

CalAmp Corp.  
Form DEF 14A  
June 17, 2016

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**CalAmp Corp.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
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- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
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Fee paid previously with preliminary materials.

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**CalAmp Corp.  
15635 Alton Parkway, Suite 250  
Irvine, CA 92618  
(949) 600-5600**

**June 17, 2016**

Dear Stockholder:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders of CalAmp Corp. to be held at the Fairmont Newport Beach, 4500 MacArthur Blvd., Newport Beach, California, 92660, on Tuesday, July 26, 2016 at 10:00 a.m. local time. We describe in detail the actions we expect to take at our 2016 Annual Meeting in the attached Notice of Annual Meeting of Stockholders and Proxy Statement. **Please use this opportunity to take part in our affairs by voting on the business to come before the 2016 Annual Meeting.** Only stockholders of record at the close of business on June 6, 2016 may vote at the 2016 Annual Meeting and any postponements or adjournments of the meeting. All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, please vote as soon as possible by promptly completing, signing, dating and returning the enclosed proxy or submitting your proxy over the Internet or by telephone. See "How do I vote? (Voting Procedures)" on page 2 of the following Proxy Statement for more details. Returning the paper proxy card or voting electronically does NOT deprive you of your right to attend the meeting and to vote your shares in person for the matters acted upon at the meeting.

You may receive an additional copy of our Annual Report on Form 10-K for the year ended February 29, 2016, including any exhibits thereto, without charge by sending a written request to our Corporate Secretary at the address above.

Thank you for your ongoing support of CalAmp Corp. We look forward to seeing you at our 2016 Annual Meeting.

Sincerely,  
Michael Burdick  
President and Chief Executive Officer

**YOUR VOTE IS IMPORTANT**

**Even if you plan to attend the Annual Meeting, please promptly complete, sign, date and return the enclosed proxy promptly or submit your proxy over the Internet or by telephone. If you are a stockholder of record and attend the Annual Meeting in person, you may withdraw your proxy and vote in person. You will find information on submitting your proxy over the Internet or by telephone and information about voting in person at the Annual Meeting in the "Questions and Answers about the 2016 Annual Meeting and Voting" section of the following Proxy Statement, beginning on page 2.**

**THANK YOU FOR ACTING PROMPTLY**

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**CalAmp Corp.  
15635 Alton Parkway, Suite 250  
Irvine, CA 92618  
(949) 600-5600**

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**PROXY STATEMENT**

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**NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS**

**Approximate Date of Mailing: June 17, 2016**

This proxy statement (the "Proxy Statement") is furnished in connection with the solicitation by the Board of Directors (the "Board of Directors" or the "Board") of CalAmp Corp. (the "Company" or "CalAmp") of proxies for use at the 2016 Annual Meeting of Stockholders (the "Annual Meeting"), to be held at 10:00 a.m. local time on Tuesday, July 26, 2016 at the Fairmont Newport Beach, 4500 MacArthur Blvd., Newport Beach, California, 92660.

**ITEMS OF BUSINESS:**

1. To elect seven directors named in the Proxy Statement to hold office until the next annual meeting of stockholders;
2. To approve on a non-binding, advisory basis the compensation of the Company's named executive officers as disclosed in the Proxy Statement accompanying this notice (the "Notice of Annual Meeting") pursuant to Item 402 of Regulation S-K ("Say-on-Pay");
3. To ratify the selection of BDO USA, LLP as the independent auditing firm for the Company for the fiscal year ending February 28, 2017; and
4. To transact such other business as may properly come before the Annual Meeting and any postponements or adjournments thereof.

**VOTING RIGHTS:**

In order to vote, you must have been a stockholder at the close of business on June 6, 2016 (the "Record Date"). On the Record Date, CalAmp had issued and outstanding 36,749,184 shares of common stock, par value \$0.01 per share (the "Common Stock"), which is the only class of voting securities outstanding.

This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Annual Meeting. Please read it carefully.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JULY 26, 2016:**

Pursuant to rules promulgated by the Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials both by: (i) sending you this full set of proxy materials, including a proxy card; and (ii) notifying you of the availability of our proxy materials on the Internet. The Notice of Annual Meeting, Proxy Statement and Annual Report are available from Broadridge Investor Communication Services at: <https://materials.proxyvote.com/128126>. Broadridge does not use "cookies" or other tracking software that identifies visitors accessing this web site.



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**QUESTIONS AND ANSWERS ABOUT THE 2016 ANNUAL MEETING AND VOTING**

**What is a proxy?**

A proxy is your legal designation of another person to vote the shares of stock you own. The person you designate is your "proxy," and you give the proxy authority to vote your shares by submitting the enclosed proxy card or voting by telephone or over the Internet. We have designated our Chairman, A.J. Bert Moyer, and our President and CEO, Michael Burdick, to serve as proxies for the Annual Meeting.

**Why am I receiving these proxy materials?**

The Board of Directors of CalAmp is providing these proxy materials, consisting of the Proxy Statement, proxy card or voting instruction form, and our Annual Report for the year ended February 29, 2016, to you in connection with the solicitation of proxies for use at our Annual Meeting to be held on Tuesday, July 26, 2016, at 10:00 a.m., local time, and at any adjournment or postponement thereof, for the purpose of considering and acting upon the matters set forth herein. We are providing these proxy materials to all of our stockholders through the U.S. mail unless a stockholder has specifically requested to receive these materials in electronic form via email or the Internet.

If you are receiving multiple copies of CalAmp's proxy materials and in the future you would like to receive a single copy of CalAmp's proxy materials for all of your stockholder accounts that have the same address, please contact Broadridge Financial Solutions, Inc. at (800) 542-1061 or in writing at Broadridge, Household Department, 51 Mercedes Way, Edgewood, New York 11717.

**What is the difference between holding shares as a Stockholder of Record and as a Beneficial Owner?**

Most of our stockholders hold their shares through a broker or bank rather than directly in their own name. As summarized below, there are some distinctions between shares held "of record" and those owned beneficially.

**Stockholder of Record.** If your shares are held in certificate or book entry form that is registered directly in your name with our transfer agent, American Stock Transfer, you are considered, with respect to those shares, the "Stockholder of Record." As the Stockholder of Record, you have the right to grant your voting proxy directly to us or to vote in person at the Annual Meeting.

**Beneficial Owner of Shares Held in Street Name ("Beneficial Owner").** If your shares are held in electronic form in a brokerage or bank account, you are considered to be the Beneficial Owner with respect to those shares, and those shares are considered to be held in "street name". In this case, the broker or bank that holds your shares on your behalf is considered to be the Stockholder of Record.

**How do I vote? (Voting Procedures)**

*Your vote is very important. Even if you plan to attend the Annual Meeting, we recommend that you submit your vote prior to the meeting, so that your vote will be counted if you later decide not to attend the meeting.* You may vote your shares by one of several means, as described below:

**Stockholders of Record** may vote their shares by one of the following methods:

1. By Mail

You may complete, sign and date the proxy card and return it in the prepaid envelope provided. If a Stockholder of Record returns the signed proxy card but does not indicate his or her voting preferences, the persons named in the proxy will vote the shares represented by that proxy as recommended by the Board of Directors.

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2. By Telephone or the Internet  
  
Call the toll-free telephone number on the proxy card and follow the recorded instructions, or access the secure website *www.proxyvote.com* through the Internet and follow the instructions. Please note that the telephone and Internet voting facilities will close at 11:59 p.m. Eastern Time on July 25, 2016, the day before the Annual Meeting.
  
3. In Person at the Annual Meeting  
  
Stockholders of Record may vote their shares in person at the Annual Meeting. If you plan to attend the Annual Meeting and vote in person, we will provide you with a ballot at the meeting. You may also be represented at the Annual Meeting by another person if you execute a proper legal proxy designating that person.

**Beneficial Owners** may vote their shares by one of the following methods:

1. By Mail  
  
You may vote by signing, dating and returning your voting instruction form that was provided to you by the broker or bank that holds your shares in the pre-addressed envelope provided.
  
2. By Methods Listed on Voting Instruction Form  
  
Please refer to your voting instruction form or other information provided by the broker or bank that holds your shares to determine whether you may vote by telephone or via the Internet, and follow the instructions on the voting instruction form or other information provided by the broker or bank.
  
3. In Person at the Annual Meeting  
  
If you are a Beneficial Owner of shares held in street name, you must obtain a legal proxy from the broker or bank that holds the shares on your behalf and present it to the Inspector of Election with your ballot in order to be able to vote in person at the Annual Meeting.

*Beneficial Owners should note that the Election of Directors (Proposal One) is a "non-discretionary" item. If you are a Beneficial Owner and you do not instruct your broker or bank how to vote with respect to the Election of Directors, your broker or bank may not vote with respect to this proposal and those votes will be counted as "broker non-votes". See "What if I don't vote for all of the items listed on my proxy card, or what happens if I abstain or my broker does not vote?" for more information regarding broker non-votes.*

**When and where will the Annual Meeting be held?**

The Annual Meeting will be held on Tuesday, July 26, 2016, at the Fairmont Newport Beach, 4500 MacArthur Blvd., Newport Beach, California, 92660 at 10:00 a.m. local time.

