )
Less: current portion		(1,750 )
Capital lease obligations, net of current portion		\$2,014

The gross book value of fixed assets under capital leases as of December 31, 2014 and 2013 was approximately \$6.6 million and \$4.2 million, respectively. The net book value of fixed assets under capital leases as of December 31, 2014 and 2013 was approximately \$3.3 million and \$2.7 million, respectively. Capital lease obligations are included in other current liabilities and long-term capital leases in the accompanying consolidated balance sheets. The amortization of fixed assets under capital leases is included in depreciation expense within cost of goods sold and operating expenses in the accompanying consolidated statements of operations.

Future minimum lease payments due under the non-cancelable operating lease arrangements contain fixed rent increases over the term of the lease. Rent expense on these operating leases is recognized over the term of the lease on a straight-line basis. The excess of rent expense over future minimum lease payments due has been reported in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. As of December 31, 2014 and 2013, deferred rent related to these leases totaled \$2.3 million and \$1.2 million, respectively.

In January 2014, the Company entered into an agreement to lease office space in London, England. The lease agreement has an initial term of ten years, as well as a rent holiday period and an option to terminate the lease in January 2019. Minimum annual rental payments are £1.1 million (\$1.7 million based on the exchange rate as of December 31, 2014), subject to a market rate rent review in January 2019.

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 February 2022. As of December 31, 2014, the remaining lease payments under this lease totaled £2.5 million (\$3.9 million based on the exchange rate as of December 31, 2014). 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. During the year ended ended December 31, 2014, the Company recorded a loss of \$0.1 million associated with the assigned lease, which has been accounted for as a lease termination. As of December 31, 2014, 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 consolidated balance sheet as of December 31, 2014.

In August 2014, the Company entered into a lease agreement for the lease of office space to replace the Company's current corporate headquarters. The building containing the leased space is being constructed, and the lease term will commence on the date that the construction of the leased premises is substantially complete, which is targeted to be October 15, 2015. In the event that the commencement date is delayed beyond October 15, 2015, certain adjustments will be made to the Company's rent obligations under the lease. The initial term of the lease agreement is for seven years following the lease commencement date, and the Company may elect to renew the lease term for two additional five-year periods, subject to certain conditions and notice obligations set forth in the lease agreement. Minimum

annual rental payments will be \$3.2 million the first lease year, and are scheduled to increase each lease year by 2.75%. Beginning January 1, 2017, the Company will also be obligated to pay its proportionate share of the landlord's operating expenses for the building, subject to certain limitations.

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

The lease agreement for the Company's current headquarters, located in Morrisville, North Carolina, has a lease term through September 2021. As of December 31, 2014, total payments for the remaining term of the Morrisville lease were \$8.6 million.

Total rent expense for the years ended December 31, 2014, 2013 and 2012 was \$3.4 million, \$1.8 million and \$1.7 million, respectively.

#### Legal Contingencies

The Company is a party to a variety of legal proceedings that arise in the normal course of business. While the results of such normal course legal proceedings cannot be predicted with certainty, management believes, based on current knowledge, that the final outcome of any matters will not have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

#### 7. Debt

In December 2009, the Company entered into a loan and security agreement (the "Loan and Security Agreement") with a lender. The Loan and Security Agreement has been amended several times, most recently on September 17, 2014. The Loan and Security Agreement includes a revolving line of aggregate advances (the "Revolving Line of Credit") totaling \$10.0 million. The Revolving Line of Credit has a term through September 17, 2016 and requires interest-only payments to be made monthly on any outstanding advances during the term at the lender's prime rate, which was 3.25% at December 31, 2014, plus 0.25%. The Company is also obligated to pay an unused facility fee in the amount of 0.15% per year on any unused borrowing capacity.

The Revolving Line of Credit is collateralized by all of the Company's assets, excluding its intellectual property, although the Company may not encumber its intellectual property without the consent of the bank. Under the terms of the Loan and Security Agreement, the Company is required to meet and maintain certain monthly and annual financial and nonfinancial covenants. As of December 31, 2014, the Company was in compliance with all such covenants. As of December 31, 2014 and 2013, the Company had no amounts outstanding under the Loan and Security Agreement.