**Who is soliciting my vote?**

The proxy is solicited on behalf of the Board of Directors. The proxy will be used at our Annual Meeting. The only solicitation materials to be sent to stockholders will be this Proxy Statement and the accompanying proxy card. The Board of Directors does not intend to use specially engaged employees or paid solicitors to solicit proxies. The Board of Directors also intends to solicit the proxies held on behalf of stockholders by brokers or banks. The Company will pay all reasonable expenses incurred by such

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holders for mailing the solicitation material to the stockholders for whom they hold shares. All solicitation expenses are being paid by the Company.

**Will the Annual Meeting be webcast?**

We do not expect to webcast the 2016 Annual Meeting.

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### **Who is entitled to vote at the Annual Meeting?**

Holders of our Common Stock at the close of business on the Record Date will be entitled to vote at the Annual Meeting. Each share of Common Stock will be entitled to one vote.

As of the Record Date, we had 36,749,184 shares of outstanding Common Stock, which were held by approximately 1,500 Stockholders of Record.

### **What is the purpose of the Annual Meeting or what proposals will be voted on at the Annual Meeting?**

You are being asked to vote on:

the election of seven directors to serve until our next annual meeting of stockholders or in each case until their successor is duly elected and qualified;

the approval on a non-binding, advisory basis of the compensation of CalAmp's named executive officers ( NEOs ), as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC ( Say-on-Pay );

the ratification of the selection of BDO USA, LLP as our independent auditing firm for the fiscal year ending February 28, 2017; and

any other business that may properly come before the 2016 Annual Meeting and any postponements or adjournments thereof.

### **What are the Board of Directors' recommendations on the proposals to be voted on at the Annual Meeting?**

The Board of Directors recommends a vote:

**FOR** the election of the seven nominees for director identified in Proposal One;

**FOR** the approval on a non-binding, advisory basis of the compensation of our NEOs as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC;

**FOR** the ratification of the selection of BDO USA, LLP as our independent auditing firm for the fiscal year ending February 28, 2017; and

**FOR or AGAINST** other matters that may properly come before the Annual Meeting, and any postponements or adjournments thereof, as the proxy holders deem advisable.

### **How many votes do I have?**

You will have one vote for each share of our Common Stock you owned at the close of business on the Record Date, provided those shares are either held directly in your name as the Stockholder of Record or were held for you as the Beneficial Owner through a broker or bank.

### **How many votes can be cast by all stockholders?**

We had 36,749,184 shares of Common Stock outstanding and entitled to vote on the Record Date.

### **How many votes must be present to hold the Annual Meeting, i.e., what constitutes a quorum?**

A quorum, which is a majority of our outstanding shares as of the Record Date, must be present in person or by proxy in order to hold the Annual Meeting and to conduct business. Abstentions and broker non-votes are counted for the purpose of determining the presence or absence of a quorum. Your shares will be counted as being present at the meeting if you attend the meeting in person or if you submit a properly executed proxy card.

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If a quorum is not present at the Annual Meeting, the stockholders who are present may adjourn the Annual Meeting until a quorum is present. The time and place of any adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given, unless the

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adjournment is for more than 30 days, or if after the adjournment a new record date is set for the adjourned meeting.

### **How many votes are required to elect the directors and adopt the other proposals?**

The vote required and method of calculation for the proposals to be considered at the Annual Meeting are as follows:

*Election of directors.* If a quorum is present, the nominees receiving the highest number of votes will be elected to the Board of Directors. You may vote either "for" or "withhold" for each director nominee. A properly executed proxy marked "withhold" with respect to the election of any director will not be voted with respect to such director and will not affect the outcome of the election of such director, although it will be counted for purposes of determining whether there is a quorum.

*Say-on-Pay.* The affirmative vote of the holders of a majority in voting power of the shares of Common Stock which are present in person or by proxy and entitled to vote on the proposal is required for approval. Because your vote on the Say-on-Pay proposal is advisory, it will not be binding on the Board, the Compensation Committee of the Board or CalAmp. However, the Board will review the voting results and take them into consideration when making future decisions about executive compensation. Abstentions have the same effect as a vote against this proposal. Broker non-votes will have no effect on the outcome of this proposal.

*Ratification of the appointment of BDO USA, LLP.* For the ratification of the appointment of BDO USA, LLP as our independent auditing firm for the fiscal year ending February 28, 2017, the affirmative vote of a majority of the shares present, represented and entitled to vote on this proposal will be required for approval. You may vote "for," "against," or "abstain" on this proposal. If you abstain from voting on this matter, your shares will be counted as present and entitled to vote on the matter for purposes of establishing a quorum, and the abstention will have the same effect as a vote against this proposal.

### **What if I don't vote for some of the items listed on my proxy card but I deliver a signed proxy card?**

If you return your signed proxy card or voting instruction form but do not mark selections, it will be voted in accordance with the recommendations of the Board of Directors. If you indicate a choice with respect to any matter to be acted upon on your proxy card or voting instruction form, the shares will be voted in accordance with your instructions.

### **What is the effect if I don't cast my vote?**

*Stockholders of Record* If you are a Stockholder of Record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

*Beneficial Owner* **If you are a Beneficial Owner of shares held in street name , it is critical that you cast your vote if you want it to count in the election of directors (Proposal One) and the advisory vote on executive compensation (Proposal Two).** If you hold your shares in street name and you do not instruct your bank or broker how to vote on Proposals One and Two, no votes will be cast on your behalf. Your bank or broker will, however, have discretion to vote any uninstructed shares on the ratification of the appointment of BDO USA, LLP as our independent auditing firm (Proposal Three).

### **What if I don't vote for all of the items listed on my proxy card, or what happens if I abstain or my broker does not vote?**

If your proxy indicates an abstention from voting on all matters, the shares represented will be counted as present for the purpose of determining a quorum, but they will not be voted on any matter at the Annual Meeting. Because the election of directors (Proposal One) is determined on the basis of plurality votes, if you abstain from voting on Proposal One, your abstention will have no effect on the voting outcome of this proposal. If you abstain from voting on the advisory vote on CalAmp s

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executive compensation (Proposal Two) or the proposal to ratify the appointment of BDO USA, LLP as the Company's independent auditing firm (Proposal Three), your abstention will have the same effect as a vote against these proposals.

Under the rules that govern brokers who have record ownership of shares that are held in "street name" for their clients, who are the Beneficial Owners of the shares, brokers have discretion to vote these shares on routine matters but not on non-routine matters. Thus, if you do not otherwise instruct your broker, the broker may vote your shares "for" routine matters but expressly indicate that the broker is NOT voting on non-routine matters. A "broker non-vote" occurs when a broker expressly indicates on a proxy that it is not voting on a matter, whether routine or non-routine. Broker non-votes are counted for the purpose of determining the presence or absence of a quorum but are not counted for determining the number of votes cast for or against a proposal.

If you are a Beneficial Owner and your broker holds your shares in its street name, the broker is permitted to vote your shares on the approval of BDO USA, LLP as our independent auditing firm (Proposal Three) even if the broker does not receive voting instructions from you. **However, if you are a Beneficial Owner your broker or bank does not have discretionary authority to vote on the election of directors (Proposal One) or the advisory vote on executive compensation (Proposal Two). So it is very important that you instruct your broker or bank how to vote on these proposals.**

### **What is the voting requirement to approve each of the proposals discussed in this proxy statement?**

The voting requirement to approve each of the proposals is as follows:

A plurality of the votes cast is required for the election of directors (Proposal One).

The affirmative vote of the holders of a majority of the shares of Common Stock present, in person or by proxy, at the Annual Meeting and entitled to vote is required to approve the advisory vote on CalAmp's executive compensation (Proposal Two), and to ratify the appointment of BDO USA, LLP as CalAmp's independent registered public accounting firm (Proposal Three).

### **What should I do if I change my mind after submitting a proxy?**

If you are a Stockholder of Record, you may revoke a previously submitted proxy at any time before it is voted at the Annual Meeting. In order to revoke a proxy, you must do one of the following prior to the taking of the vote at the Annual Meeting:

Provide written notice of revocation to Corporate Secretary, c/o CalAmp Corp., 15635 Alton Parkway, Suite 250, Irvine, California, 92618;

Deliver a valid proxy bearing a later date or submit a new later dated proxy by telephone or over the Internet; or

Attend the Annual Meeting and vote in person and request that your proxy be revoked (attendance at the meeting will not by itself revoke a previously granted proxy).

However, please note that if you are a Beneficial Owner of shares held in street name, you may revoke your proxy by timely submitting new voting instructions to your broker or bank, or by obtaining a legal proxy from the broker or bank that holds your shares giving you the right to vote the shares in person at the Annual Meeting.

All shares that have been properly voted by proxy without timely revocation will be voted at the Annual Meeting.

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### **How can I elect to receive my proxy materials electronically by email?**

*Stockholders of Record* To receive future copies of our proxy materials by email, registered stockholders should go to [www.proxyvote.com](http://www.proxyvote.com) and follow the enrollment instructions. To enroll in the online program you will need to enter the 12 digit control number from your proxy card or voting instruction form. Upon completion of enrollment, you will receive an email confirming the election to use the online services. The enrollment in the online program will remain in effect until the enrollment is cancelled.

*Beneficial Owners* Most Beneficial Owners can elect to receive an email that will provide a link to the electronic versions of the proxy materials. To view a listing of participating brokerage firms and enroll in the online program, Beneficial Owners should go to [www.proxyvote.com](http://www.proxyvote.com) and follow the enrollment instructions. To enroll in the online program you will need to enter the 12 digit control number from your proxy card or voting instruction form. The enrollment in the online program will remain in effect for as long as the brokerage account is active or until the enrollment is cancelled.

Enrolling to receive our future proxy materials online will save us the cost of printing and mailing documents, as well as help preserve our natural resources.

### **Is there a list of stockholders entitled to vote at the Annual Meeting?**

The names of Stockholders of Record entitled to vote will be available at the 2016 Annual Meeting and for 10 days prior to the Annual Meeting for any purpose relevant to the meeting, between the hours of 9:00 a.m. and 5:00 p.m., local time, at our corporate office located at 15635 Alton Parkway, Suite 250, Irvine, California, 92618. If you wish to review the list of stockholders entitled to vote at the 2016 Annual Meeting, please contact Rick Vitelle, our Chief Financial Officer and Corporate Secretary, to make arrangements.

### **Will stockholders be entitled to cumulative voting?**

No, stockholders may not use cumulative voting because our current certificate of incorporation does not provide for this. If cumulative voting were applicable, stockholders would be able to cast a number of votes equal to the number of shares of stock held by the stockholder and to cast all those votes for a single director nominee or to distribute them among two or more nominees.

### **What happens if additional matters are presented at the Annual Meeting?**

If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the proxy card and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. We do not currently anticipate that any other matters will be raised at the Annual Meeting.

### **Who will pay for the cost of this proxy solicitation?**

CalAmp will bear the entire cost of this proxy solicitation, including the preparation, assembly, printing and mailing of proxy materials. We may also reimburse brokerage firms and other custodians for their reasonable out-of-pocket expenses associated with forwarding these proxy materials to you. Proxies may also be solicited by certain of our directors, officers and other employees, without additional compensation, personally or by other means.

### **Who will tabulate the votes?**

Broadridge Investor Communications Services will tabulate the proxies and will provide the Company with the preliminary results of the voting on the day of the Annual Meeting.

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### **What is the deadline for receipt of stockholder proposals for next year's Annual Meeting or to nominate individuals to serve as directors?**

You may submit proposals, including director nominations, for consideration at future stockholder meetings, as described below:

*Requirements for stockholder proposals to be considered for inclusion in our proxy materials* Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of our stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. In order to be included in the proxy statement for the 2017 Annual Meeting of stockholders, stockholder proposals must be received by our Corporate Secretary no later than February 17, 2017 and must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

*Requirements for stockholder proposals to be brought before an annual meeting* Our bylaws establish an advance notice procedure for stockholders who wish to present certain matters before an annual meeting of stockholders. In general, nominations for the election of directors may be made (1) by or at the direction of the Board of Directors; or (2) by any stockholder entitled to vote who has timely delivered written notice to our Corporate Secretary during the Notice Period (as defined below), which notice must contain specified information concerning the nominees and concerning the stockholder proposing such nominations. However, if a stockholder wishes only to recommend a candidate for consideration by the Governance and Nominating Committee as a potential nominee for director, see the procedures discussed below under the heading "Governance and Nominating Committee" beginning on page 13.

Our bylaws also provide that the only business that may be conducted at an annual meeting is business that is brought (1) pursuant to the notice of meeting (or any supplement thereto), (2) by or at the direction of the Board of Directors, or (3) by a stockholder who has timely delivered written notice to our Corporate Secretary which sets forth all information required by our bylaws during the Notice Period (as defined below).

The "Notice Period" for any meeting of stockholders is defined as the period not less than 60 days in advance of such meeting or, if later, the seventh day after the first public announcement of the date of such meeting.

If a stockholder who has notified us of his or her intention to present a proposal at an annual meeting does not appear to present his or her proposal at such meeting, we need not present the proposal for vote at such meeting.

### **How can I communicate with CalAmp's outside directors?**

Stockholders may contact any of our directors by writing to them c/o the Corporate Secretary, CalAmp Corp., 15635 Alton Parkway, Suite 250, Irvine, California, 92618.

### **Where can I view CalAmp's corporate documents and SEC filings?**

Our website contains our Code of Business Conduct and Ethics (the Code of Business Conduct ), charters of our Board committees and SEC filings, including Section 16 filings by our officers and directors. To view these materials, go to [www.calamp.com](http://www.calamp.com). For the Code of Business Conduct and charters, from the home page click on the "Company" tab, then click on "Corporate Governance". For SEC filings, from the home page click on the Company tab, then the "Investor Relations" tab, and then the "SEC Filings" tab.

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### **How do I find out the voting results?**

We have engaged Broadridge Investor Communications Services to serve as the vote tabulator for the Annual Meeting. Preliminary voting results will be announced at the Annual Meeting, and final voting results will be published in a Current Report on Form 8-K, which we will file with the SEC within four business days of the Annual Meeting.

### **What if I have questions about lost stock certificates or I need to change my mailing address?**

Stockholders of Record may contact our transfer agent, American Stock Transfer, by calling (718) 921-8261 or by writing to American Stock Transfer, attention Donna Ansbro, 59 Maiden Lane, New York, NY 10038, or visit their website at [www.amstock.com](http://www.amstock.com) to obtain more information about these matters.

### **Terms of the Proxy**

The enclosed proxy indicates the matters to be acted upon at the Annual Meeting and provides a box to be marked to indicate the manner in which the stockholder's shares are to be voted with respect to such matters. By appropriately marking the boxes, a stockholder may specify, with respect to the election of directors, whether the proxy holder shall vote for or be without authority to vote on any or all candidates. The proxy also confers upon the holders thereof discretionary voting authority with respect to such other business as may properly come before the Annual Meeting and any postponements or adjournments thereof.

Where a stockholder has appropriately directed how the proxy is to be voted, the shares will be voted in accordance with the stockholder's direction. In the absence of instructions, shares represented by valid proxies will be voted in favor of the nominees for director and in favor of all proposals set forth in the Notice of Meeting and this Proxy Statement. If any other matters are properly presented at the Annual Meeting, the persons named in the proxy will vote or refrain from voting in accordance with their best judgment. A proxy may be revoked at any time prior to its exercise by giving written notice of the revocation thereof to our Corporate Secretary or by filing a duly executed proxy bearing a later date. Stockholders of Record may also vote in person if they attend the Annual Meeting even though they have executed and returned a proxy. See "What should I do if I change my mind after submitting a proxy?" on page 6 for more details.

## **THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

The Company is in compliance with the current corporate governance requirements prescribed by the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and NASDAQ. CalAmp's Board of Directors has adopted Corporate Governance Guidelines that provide the framework for the governance of our Company and represent the Board's current views with respect to selected corporate governance issues considered to be of significance to stockholders. The current version of the Corporate Governance Guidelines is available in the Corporate Governance section of the Company's website at [www.calamp.com](http://www.calamp.com).

### **Board Leadership Structure**

CalAmp's Board of Directors does not have a formal policy with respect to whether the role of the Chairman and the Chief Executive Officer should be separate and, if it is to be separate, whether the Chairman should be selected from the non-employee directors or be an employee. However, our Corporate Governance Guidelines provide that if the Chairman of the Board is not an independent director, then the Board shall designate one independent, non-employee director to serve as a lead director. If so designated, the lead director would act as a liaison between the independent directors and management and would be responsible for assisting the Chairman in establishing the agenda for Board meetings, for coordinating the agenda for, and chairing, executive sessions of the non-management directors, and for performing such other duties as may be specified by the Board from time to time.

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CalAmp currently separates the roles of Chief Executive Officer and Chairman. The current Chairman is an independent, non-employee director. The Board of Directors believes this is the appropriate leadership for our Company at this time because it permits our Chief Executive Officer to focus on setting the strategic direction of the Company and the day-to-day leadership and performance of the Company, while permitting the Chairman to focus on providing guidance to the Chief Executive Officer and setting the agenda for Board meetings. The Board also believes that the separation of the Chief Executive Officer and Chairman roles assists the Board in providing robust discussion and evaluation of strategic goals and objectives. However, our Board of Directors acknowledges that no single leadership model is right for all companies at all times. As such, our Board of Directors periodically reviews its leadership structure and may, depending on the circumstances, choose a different leadership structure in the future.