In March 2012, the Company signed a loan and security agreement (the "Subordinated Loan Agreement") with a subordinated lender, which was amended in October 2013. Borrowings under the Subordinated Loan Agreement accrued interest at an annual rate of 10.5%. During 2012, the Company borrowed \$10.0 million under this Subordinated Loan Agreement. In November 2013, the Company entered into a payoff agreement with the lender pursuant to which the Company paid all amounts due and owing under the Subordinated Loan Agreement and terminated the Subordinated Loan Agreement. Under the payoff agreement, the Company paid the lender approximately \$11.3 million, of which \$1.2 million represented a fixed prepayment fee and other extinguishment costs. In connection with this prepayment, the Company recognized a pre-tax loss on extinguishment of debt of \$3.1 million during year ended December 31, 2013, representing the difference between the par value and payoff amount of the loan, increased by the write-off of unamortized debt issuance costs and accelerated amortization of the remaining debt discount.

#### 8. Income Taxes

The components of income (loss) before income taxes for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012
Domestic	\$(36,053)	\$(7,222)	\$1,821
Foreign	1,580	(13,203)	(6,824)
Total loss before income taxes	\$(34,473)	\$(20,425)	\$(5,003)

The provision for income tax expense (benefit) included the following for the years ended December 31, 2014, 2013 and 2012 (in thousands):

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

	2014	2013	2012
Current:			
Federal	\$—	\$22	\$46
State	11	193	55
Foreign	8	—	(201
Total	19	215	(100
Deferred:			
Federal	42	(26	) 28
State	5	14	2
Foreign	(25	) —	—
Total	22	(12	) 30
Total tax expense (benefit)	\$41	\$203	\$(70

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's net deferred tax assets (liabilities) as of December 31, 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012
Current:			
Deferred tax assets:			
Other assets	\$1,615	\$832	\$585
Valuation allowance	(1,562	) (726	) (539
Total deferred tax assets	53	106	46
Deferred tax liabilities:			
Other liabilities	(57	) (71	) (11
Net deferred tax (liability) asset, current	\$(4	) \$35	\$35

Noncurrent:			
Deferred tax assets:			
Domestic tax loss carryforwards	\$28,822	\$18,898	\$17,288
Foreign tax loss carryforwards	6,695	7,673	5,526
Stock-based compensation	2,546	—	—
Tax credits	658	78	57
Other assets	811	866	900
Valuation allowance	(38,700	) (26,206	) (22,040
Total deferred tax assets	832	1,309	1,731
Deferred tax liabilities:			
Fixed assets	622	1,149	1,214
Intangible assets	1,184	—	—
Other liabilities	—	383	752
Total deferred tax liabilities	1,806	1,532	1,966
Net deferred tax liability, noncurrent	\$(974	) \$(223	) \$(235

At December 31, 2014, 2013 and 2012, the Company had federal gross operating loss carryforwards of \$99.3 million, \$62.5 million and \$46.3 million, respectively, which expire beginning in 2022. At December 31, 2014, 2013 and 2012, the Company had state net economic loss carryforwards of \$104.2 million, \$55.2 million and \$45.1 million, respectively, which expire beginning in 2018. The Company's federal and state net operating losses include \$21.5 million of excess tax benefits related to deductions from the exercise of nonqualified stock options. The tax benefit of these deductions has not been recognized in deferred tax assets. If utilized, the benefits from these deductions will be