## **Board Oversight of Risk**

The Board seeks to understand and oversee the most critical risks relating to our business, allocate responsibilities for the oversight of risks among the full Board and its committees, and see that management has in place effective systems and processes for managing risks facing us. Overseeing risk is an ongoing process and risk is inherently tied to our strategy and to strategic decisions. Accordingly, the Board considers risk throughout the year and with respect to specific proposed actions. While the Board is responsible for oversight and direction, management is charged with identifying risk and establishing appropriate internal processes and an effective internal control environment to identify and manage risks and to communicate information about risk to the Board. Committees of the Board also play an important role in risk oversight, including the Audit Committee, which oversees our processes for assessing risks and the effectiveness of our internal controls. In fulfilling its duties, the Audit Committee considers information from our independent auditing firm, BDO USA, LLP.

## **Relationship Between Compensation and Risk**

The Compensation Committee periodically reviews the Company's compensation policies and practices with management to ensure that compensation supports the Company's goals and strategic objectives without creating risks that may have a counterproductive effect on the Company. The Compensation Committee also considers risk in establishing goals for executive officer incentive compensation. Quantitative goals used for incentive compensation purposes are financial measures that are defined in U.S. Generally Accepted Accounting Principles ( GAAP ) or are readily derived from such GAAP-based measures. When non-quantitative goals are used, the Compensation Committee strives to ensure that such goals are not only objective and verifiable, but are also sustainable and consistent with both the short-term and long-term interests of the Company's stockholders. Incentive compensation that is earned by the executive officers for a given fiscal year is not paid until the Company's independent public accounting firm has completed its audit of the Company's financial statements for such year, and not until both the Compensation Committee and the Board of Directors have approved such payouts. The Compensation Committee believes that an appropriate balance between short-term and long-term incentive compensation elements for officers, including equity awards that vest over several years, helps mitigate risk associated with incentive compensation.

## **Director Independence**

Proposal One is for the election of seven directors, six of whom are independent. A director's independence is determined by the Board of Directors pursuant to the rules of NASDAQ. The Board has determined that each director nominee is independent, with the exception of Michael Burdick, who serves as the Company's President and Chief Executive Officer.

## **Executive Sessions**

Non-management directors of the Board and Board committees meet in executive session routinely and regularly. During the executive sessions, the non-management directors have access to the Chief Executive Officer and other members of senior management. In addition, the Audit Committee meets periodically with the Company's independent auditing firm without management present at such times as it deems appropriate. The Chairman of the Board or the Chair of the applicable Board Committee, as applicable, presides over these executive sessions.

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### **Number of Other Directorships**

The Company has a policy that limits the number of public company boards that its directors may serve on. Under this policy, directors who also serve as CEOs or in equivalent positions should not serve on more than two other public company boards in addition to the Board, and other directors should not serve on more than five other public company boards in addition to the Board.

### **Director Stock Ownership**

The Company has stock ownership guidelines for directors and executive officers. Pursuant to these guidelines, directors are expected to own shares of the Company's common stock with an aggregate acquisition date market value of at least three times the amount of the annual base retainer of \$60,000. New directors are given three years to acquire sufficient shares to reach this aggregate holding level. At the end of fiscal 2016, all directors were in compliance with the stock ownership guidelines. The stock ownership guidelines for executive officers are described on page 31.

### **Changes in Director Occupation or Status**

The Company has a policy that requires a director to tender a letter of resignation to the Chair of the Governance and Nominating Committee in the event the director's principal occupation or business association changes substantially from the position he or she held when the director originally joined the Company's Board of Directors. The Governance and Nominating Committee will review whether the new occupation, or retirement, of the director is consistent with the specific rationale for originally selecting that individual and the guidelines for Board membership, and will recommend action to be taken by the Board, if any, regarding the resignation based on the circumstances of the new position or retirement.

### **Attendance of Directors at Annual Meetings**

It is a policy of the Board of Directors that all directors are expected to attend the annual meeting of stockholders. All of the Company's directors attended last year's annual meeting, except for Jorge Titinger who had a pre-existing commitment conflicting with the annual meeting date when he was appointed to the Board in June 2015.

### **Identifying and Evaluating Nominees for Directors**

Pursuant to the policy set forth in the charter of the Governance and Nominating Committee, the Governance and Nominating Committee will utilize a variety of methods for identifying and evaluating nominees for director. The Governance and Nominating Committee's policy is to assess the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Governance and Nominating Committee may consider various potential candidates for director. Candidates may come to the attention of the Governance and Nominating Committee through current Board members, stockholders or other parties, such as retained recruiting firms. These candidates will be evaluated at meetings of the Governance and Nominating Committee, and may be considered at any point during the year. As described below, the Governance and Nominating Committee will consider properly submitted stockholder nominations for candidates for the Board. Following verification of the stockholder status of persons proposing candidates, recommendations will be aggregated and considered by the Governance and Nominating Committee at a regularly scheduled meeting. If any materials are provided by a stockholder in connection with the nomination of a director candidate, such materials will be forwarded to the Governance and Nominating Committee.

### **Contacting the Board of Directors**

Stockholders interested in communicating directly with the Board of Directors, any committee of the Board, the Chairman or the non-management directors as a group may do so by sending a letter to the CalAmp Board of Directors, c/o Corporate Secretary, CalAmp Corp., 15635 Alton Parkway, Suite 250, Irvine, California, 92618. The Corporate Secretary will review the correspondence and forward it to the Chairman of the Board, Chair of the Governance and Nominating Committee, the Audit Committee or the Compensation Committee, or to any individual director or group of directors of the Board to whom the communication is directed, as applicable, if the communication is relevant to CalAmp's business and financial operations, policies and corporate philosophies.



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**Code of Business Conduct**

The Company has a written Code of Business Conduct that applies to all of the Company's directors, officers and employees. Section 15 of this Code of Business Conduct contains a Financial Management Code of Ethics that applies specifically to the Company's Chief Executive Officer and all finance and accounting employees, including the Company's senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. The Code of Business Conduct is available on the Company's corporate website at *www.calamp.com*. In the event that the Company makes changes in, or provides waivers from, the provisions of this Code of Business Conduct that are required to be disclosed by SEC regulations, the Company intends to disclose these events on its corporate website.

**COMMITTEES OF THE BOARD**

The Board of Directors has delegated certain of its authority to three committees: the Audit Committee, the Compensation Committee and the Governance and Nominating Committee. These three Board committees operate under written charters defining their functions and responsibilities. Each committee has the authority, pursuant to its charter, to obtain advice and assistance from, and receive appropriate funding from CalAmp for, outside legal, accounting or other advisors as the committee deems necessary to assist it in the performance of its functions. The charters of these committees are available on the Company's website at *www.calamp.com*.

The following table provides current membership for each of the Board committees.

Name	Audit	Compensation	Governance and Nominating
Bert Moyer	X	X	X
Kimberly Alexy	X		X*
Amal Johnson		X*	X
Jeffery Gardner	X	X	
Larry Wolfe	X*	X	

\* Committee Chair.

The Board's practice with new directors is to wait 6 to 12 months before assigning them to serve on Board committees.

Committee memberships changed during fiscal 2016. Effective August 1, 2015, in conjunction with the retirement of Thomas Pardun from the Board, the composition of certain committees was changed as follows:

1. Mr. Gardner was appointed a member of the Audit Committee, replacing Ms. Johnson on that committee;
2. Ms. Johnson was appointed Chairman of the Compensation Committee, replacing Mr. Pardun in that position, and Mr. Gardner was appointed a member of the Compensation Committee;
3. Ms. Johnson was appointed a member of the Governance and Nominating Committee, replacing Mr. Pardun on that committee.

**Audit Committee**

The primary duties and responsibilities of the Audit Committee, as set forth in its charter, are to review and approve the scope of audit procedures performed by the Company's independent auditors, to review the audit reports rendered by the Company's independent auditors, to monitor the internal control environment within the Company, and to pre-approve the fees for all audit and non-audit services charged by the independent auditors. The Audit Committee reports to the Board of Directors with respect to such matters and makes recommendations with respect to its findings. The Board of Directors has determined that Mr. Wolfe is an audit committee financial expert within the meaning of Section 407 of the Sarbanes-Oxley Act. The Board has also determined that each member of the



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Audit Committee is independent as defined in the rules of NASDAQ. See also Report of the Audit Committee beginning on page 20.

### **Compensation Committee**

The primary duties and responsibilities of the Compensation Committee, as set forth in its charter, are to review and make recommendations to the Board of Directors with respect to the compensation of the Company's executive officers and non-employee directors, and to administer the Company's stock option plans. The Board of Directors has determined that each member of the Compensation Committee is independent as defined in the rules of NASDAQ. See also Compensation Discussion and Analysis beginning on page 24.