recorded as adjustments to taxes payable

68

---



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

and additional paid-in-capital. At December 31, 2014, 2013 and 2012, the Company had U.S. federal income tax credit carryforwards of \$0.8 million, \$0.1 million and \$0.1 million, respectively, which expire beginning in 2034. The utilization of the net operating loss and tax credit carryforwards may be subject to limitation under the rules regarding a change in stock ownership as determined by the Internal Revenue Code and state and foreign tax laws. The Company is in the process of assessing any limitations, particularly related to net operating loss carryforwards from its acquired entities. At December 31, 2014, 2013 and 2012, the Company also had foreign net operating loss ("NOL") carryforwards for use against future tax in those jurisdictions of \$30.9 million, \$25.1 million and \$16.4 million, respectively. The majority of the Company's foreign net operating losses can be carried forward indefinitely. A valuation allowance has been recognized to offset the deferred tax assets related to all NOL carryforwards. The total increase in valuation allowance of \$13.3 million during the year ended December 31, 2014 was allocable to current operating activities. Two exceptions to the valuation allowance analysis are the deferred tax liability associated with an indefinite-lived intangible asset and the U.S. federal alternative minimum tax credit carryforward. The deferred tax liability associated with the indefinite-lived intangible asset cannot be used to support other deferred tax assets in arriving at the valuation allowance to be recorded. Since both the deferred tax liability and the deferred tax asset have indefinite lives, they offset each other to arrive at the net deferred tax liability. The utilization of the loss carryforwards to reduce future income taxes will depend on the Company's ability to generate sufficient taxable income prior to the expiration of the NOL carryforwards. In addition, the maximum annual use of NOL carryforwards is limited in certain situations after changes in stock ownership occur.

Undistributed earnings of the Company's foreign subsidiaries are indefinitely reinvested offshore and, accordingly, no provision for U.S. federal or state income taxes has been provided thereon. The cumulative amount of undistributed earnings of the Company's non-U.S. subsidiaries was approximately \$0.8 million for each of the years ended December 31, 2014, 2013 and 2012. The determination of the deferred tax liability, which requires complex analysis of international tax situations related to repatriation, is not practicable at this time. The Company is presently investing in international operations located in Europe, Asia, Australia and South America. The Company is funding the working capital needs of its foreign operations through its U.S. operations. In the future, the Company will utilize its foreign undistributed earnings, as well as continued funding from its U.S. operations, to support its continued foreign investment.

A reconciliation of the difference between the effective income tax rate and the statutory federal income tax rate for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014		2013		2012	
U.S. statutory federal rate	34.0	%	34.0	%	34.0	%
Increase (decrease) resulting from:						
State taxes, net of federal benefit	4.8		1.6		(0.8)	)
Nondeductible expenses	(0.1)	)	(5.2)	)	(9.2)	)
Effect of foreign tax rate differential	0.6		(8.0)	)	(13.3)	)
Research and development credit	2.1		—		—	
Change in valuation allowance	(39.7)	)	(22.4)	)	(6.6)	)
Other	(1.8)	)	(1.0)	)	(2.7)	)
Effective tax rate	(0.1)	)%	(1.0)	)%	1.4	%

The nondeductible expenses during the year ended December 31, 2014 primarily related to stock compensation expense associated with incentive stock options and nondeductible transaction costs.

Effective January 1, 2009, the Company adopted Accounting Standards Codification Topic 740-10, Income Taxes ("ASC 740-10") associated with accounting for uncertainty in income taxes. These provisions provide a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return.



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

The following table shows the changes in unrecognized tax benefits in accordance with ASC 740-10 for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Balance as of January 1,	\$—	\$—	\$—
Increases related to current tax positions	149	—	—
Increases related to prior year tax positions	697	—	—
Decreases related to prior year tax positions	(64	) —	—
Balance as of December 31,	\$782	\$—	\$—

Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that approximately \$0.1 million of unrecognized tax benefits will reverse in the next twelve months. If the total unrecognized tax benefit was recognized, the effective tax rate would be affected by approximately \$0.1 million. As of December 31, 2014 and 2013, the Company had no accrued interest or penalties related to the tax contingencies. The Company's policy for recording interest and penalties is to record them as a component of provision for income taxes.

The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state and local tax examinations by tax authorities for years prior to 2011, although carryforward attributes that were generated prior to 2011 may still be adjusted upon examination by the Internal Revenue Service if they either have been or will be used in a future period. The Company is no longer subject to examination in foreign tax jurisdictions for tax periods 2009 and prior. No income tax returns are currently under examination by taxing authorities.

#### 9. Warrants

In 2007 and 2008, the Company issued warrants to purchase 1,616,113 shares of common stock, of which 958,019 and 658,094 have exercise prices per share of \$16.00 and \$10.96, respectively. The 2007 warrants expired in 2014 and the 2008 warrants expire in 2015. Unexpired warrants may be exercised in whole or in part at any time and include a cashless exercise feature, which allows the holder to receive fewer shares of common stock in exchange for the warrant rather than paying cash to exercise.

During 2013, the holders of certain of these warrants to purchase common stock executed exercises and received 662,362 shares of common stock in exchange for the warrants.

During 2014, the holders of certain of these warrants to purchase common stock executed exercises and received 664,058 shares of common stock in exchange for the warrants. As of December 31, 2014 and 2013, warrants to purchase 3,743 and 986,784 shares of common stock remained outstanding, respectively.

#### 10. Equity Incentive Plans and Stock-Based Compensation

In May 2013, the Company's board of directors adopted, and the Company's stockholders approved, the 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which the Company initially reserved 1,250,000 shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2013 Plan provides for the grant of incentive stock options to employees, and for the grant of nonqualified stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other forms of stock compensation to the Company's employees, directors, and non-employee third parties. The number of shares of common stock reserved for issuance under the 2013 Plan will automatically increase on January 1 each year, for a period of ten years, from January 1, 2014 through January 1, 2023, by 5% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares as may be determined by the Company's board of directors. Accordingly, on January 1, 2015 the number of shares reserved for issuance under the 2013 Plan increased by 1,245,775 shares. As of December 31, 2014, 1,303,344 shares remained available for future grant under the 2013 Plan. As a result of the adoption of the 2013 Plan, no further grants may be made under the former 2001 Stock Plan, although outstanding awards under the 2001 Stock Plan continue to vest in accordance with their terms until exercised, forfeited or expired.



ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

Stock-based compensation expense related to stock options is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Cost of revenue	\$533	\$204	\$64
Sales and marketing	2,911	607	224
Research and development	864	348	105
General and administrative	3,673	940	245
	\$7,981	\$2,099	\$638

#### Stock Option Awards

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." Under the "simplified method," the expected life of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. The Company used the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumed no dividend yield because dividends are not expected to be paid in the near future, which is consistent with the Company's history of not paying dividends.

The following table summarizes the assumptions used for estimating the fair value of stock options granted for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Risk-free interest rate	0.3% - 2.0%	0.3% - 1.7%	0.1% - 0.9%
Expected term (years)	6.06 - 6.25	5.00 - 6.25	4.00 - 6.25
Expected volatility	43% - 56%	43% - 59%	49% - 60%
Dividend yield	0%	0%	0%

The following is a summary of the option activity for the year ended December 31, 2014:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding balance at January 1, 2014	2,068,641	\$ 6.95		
Granted	62,600	33.95		
Exercised	(608,794)	3.42		
Forfeited	(93,620)	14.66		
Expired	(3,470)	11.50		
Outstanding balance at December 31, 2014	1,425,357	\$ 9.12	7.38	\$19,193
Exercisable at December 31, 2014	802,261	\$ 6.24	6.79	\$12,640
Vested and expected to vest at December 31, 2014	1,310,335	\$ 8.85	7.32	\$17,939

The weighted average grant date fair value for the Company's stock options granted during the years ended December 31, 2014, 2013, and 2012 was \$13.88, \$5.29 and \$2.88 per share, respectively.

The total fair value of stock options vested during the years ended December 31, 2014, 2013 and 2012 was \$1.5 million, \$0.9 million and \$0.4 million, respectively.

71

---

ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

The total compensation cost related to nonvested stock options not yet recognized as of December 31, 2014 was \$1.1 million and will be recognized over a weighted average period of approximately 1.5 years.

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2014, 2013, and 2012 was \$16.0 million, \$17.6 million and \$0.7 million, respectively.

#### Restricted Stock Units

The following table summarizes the RSU activity for the year ended December 31, 2014:

	Number of RSUs	Weighted Average Grant-Date Fair Value
Unvested RSUs as of January 1, 2014	—	\$ —
Granted	983,514	21.07
Vested	(2,500)	) 43.83
Forfeited	(36,280)	) 21.41
Unvested RSUs as of December 31, 2014	944,734	\$ 23.74

The total unrecognized compensation cost related to the RSUs as of December 31, 2014 was \$12.9 million and will be recognized over a weighted average period of approximately 2.1 years.