### **Governance and Nominating Committee**

The primary duties and responsibilities of the Governance and Nominating Committee, as set forth in its charter, are to review and make recommendations on the composition of the Board and its committees, to evaluate and recommend candidates for election to the Board, and to review and make recommendations to the full Board on corporate governance matters. The Board of Directors has determined that each member of the Governance and Nominating Committee is independent as defined in the rules of NASDAQ.

The bylaws of CalAmp permit stockholders to nominate director candidates to stand for election to the Board at an annual meeting of stockholders. Nominations may be made by the Board or by any stockholder. Under the Company's bylaws, a stockholder may nominate a person for election as a director at a particular stockholder meeting only if written notice has been given to the Company not later than 60 days in advance of the meeting or, if later, the seventh day following the first public announcement of the date of such meeting. Any stockholder nominations proposed for consideration by the Governance and Nominating Committee should include the nominee's name and qualifications for Board membership and should be addressed to the Governance and Nominating Committee, c/o Corporate Secretary, CalAmp Corp., 15635 Alton Parkway, Suite 250, Irvine, California, 92618.

The policy of the Governance and Nominating Committee is to consider properly made stockholder nominations for directors as described above. In evaluating such nominations, like all nominations, the Board's criteria will include business experience and skills, independence, judgment, integrity, the ability to commit sufficient time and attention to Board activities and the absence of potential conflicts with CalAmp's interests.

The Governance and Nominating Committee has adopted a director diversity policy pursuant to which it will consider and evaluate director candidates in the context of an assessment of the anticipated needs of the Board as a whole in order to achieve a diversity of occupational and personal backgrounds and a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills and expertise to oversee the Company's business. The Governance and Nominating Committee from time to time reviews the appropriate skills and characteristics required of board members, including factors that it seeks in board members such as diversity of business experience, viewpoints and personal background, and diversity of skills in technology, finance, marketing, international business, financial reporting and other areas that are expected to contribute to an effective Board. In evaluating potential candidates for the Board, the Governance and Nominating Committee considers these factors in the light of the specific needs of the Board at that time.

### **Board of Director and Committee Meeting Attendance**

In fiscal year 2016, the Board of Directors held 15 meetings, the Audit Committee held 5 meetings, the Compensation Committee held 6 meetings, and the Governance and Nominating Committee held 5 meetings. All directors attended more than 75% of the aggregate meetings of the Board and committees on which the directors served that were held during fiscal year 2016.

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**COMPENSATION OF DIRECTORS**

The following table shows all compensation earned by, or awarded or paid to, each of the Company's non-employee directors in fiscal 2016.

Name	Fees Earned or Paid in Cash (A)	Grant Date Fair Value of Stock Awards (B) (C)	Total
A.J. "Bert" Moyer	\$ 90,000	\$ 108,000 (D)	\$ 198,000
Kimberly Alexy	65,000 (E)	108,000	173,000
Jeffery Gardner	60,000	108,000	168,000
Amal Johnson	65,833	108,000	173,833
Jorge Titinger	43,667	230,762 (D)	274,429
Larry Wolfe	75,000	108,000	183,000

(A) Under the Company's director cash compensation plan adopted effective August 1, 2012, non-employee directors of the Company are each paid an annual retainer of \$60,000. Also pursuant to this policy, during fiscal 2016 the Board and committee chairpersons were paid supplemental retainers as follows:

Board Chair	\$30,000
Audit Committee Chair	\$ 15,000
Compensation Committee Chair	\$ 10,000
Governance and Nominating Committee Chair	\$ 5,000

All non-employee directors are paid 1/12<sup>th</sup> of their retainer amounts each month for as long as they serve.

(B) Under the Company's 2004 Incentive Stock Plan, on the day of each annual stockholders meeting at which directors are elected, each non-employee director is eligible to receive an equity award not to exceed 20,000 shares of Company stock or stock options. On July 28, 2015, each incumbent non-employee director received a restricted stock grant of 6,157 shares that had a grant date fair value of \$108,000, calculated in accordance with ASC Topic 718. These restricted stock awards will vest on July 27, 2016. Also, upon joining the Board

(6,524)	\$	(11,290)	\$	(15,480)
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Net loss per share:

Basic and diluted	\$ (0.26)	)	\$ (0.26)	\$ (0.44)	\$ (0.62)
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Weighted average common shares outstanding:

Basic and diluted	25,520,847		25,017,823	25,406,626	24,974,378
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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## ChannelAdvisor Corporation and Subsidiaries

## Unaudited Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Net loss	\$(6,727)	\$(6,524)	\$(11,290)	\$(15,480)
Other comprehensive loss:				
Foreign currency translation adjustments	(237 )	216	(102 )	(821 )
Total comprehensive loss	\$(6,964)	\$(6,308)	\$(11,392)	\$(16,301)

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

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net loss	\$(11,290)	\$(15,480)
Adjustments to reconcile net loss to cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	4,055	4,022
Bad debt expense	395	785
Stock-based compensation expense	7,342	6,176
Other items, net	(530)	(80)
Changes in assets and liabilities:		
Accounts receivable	(5)	(2,228)
Prepaid expenses and other assets	2,232	(1,891)
Accounts payable and accrued expenses	(358)	757
Deferred revenue	4,321	2,042
Cash and cash equivalents provided by (used in) operating activities	6,162	(5,897)
Cash flows from investing activities		
Purchases of property and equipment	(732)	(2,745)
Payment of internal-use software development costs	(151)	(92)
Cash and cash equivalents used in investing activities	(883)	(2,837)
Cash flows from financing activities		
Repayment of capital leases	(1,463)	(353)
Proceeds from exercise of stock options	417	307
Payment of contingent consideration	(236)	—
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(1,904)	(562)
Cash and cash equivalents used in financing activities	(3,186)	(608)
Effect of currency exchange rate changes on cash and cash equivalents	(197)	(1,313)
Net increase (decrease) in cash and cash equivalents	1,896	(10,655)
Cash and cash equivalents, beginning of period	60,474	68,366
Cash and cash equivalents, end of period	\$62,370	\$57,711
Supplemental disclosure of cash flow information		
Cash paid for interest	\$88	\$38
Cash paid for income taxes, net	\$90	\$243
Supplemental disclosure of noncash investing and financing activities		
Accrued capital expenditures	\$192	\$—

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

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## ChannelAdvisor Corporation and Subsidiaries

## Notes to Unaudited Condensed Consolidated Financial Statements

## 1. Description of the Business

ChannelAdvisor Corporation (“ChannelAdvisor” or the “Company”) was incorporated in the state of Delaware and capitalized in June 2001. The Company began operations in July 2001. ChannelAdvisor is a provider of software-as-a-service, or SaaS, solutions that allow retailers and branded manufacturers to integrate, manage and monitor their merchandise sales across hundreds of online channels. The Company is headquartered in Morrisville, North Carolina and has international offices in England, Ireland, Germany, Australia, Brazil and China.

## 2. Significant Accounting Policies

## Principles of Consolidation

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

## Interim Condensed Consolidated Financial Information

The accompanying condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) for interim financial information. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of financial position, the results of operations, comprehensive loss and cash flows. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited interim financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended December 31, 2015 (“fiscal 2015”), which are included in the Company’s Annual Report on Form 10-K for fiscal 2015. There have been no material changes to the Company’s significant accounting policies from those described in the footnotes to the audited financial statements contained in the Company’s Annual Report on Form 10-K for fiscal 2015.

## Reclassification

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

The tables below summarize these reclassifications (in thousands):

	Three Months Ended June 30, 2015		
	As Previously Reported	Reclassification	As Reclassified
Cost of revenue	\$5,249	\$ 1,152	\$ 6,401
Depreciation - Cost of revenue	1,152	(1,152 )	—
Sales and marketing	13,553	439	13,992
Research and development	4,055	117	4,172
General and administrative	5,831	381	6,212
Depreciation and amortization	937	(937 )	—

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## Six Months Ended June 30, 2015

	As Previously Reported	Reclassification	As Reclassified
Cost of revenue	\$10,617	\$ 2,200	\$ 12,817
Depreciation - Cost of revenue	2,200	(2,200 )	—
Sales and marketing	28,911	865	29,776
Research and development	8,081	222	8,303
General and administrative	10,792	735	11,527
Depreciation and amortization	1,822	(1,822 )	—

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	\$1,145	\$1,152	\$2,388	\$2,200
Sales and marketing	280	301	587	579
Research and development	112	117	234	222
General and administrative	423	519	846	1,021
Total depreciation and amortization expense	\$1,960	\$2,089	\$4,055	\$4,022

## Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides new guidance for revenue recognition. ASU 2014-09 provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. In March 2016, the FASB issued ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), which clarifies implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which clarifies the identification of performance obligations and the licensing implementation guidance in ASU 2014-09. In addition, in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which clarifies the guidance on assessing collectibility, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition. These updates are effective for fiscal years beginning after December 15, 2017. Early adoption for these standards is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that fiscal year. The Company continues to evaluate the impact the adoption of these standards will have on its consolidated financial statements; however, the Company expects the adoption of ASU 2014-09 will have a material impact on the disclosures in the footnotes to its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740) ("ASU 2015-17"), which requires that all deferred tax assets and liabilities, including any related valuation allowance, be classified as noncurrent on the balance sheet. The update is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. The guidance may be applied either prospectively or retrospectively. The Company elected to adopt ASU 2015-17 prospectively in the first quarter of 2016. As such, prior period results in the Company's consolidated financial statements have not been retrospectively adjusted.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU 2016-02 also requires improved disclosures to help users of financial statements better

understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for share-based payment

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transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2016, including interim reporting periods within that fiscal year. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13"), which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2019 including interim reporting periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements. The Company has reviewed other new accounting pronouncements that were issued as of June 30, 2016 and does not believe that these pronouncements are applicable to the Company, or that they will have a material impact on its financial position or results of operations.