#### 11. 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 years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Redeemable convertible preferred stock:			
Series A	—	—	5,863,825
Series B	—	—	2,540,066
Series B-1	—	—	353,767
Series C	—	—	4,617,513
Warrants to purchase common stock	3,743	986,784	1,616,113
Warrants to purchase Series A redeemable convertible preferred stock	—	—	10,937
Warrants to purchase Series C redeemable convertible preferred stock	—	—	286,625
Stock options	1,425,357	2,068,641	2,202,712
RSUs	944,734	—	—

#### 12. 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 years ended December 31, 2014 and 2013. The following table summarizes revenue by geography for the years ended December 31, 2014, 2013 and 2012 (in thousands):





ChannelAdvisor Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

	2014	2013	2012
Revenue:			
Domestic	\$65,833	\$53,832	\$42,140
International	19,068	14,172	11,447
Total	\$84,901	\$68,004	\$53,587

The Company's revenue from external customers based in the United Kingdom totaled approximately \$11.4 million, \$8.9 million and \$7.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### 13. Retirement Plan

The Company established the ChannelAdvisor Corporation 401(k) Profit Sharing Plan (the "Retirement Plan"), a contributory profit sharing plan, to cover all employees who qualify under the terms of the plan. Eligible employees may elect to contribute to the Retirement Plan up to 100% of their compensation, limited by the IRS-imposed maximum. The Company matches 50% of employee contributions up to 3% of base salary. Employer contributions were \$0.5 million for the year ended December 31, 2014 and \$0.3 million for each of the years ended December 31, 2013 and 2012.

### 14. Selected Quarterly Information (unaudited)

	Three Months Ended,			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(in thousands, except per share amounts)			
Revenue	\$19,338	\$20,770	\$20,966	\$23,827
Gross profit	13,606	14,351	14,948	17,776
Loss from operations	(9,280)	) (9,511)	) (8,857)	) (6,360)
Net loss	(9,370)	) (9,604)	) (9,004)	) (6,536)
Net loss per share:				
Basic and diluted	(0.39)	) (0.39)	) (0.36)	) (0.26)

	Three Months Ended,			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	(in thousands, except per share amounts)			
Revenue	\$14,922	\$15,976	\$16,620	\$20,486
Gross profit	10,975	11,507	12,065	15,369
Loss from operations	(2,137)	) (3,496)	) (3,741)	) (4,991)
Net loss	(2,730)	) (4,997)	) (4,292)	) (8,609)
Net loss per share:				
Basic and diluted	(2.10)	) (0.56)	) (0.20)	) (0.38)

### 15. Subsequent Events

On January 26, 2015, the Company entered into an agreement to sublease a portion of its office space in London, England through December 2018. The Company anticipates receiving £0.4 million (\$0.6 million based on the exchange rate as of December 31, 2014) in annual rental payments during the term of the sublease agreement.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including our chief executive officer, who is our principal executive officer, and our chief financial officer, who is our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2014, the end of the period covered by this Annual Report. The term "disclosure controls and procedures," as set forth in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance 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 rules and forms promulgated by the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures 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 accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

This Annual Report does not include an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

ITEM 9B. OTHER INFORMATION

Not applicable.

74

---

Table of Contents

PART III

We will file a definitive Proxy Statement for our 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement") with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2015 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference to the sections of the 2015 Proxy Statement under the captions "Information Regarding the Board of Directors and Corporate Governance," "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference to the sections of the 2015 Proxy Statement under the captions "Executive Compensation" and "Non-Employee Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is hereby incorporated by reference to the sections of the 2015 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference to the sections of the 2015 Proxy Statement under the captions "Transactions with Related Persons" and "Independence of the Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference to the sections of the 2015 Proxy Statement under the caption "Ratification of Selection of Independent Auditors."

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registrant'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 (incorporated herein by reference to Exhibit 3.2 to the Registrant'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 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on May 9, 2013).
10.1	Loan and Security Agreement, dated as of December 23, 2009, as amended through July 26, 2012, by and among the Registrant, MerchandisingAdvisor Corporation, CA Marketplaces, Inc., ChannelAdvisor UK Limited, CA Washington LLC and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.2	Eighth Amendment to Loan and Security Agreement, dated as of June 17, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on August 7, 2013).
10.3	Ninth Amendment to Loan and Security Agreement, dated as of July 16, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on August 7, 2013).
10.4	Tenth Amendment to Loan and Security Agreement, dated as of September 16, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on October 28, 2013).
10.5	Form of Warrant to Purchase Common Stock issued in Series C financing, dated as of April 2007, August 2008 and November 2008 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.6	Third Amended and Restated Investor Rights Agreement, dated as of April 26, 2007, as amended to date, by and among the Registrant and certain of its stockholders (incorporated herein by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).

- 10.7 Lease, dated as of June 29, 2005 and as amended through January 27, 2011, by and between the Registrant and Pizzagalli Properties, LLC (incorporated herein by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
- 10.8 Fourth Amendment to Lease Agreement, dated as of January 31, 2013, by and between the Registrant and Aerial Center Realty Corp (incorporated herein by reference to Exhibit 10.11.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
- 10.9 Fifth Amendment to Lease Agreement, dated as of August 13, 2013, by and between the Registrant and Aerial Center Realty Corp (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on October 28, 2013).
- 10.10+ 2001 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).

Table of Contents

10.11+	Form of Stock Option Agreement under 2001 Stock Plan (incorporated herein by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013)
10.12+	2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-8 (File No. 333-188988), filed with the Securities and Exchange Commission on May 31, 2013).
10.13+	Form of Stock Option Grant Notice and Stock Option Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.14+	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.15+	Form of Letter Agreement with Timothy Williams and Timothy Buckley relating to accelerated vesting of stock options upon a change of control (incorporated herein by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.16+	Form of Indemnification Agreement with non-employee directors (incorporated herein by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.17+	Amended and Restated Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and David J. Spitz.
10.18+	Amended and Restated Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and John F. Baule.
10.19*	Master Services Agreement, dated as of June 29, 2005, by and between the Registrant and Hosted Solutions, LLC (incorporated herein by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.20*	Master Space Agreement, dated as of January 28, 2011, by and between the Registrant and Quality Investment Properties Suwanee, LLC (incorporated herein by reference to Exhibit 10.24 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.21+	Schedule of Compensation for Non-Employee Directors, adopted effective as of July 1, 2014 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).
10.22	Office lease, dated as of August 15, 2014, by and between the Registrant and Duke Realty Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).

- 10.23 Eleventh Amendment to Loan and Security Agreement, dated as of September 17, 2014, by and among the Registrant, MerchandisingAdvisor Corporation, CA Marketplaces, Inc., ChannelAdvisor UK Limited, CA Washington, LLC and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).
- 10.24+ Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and Diana S. Allen.
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP, independent registered public accounting firm.
- 24.1 Power of Attorney (contained on signature page hereto).
- 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.



Table of Contents

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

These certifications are being furnished solely to accompany this Annual 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.

^ Indicates management contract or compensatory plan.

+ Confidential treatment has been granted with respect to portions of this exhibit (indicated by asterisks) and those portions have been separately filed with the Securities and Exchange Commission.

---

(b) Financial Statement Schedules

All schedules are omitted as information required is inapplicable or the information is presented in the consolidated financial statements and the related notes.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHANNELADVISOR CORPORATION

By: /s/ M. Scot Wingo  
M. Scot Wingo  
Chief Executive Officer

February 26, 2015

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John F. Baule and Diana S. Allen, jointly and severally, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Annual Report on Form 10-K of ChannelAdvisor Corporation, and any or all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ M. Scot Wingo M. Scot Wingo	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2015
/s/ John F. Baule John F. Baule	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2015
/s/ Timothy J. Buckley Timothy J. Buckley	Director	February 26, 2015
/s/ Aris A. Buinevicius Aris A. Buinevicius	Director	February 26, 2015
/s/ Robert C. Hower Robert C. Hower	Director	February 26, 2015
/s/ Patrick J. Kerins Patrick J. Kerins	Director	February 26, 2015
/s/ Timothy V. Williams Timothy V. Williams	Director	February 26, 2015