## Use of Estimates

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

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

## 3. Stockholders' Equity

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

Balance as of December 31, 2015	\$83,924
Exercise of stock options and vesting of restricted stock units	417
Stock-based compensation expense	7,342
Statutory tax withholding related to net-share settlement of restricted stock units	(1,904 )
Net loss	(11,290 )
Foreign currency translation adjustments	(102 )
Balance as of June 30, 2016	\$78,387

## 4. Goodwill and Intangible Assets

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

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

Amortization expense associated with the Company's intangible assets was \$0.1 million and \$0.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.3 million and \$0.5 million for the six months ended June 30, 2016 and 2015, respectively.

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



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## 5. Fair Value of Financial Instruments

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

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

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

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

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

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

Balance as of December 31, 2015	\$697
Settlement of contingent consideration liability (236 )	
Change in contingent consideration fair value (196 )	
Balance as of June 30, 2016	\$265

## 6. Guarantee

In June 2014, the Company assigned its previous lease of office space in London, England to a third party pursuant to an assignment agreement and a transfer agreement. In accordance with the assignment agreement, the Company is not required to collect any payments from the third party and therefore will not recognize any revenue associated with this assignment. All payments associated with the assigned lease will be made directly by the third party to the lessor and appropriate regulatory authorities. However, the Company has guaranteed the lease payments through the remainder of the lease term, which is until February 2022. As of June 30, 2016, the remaining lease payments under this lease totaled £1.9 million (\$2.6 million based on the exchange rate as of June 30, 2016). This amount represents the maximum potential liability for future payments under the guarantee and will decrease over time as payments are made by the third party. In the event of default, the indemnity clauses in the transfer agreement govern the Company's ability to pursue and recover damages incurred. As of June 30, 2016, the Company does not anticipate any default by the third party. Therefore, no liability associated with this transaction has been recorded on the Company's condensed consolidated balance sheet as of June 30, 2016.

## 7. Stock-Based Compensation

The Company recognizes stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the

service inception date to the vesting date for that tranche. Stock-based compensation expense is included in the following line items in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (in

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thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	\$342	\$276	\$611	\$539
Sales and marketing	1,369	1,452	2,490	2,614
Research and development	546	514	989	898
General and administrative	1,660	1,044	3,252	2,125
	\$3,917	\$3,286	\$7,342	\$6,176

During the six months ended June 30, 2016, the Company granted the following share-based awards:

	Number of Shares Underlying Grant	Weighted Average Grant Date Fair Value
Stock options	415,685	\$ 4.69
Restricted stock units ("RSUs")	1,061,640	11.24
Total share-based awards	1,477,325	9.40

#### 8. Net Loss Per Share

Diluted loss per share is the same as basic loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive given the Company's net loss. The following securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the three and six months ended June 30, 2016 and 2015:

	Three and Six Months Ended June 30,	
	2016	2015
Stock options	1,814,252	1,686,335
RSUs	2,496,454	2,030,179

#### 9. Income Taxes

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

The Company's effective tax rate was 0.3% and (0.2)% for the three months ended June 30, 2016 and 2015, respectively, compared to 0.6% and 0.8% for the six months ended June 30, 2016 and 2015, respectively. The tax expense (benefit) for each of the periods was based on state, local and foreign taxes. The Company's effective tax rate for these periods differed from the expected U.S. federal statutory rate of 34% primarily due to the inability to recognize the tax benefit of operating loss carryforwards. The carryforward benefit cannot be recognized due to uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable the Company to realize the federal carryforward benefit.

#### 10. Segment and Geographic Information

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

Substantially all assets were held in the United States during the six months ended June 30, 2016 and 2015. The table below summarizes revenue by geography for the three and six months ended June 30, 2016 and 2015 (in thousands).

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Company categorizes domestic and international customers based on their billing address.

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Domestic	\$21,049	\$18,223	\$41,473	\$35,536
International	6,049	5,959	11,972	11,236
Total revenue	\$27,098	\$24,182	\$53,445	\$46,772

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes for the year ended December 31, 2015, which are included in our Annual Report on Form 10-K for fiscal 2015.

### Overview

We are a leading provider of software-as-a-service, or SaaS, solutions that enable our customers to integrate, manage and optimize their merchandise sales across hundreds of online channels. Our customers include the online businesses of traditional retailers, online retailers and branded manufacturers (manufacturers that market the products they produce under their own name), as well as advertising agencies that use our solutions on behalf of their retailer clients. Through our platform, we enable our customers to connect with new and existing sources of demand for their products, including e-commerce marketplaces, such as Amazon, eBay, Jet.com, Newegg, Sears and Walmart, search engines and comparison shopping websites, such as Google, Microsoft's Bing and Nextag, and 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 solutions that allow branded manufacturers to send their web visitors 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.

We sell subscriptions to our SaaS solutions primarily through our direct sales force. The majority of our revenue is derived from subscription fees paid to us by our customers for access to and usage of our SaaS solutions for a specified contract term, which is usually one year. A portion of the subscription fee is typically fixed and is based on a specified minimum amount of gross merchandise value, or GMV, that a customer expects to process through our platform. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV processed through our platform in excess of the customer's specified minimum GMV amount.

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

We face a variety of challenges and risks, which we will need to address and manage as we pursue our growth strategy. In particular, we will need to continue to innovate in the face of a rapidly changing e-commerce landscape if we are to remain competitive, and we will need to effectively manage our growth, especially related to our international expansion. In addition, as consumer preferences potentially shift from smaller retailers, we need to continue to add large retailers and branded

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manufacturers as profitable customers. These customers generally pay a lower percentage of GMV as fees to us based on the relatively higher volume of their GMV processed through our platform. To help drive our future growth, we made significant investments in our enterprise sales force and allocated resources focused on growing our large retailers and branded manufacturer customers in the fourth quarter of 2015. We continue to focus our efforts on increasing value for our customers to support higher rates.

Although e-commerce continues to expand as retailers and branded manufacturers continue to increase their online sales, it is also becoming more complex and fragmented due to the hundreds of channels available to retailers and branded manufacturers and the rapid pace of change and innovation across those channels. In order to gain consumers' attention in a more crowded and competitive online marketplace, many retailers and an increasing number of branded manufacturers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In particular, third-party marketplaces are an increasingly important driver of growth for a number of large online retailers, and as a result we need to continue to support multiple channels in a variety of geographies in order to support our targeted revenue growth. As of June 30, 2016, we supported over 50 marketplaces.

We believe the growth in e-commerce globally presents an opportunity for retailers and branded manufacturers to engage in international sales. However, country-specific marketplaces are often the market share leaders in their regions, as is the case for Alibaba in Asia. In order to help our customers capitalize on this potential market opportunity, and to address our customers' needs with respect to cross-border trade, we intend to continue to invest in our international operations, specifically in the Asia Pacific region. Doing business overseas involves substantial challenges, including management attention and resources needed to adapt to multiple languages, cultures, laws and commercial infrastructure, as further described in this report under the caption "Risks Related to our International Operations."

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

### Key Financial and Operating Performance Metrics

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

#### Number of Customers

The number of customers subscribing to our solutions is a primary determinant of our revenue. The number of customers was 2,878 and 2,937 as of June 30, 2016 and 2015, respectively. For purposes of this metric and the average revenue per customer metric described below, we include all customers who subscribe to at least one of our solutions, excluding customers subscribing only to certain legacy product offerings that are no longer part of our strategic focus. The number of customers as of June 30, 2016 decreased from June 30, 2015 as a result of our continued focus on higher-value customers.

#### Average Revenue per Customer

Average revenue per customer is calculated by dividing our revenue for a particular period by the average monthly number of customers during the period, which is calculated by taking the sum of the number of customers at the end of each month in the period and dividing by the number of months in the period. We typically calculate average revenue per customer in absolute dollars on a rolling twelve-month basis, but we may also calculate percentage changes in average revenue per customer on a quarterly basis in order to help us evaluate our period-over-period performance. Our average revenue per customer increased 15.5% to \$37,000 for the twelve months ended June 30, 2016 as compared to \$32,022 for the twelve months ended June 30, 2015.

#### Adjusted EBITDA

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

of our core business. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results. However, adjusted EBITDA is not a measure calculated in accordance with U.S. GAAP and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with U.S. GAAP.

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

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although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation;

adjusted EBITDA does not reflect interest or tax payments that may represent a reduction in cash available to us; and other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$(6,727)	\$(6,524)	\$(11,290)	\$(15,480)
Adjustments:				
Interest expense, net	1	38	22	82
Income tax (benefit) expense	(22 )	11	(64 )	(127 )
Depreciation and amortization expense	1,960	2,089	4,055	4,022
Total adjustments	1,939	2,138	4,013	3,977
EBITDA	(4,788 )	(4,386 )	(7,277 )	(11,503 )
Stock-based compensation expense	3,917	3,286	7,342	6,176
One-time severance and related costs	—	656	—	656
Adjusted EBITDA	\$(871 )	\$(444 )	\$65	\$(4,671 )

## Components of Operating Results

## Reclassification

Previously, we presented depreciation and amortization expense as a separate component, both of cost of revenue and of operating expenses, in our unaudited condensed consolidated statements of operations. Beginning with the first quarter of 2016, we are including depreciation and amortization expense in cost of revenue and the applicable line items of operating expenses. We will now present depreciation and amortization expense included in each financial statement line item in the notes to our unaudited condensed consolidated financial statements. In addition, we revised the classification of certain operating expenses to better align the income statement line items with how operations are managed. The financial results for the three and six months ended June 30, 2015 shown in this management's discussion and analysis reflect the reclassification of relevant items to conform to the new presentation, and the specific reclassifications are shown in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this report. All reclassifications had no effect on our reported gross profit or net loss for the three and six months ended June 30, 2015.

## 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.

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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 the three and six months ended June 30, 2016 and 2015:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
	(as a percentage of total revenue)			
Fixed subscription fees plus implementation fees	77.3 %	78.2 %	77.1 %	78.1 %
Variable subscription fees	22.7	21.8	22.9	21.9
Total revenue	100.0%	100.0%	100.0%	100.0%

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

We recognize fixed subscription fees and implementation fees ratably over the contract period once 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.

We did not have any customers that individually comprised a significant concentration of our revenue for the three and six months ended June 30, 2016 and 2015.

**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 intend to invest in our capacity to support our growth, which may result in higher cost of revenue over time in absolute dollar terms.

**Operating Expenses**

**Sales and marketing expense.** Sales and marketing expense consists primarily of salaries and personnel-related costs for our sales and marketing and customer support employees, including benefits, bonuses, stock-based compensation and commissions. We record expense for commissions at the time of contract signing. Additional expenses include marketing, advertising and promotional event programs, corporate communications, depreciation 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, depreciation and travel.



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General and administrative expense. General and administrative expense consists primarily of salaries and personnel-related costs for administrative, finance and accounting, information systems, legal and human resource employees, including benefits, bonuses and stock-based compensation. Additional expenses include consulting and professional fees, insurance, bad debt expense, investor relations, directors' and officers' liability insurance, depreciation and amortization, 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 interest income and interest expense. Interest income represents interest received on our cash and cash equivalents. Interest expense consists primarily of interest on our capital leases.

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.

### 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. Along with the seasonally higher revenue we have experienced in the fourth quarter, we have also experienced higher gross margins in the fourth quarter. Our cost to run our platform infrastructure is generally fixed. Therefore, when applied against our generally fixed costs, the higher revenue in the fourth quarter has resulted in higher overall gross margins for us.

### 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.

### Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, and to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. During the six months ended June 30, 2016, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended December 31, 2015 included in our Annual Report on Form 10-K for fiscal 2015.

### Recent Accounting Pronouncements

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

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## Results of Operations

## Comparison of the Three Months Ended June 30, 2016 and 2015

The following table presents our results of operations for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		2015		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	\$27,098	100.0 %	\$24,182	100.0 %	\$2,916	12.1 %
Cost of revenue	6,863	25.3	6,401	26.5	462	7.2
Gross profit	20,235	74.7	17,781	73.5	2,454	13.8
Operating expenses:						
Sales and marketing	15,743	58.1	13,992	57.9	1,751	12.5
Research and development	4,410	16.3	4,172	17.3	238	5.7
General and administrative	6,822	25.2	6,212	25.7	610	9.8
Total operating expenses	26,975	99.6	24,376	100.9	2,599	10.7
Loss from operations	(6,740 )	(24.9 )	(6,595 )	(27.4 )	(145 )	2.2
Other income (expense):						
Interest expense, net	(1 )	(0.0 )	(38 )	(0.2 )	37	(97.4 )
Other income (expense), net	(8 )	(0.0 )	120	0.5	(128 )	*
Total other income (expense)	(9 )	(0.0 )	82	0.3	(91 )	*
Loss before income taxes	(6,749 )	(24.9 )	(6,513 )	(27.1 )	(236 )	3.6
Income tax (benefit) expense	(22 )	(0.1 )	11	0.0	(33 )	*
Net loss	\$(6,727 )	(24.8 )%	\$(6,524 )	(27.1 )%	\$(203 )	3.1

\* not meaningful

## Revenue

Revenue increased by 12.1%, or \$2.9 million, to \$27.1 million for the three months ended June 30, 2016. The increase in revenue for the three months ended June 30, 2016 was mainly driven by an increase in our average revenue per customer.

On a trailing three-month basis, average revenue per customer increased 15.1%, to \$9,435 for the three months ended June 30, 2016 as compared to \$8,194 for the three months ended June 30, 2015. The increase in the average revenue per 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 period. Because we generally enter into annual contracts with our customers, we may renegotiate either or both of the fixed and variable components of the pricing structure of a customer's contract each year. In addition, the increase in average revenue per customer was due in part to our established customers who have increased their revenue over time on our platform. In general, as customers mature they generate a higher amount of GMV from which we derive revenue and in some cases they may subscribe to additional modules on our platform, thereby increasing our subscription revenue.

## Cost of Revenue

Cost of revenue increased by 7.2%, or \$0.5 million, to \$6.9 million for the three months ended June 30, 2016. The increase in cost of revenue was primarily attributable to a \$0.4 million increase in compensation mainly due to additional headcount to support our customers.

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## Operating Expenses

## Sales and marketing

Sales and marketing expense increased by 12.5%, or \$1.8 million, to \$15.7 million for the three months ended June 30, 2016. The increase in sales and marketing expense was primarily attributable to a \$1.2 million increase in our marketing and advertising expenses and promotional event programs, mainly due to costs associated with our annual Catalyst event and the timing of the event. The increase was also attributable to a \$0.4 million increase in compensation and employee-related costs due to increased bonus and commission payments and a \$0.2 million increase in recruiting and consulting fees.

## Research and development

Research and development expense increased by 5.7%, or \$0.2 million, to \$4.4 million for the three months ended June 30, 2016. The increase in research and development expense was primarily attributable to a \$0.1 million increase in software and hosting expenses and a \$0.1 million increase in rent and facilities costs due to the relocation of our corporate headquarters during the fourth quarter of 2015.

## General and administrative

General and administrative expense increased by 9.8%, or \$0.6 million, to \$6.8 million for the three months ended June 30, 2016. The increase in general and administrative expense was primarily attributable to a \$0.8 million increase in compensation and employee-related costs, primarily composed of stock-based compensation expense, and a \$0.1 million increase in rent and facilities costs, partially offset by a \$0.2 million decrease in bad debt expense driven by lower bad debt write-offs and reductions to our allowance for doubtful accounts based on collections activities.

## Comparison of the Six Months Ended June 30, 2016 and 2015

The following table presents our results of operations for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,				Period-to-Period	
	2016	2015	2016	2015	Change	Change
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	\$53,445	100.0 %	\$46,772	100.0 %	\$6,673	14.3 %
Cost of revenue	13,776	25.8	12,817	27.4	959	7.5
Gross profit	39,669	74.2	33,955	72.6	5,714	16.8
Operating expenses:						
Sales and marketing	29,240	54.7	29,776	63.7	(536)	(1.8)
Research and development	8,565	16.0	8,303	17.8	262	3.2
General and administrative	13,243	24.8	11,527	24.6	1,716	14.9
Total operating expenses	51,048	95.5	49,606	106.1	1,442	2.9
Loss from operations	(11,379)	(21.3)	(15,651)	(33.5)	4,272	(27.3)
Other income (expense):						
Interest expense, net	(22)	(0.0)	(82)	(0.2)	60	(73.2)
Other income (expense), net	47	0.1	126	0.3	(79)	(62.7)
Total other income (expense)	25	0.1	44	0.1	(19)	(43.2)
Loss before income taxes	(11,354)	(21.2)	(15,607)	(33.4)	4,253	(27.3)
Income tax benefit	(64)	(0.1)	(127)	(0.3)	63	(49.6)
Net loss	\$(11,290)	(21.1)%	\$(15,480)	(33.1)%	\$4,190	(27.1)

## Revenue

Revenue increased by 14.3%, or \$6.7 million, to \$53.4 million for the six months ended June 30, 2016. The increase in revenue was mainly driven by an increase in our average revenue per customer.