Table of Contents

## EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registrant'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 (incorporated herein by reference to Exhibit 3.2 to the Registrant'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 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on May 9, 2013).
10.1	Loan and Security Agreement, dated as of December 23, 2009, as amended through July 26, 2012, by and among the Registrant, MerchandisingAdvisor Corporation, CA Marketplaces, Inc., ChannelAdvisor UK Limited, CA Washington LLC and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.2	Eighth Amendment to Loan and Security Agreement, dated as of June 17, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on August 7, 2013).
10.3	Ninth Amendment to Loan and Security Agreement, dated as of July 16, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on August 7, 2013).
10.4	Tenth Amendment to Loan and Security Agreement, dated as of September 16, 2013, by and between the Registrant and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on October 28, 2013).
10.5	Form of Warrant to Purchase Common Stock issued in Series C financing, dated as of April 2007, August 2008 and November 2008 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.6	Third Amended and Restated Investor Rights Agreement, dated as of April 26, 2007, as amended to date, by and among the Registrant and certain of its stockholders (incorporated herein by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.7	

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Lease, dated as of June 29, 2005 and as amended through January 27, 2011, by and between the Registrant and Pizzagalli Properties, LLC (incorporated herein by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).

10.8 Fourth Amendment to Lease Agreement, dated as of January 31, 2013, by and between the Registrant and Aerial Center Realty Corp (incorporated herein by reference to Exhibit 10.11.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).

10.9 Fifth Amendment to Lease Agreement, dated as of August 13, 2013, by and between the Registrant and Aerial Center Realty Corp (incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on October 28, 2013).

10.10+ 2001 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).

10.11+ Form of Stock Option Agreement under 2001 Stock Plan (incorporated herein by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013)

80

---

Table of Contents

10.12+	2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.6 to the Registrant’s Registration Statement on Form S-8 (File No. 333-188988), filed with the Securities and Exchange Commission on May 31, 2013).
10.13+	Form of Stock Option Grant Notice and Stock Option Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.14+	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.15+	Form of Letter Agreement with Timothy Williams and Timothy Buckley relating to accelerated vesting of stock options upon a change of control (incorporated herein by reference to Exhibit 10.18 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.16+	Form of Indemnification Agreement with non-employee directors (incorporated herein by reference to Exhibit 10.19 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.17+	Amended and Restated Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and David J. Spitz.
10.18+	Amended and Restated Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and John F. Baule.
10.19*	Master Services Agreement, dated as of June 29, 2005, by and between the Registrant and Hosted Solutions, LLC (incorporated herein by reference to Exhibit 10.23 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.20*	Master Space Agreement, dated as of January 28, 2011, by and between the Registrant and Quality Investment Properties Suwanee, LLC (incorporated herein by reference to Exhibit 10.24 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.21+	Schedule of Compensation for Non-Employee Directors, adopted effective as of July 1, 2014 (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).
10.22	Office lease, dated as of August 15, 2014, by and between the Registrant and Duke Realty Limited Partnership (incorporated herein by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).
10.23	

Edgar Filing: CHANNELADVISOR CORP - Form 10-K

Eleventh Amendment to Loan and Security Agreement, dated as of September 17, 2014, by and among the Registrant, MerchandisingAdvisor Corporation, CA Marketplaces, Inc., ChannelAdvisor UK Limited, CA Washington, LLC and Silicon Valley Bank (incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).

- 10.24+ Executive Severance and Change of Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and Diana S. Allen.
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP, independent registered public accounting firm.
- 24.1 Power of Attorney (contained on signature page hereto).
- 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

Table of Contents

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

---

^ These certifications are being furnished solely to accompany this Annual 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.

+ Indicates management contract or compensatory plan.

\* Confidential treatment has been granted with respect to portions of this exhibit (indicated by asterisks) and those portions have been separately filed with the Securities and Exchange Commission.