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On a trailing six-month basis, average revenue per customer increased 15.5%, to \$18,549 for the six months ended June 30, 2016 as compared to \$16,054 for the six months ended June 30, 2015. The increase in the average revenue per customer is due to the same reasons as are described above in the three-month discussion.

### Cost of Revenue

Cost of revenue increased by 7.5%, or \$1.0 million, to \$13.8 million during the six months ended June 30, 2016. The increase in cost of revenue was primarily attributable to a \$0.7 million increase in compensation mainly due to additional headcount to support our customers, a \$0.2 million increase in rent and facilities costs and a \$0.2 million increase in contractor costs to support our international services team.

### Operating Expenses

#### Sales and marketing

Sales and marketing expense decreased by 1.8%, or \$0.5 million, to \$29.2 million for the six months ended June 30, 2016. The decrease in sales and marketing expense was primarily attributable to a \$0.5 million decrease in compensation and employee-related costs, mainly due to a reduction in the average number of sales and marketing personnel during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, and a \$0.2 million decrease in our marketing and advertising expenses and promotional event programs, mainly due to lower costs associated with our annual marketing events. These decreases in sales and marketing expense were partially offset by a \$0.2 million increase in recruiting and consulting fees.

#### Research and development

Research and development expense increased by 3.2%, or \$0.3 million, to \$8.6 million for the six months ended June 30, 2016. The increase in research and development expense was primarily attributable to a \$0.2 million increase in software and hosting expenses and a \$0.1 million increase in rent and facilities costs.

#### General and administrative

General and administrative expense increased by 14.9%, or \$1.7 million, to \$13.2 million for the six months ended June 30, 2016. The increase in general and administrative expense was primarily attributable to a \$2.0 million increase in compensation and employee-related costs, mostly composed of annual incentive bonus and stock-based compensation, and a \$0.1 million increase in rent and facilities costs, partially offset by a \$0.4 million decrease in bad debt expense driven by lower bad debt write-offs and reductions to our allowance for doubtful accounts based on collections activities.

### Liquidity and Capital Resources

We derive our liquidity and operating capital primarily from cash flows from operations.

We have a loan and security agreement with a bank under which we have 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 3.50% at June 30, 2016, 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 June 30, 2016, we did not have any amounts outstanding under the revolving line of credit.

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 June 30, 2016, we were in compliance with all such covenants.

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

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## Cash Flows

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

Six Months  
 Ended June 30,  
 2016 2015  
 (in thousands)

Cash provided by (used in):

Operating activities	\$6,162	\$(5,897)
Investing activities	(883 )	(2,837 )
Financing activities	(3,186 )	(608 )

## 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 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 six months ended June 30, 2016, our cash provided by operating activities of \$6.2 million consisted of \$11.3 million of non-cash items and \$6.2 million of cash provided as a result of changes in working capital, partially offset by a net loss of \$11.3 million.

Non-cash items consisted of non-cash stock compensation expense of \$7.3 million, depreciation and amortization expense of \$4.1 million and bad debt expense of \$0.4 million, partially offset by \$0.5 million of other non-cash items, principally the amortization of a lease incentive obligation related to our new corporate headquarters.

The increase in cash resulting from changes in working capital during the six months ended June 30, 2016 primarily consisted of an increase in deferred revenue of \$4.3 million as a result of an increased number of customers prepaying for subscription services invoiced on a semi-annual and annual basis, as well as a decrease in prepaid expenses and other assets of \$2.2 million. The decrease in prepaid expenses and other assets was primarily driven by increased collections for certain customer arrangements under which we collect and remit monthly activity-based fees incurred on specific channels on behalf of our customers, as well as the receipt of cash for a lease incentive related to our new corporate headquarters. The increase in cash was also impacted by an increase of \$1.1 million in accounts payable that was primarily driven by timing of payments to our vendors during the period. These increases in cash were partially offset by a decrease of \$1.5 million in accrued expenses, primarily driven by accrued bonuses related to the year ended December 31, 2015 that were paid in the first quarter of 2016.

For the six months ended June 30, 2015, our cash used in operating activities of \$5.9 million consisted of a net loss of \$15.5 million and \$1.3 million of cash used as a result of changes in working capital, partially offset by \$10.9 million for non-cash items.

Non-cash items primarily consisted of non-cash stock compensation expense of \$6.2 million, depreciation and amortization expense of \$4.0 million and bad debt expense of \$0.8 million.

The decrease in cash resulting from changes in working capital during the six months ended June 30, 2015 primarily consisted of an increase in accounts receivable of \$2.2 million, which was a result of increased revenue and customer growth, and an increase in prepaid expenses and other assets of \$1.9 million due to prepayments of general corporate expenses. These decreases in cash were partially offset by an increase in deferred revenue of \$2.0 million as a result of an increased number of customers prepaying for subscription services and an increase in accounts payable and accrued expenses of \$0.8 million, primarily driven by timing of payments to our vendors and increased operating costs during the period.

## Investing Activities

Our cash flows from investing activities generally consist of 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.

For the six months ended June 30, 2016, cash used in investing activities was \$0.9 million, consisting of \$0.7 million for the purchase of property and equipment and \$0.2 million for the payment of internal-use software development costs.

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For the six months ended June 30, 2015, cash used in investing activities was \$2.8 million, consisting of \$2.7 million for the purchase of property and equipment and \$0.1 million for the payment of internal-use software development costs.

### Financing Activities

Our cash flows from financing activities consist of proceeds from the exercises of stock options as well as payments on capital lease obligations, tax withholdings related to the net-share settlement of restricted stock units and acquisition-related contingent consideration.

For the six months ended June 30, 2016, cash used in financing activities was \$3.2 million, consisting of \$1.9 million used for the payment of taxes related to the net-share settlement of restricted stock units, \$1.5 million used for the repayment of capital leases and \$0.2 million used for the payment of our acquisition-related contingent consideration, partially offset by \$0.4 million in cash received upon the exercise of stock options.

For the six months ended June 30, 2015, cash used in financing activities was \$0.6 million, consisting of \$0.6 million used for the payment of taxes related to the net-share settlement of restricted stock awards and \$0.4 million used for the repayment of capital leases, partially offset by \$0.3 million in cash received upon the exercise of stock options.

### Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We are exposed to market risk related to changes in foreign currency exchange rates and interest rates. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into exchange rate hedging arrangements to manage foreign currency exchange risk. During the six months ended June 30, 2016, there were no material changes to our market risks, which are disclosed in our Annual Report on Form 10-K for fiscal 2015.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

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

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

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and our Chief Financial

Officer have concluded that our disclosure controls and procedures were effective as of such date at the reasonable assurance level.

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(b) Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal controls over financial reporting during our fiscal quarter ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to the legal proceeding described in our Annual Report on Form 10-K for fiscal 2015. On April 6, 2016, the court entered an order and judgment dismissing all of plaintiff's claims against all defendants and on April 29, 2016, the plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Fourth Circuit.

From time to time, we are subject to litigation and claims arising in the ordinary course of business, but except with respect to the described matter 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 1A. Risk Factors

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

Risks Related to Our Business

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

We incurred net losses of \$6.7 million and \$21.0 million during the six months ended June 30, 2016 and the year ended December 31, 2015, respectively, and we had an accumulated deficit of \$166.9 million as of June 30, 2016. It is possible that our operating expenses will increase in the foreseeable future as we invest in increased sales and marketing and research and development efforts. To achieve profitability, we will need to either increase our revenue sufficiently to offset increasing expenses or reduce our expense levels. Our recent revenue growth may not be sustainable, and if we are forced to reduce our expenses, our growth strategy could be compromised. If we are not able to achieve and maintain profitability, the value of our company and our common stock could decline significantly. A significant portion of our revenue is attributable to sales by our customers on the Amazon and eBay marketplaces and through advertisements on Google. Our inability to continue to integrate our solutions with these channels would make our solutions less appealing to existing and potential new customers and could significantly reduce our revenue. A substantial majority of the 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 branded manufacturers to be able to sell their merchandise on particular channels, as well as developments in technologies that can impede the display and tracking of advertisements. Our

ability to retain existing customers and attract new customers depends in large part on our ability to enhance and improve our existing solutions and

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introduce new solutions that can adapt quickly to these technological changes. To achieve market acceptance for our solutions, we must effectively anticipate and offer solutions that meet frequently changing channel requirements in a timely manner. If our solutions fail to do so, our ability to renew our contracts with existing customers and our ability to create or increase demand for our solutions will be impaired.

If we are unable to retain our existing customers, our revenue and results of operations could be adversely affected. We sell our solutions pursuant to contractual arrangements that generally have one-year terms. Therefore, our revenue growth depends to a significant degree upon subscription renewals. Our customers have no obligation to renew their subscriptions after the subscription term expires, and these subscriptions may not be renewed or, if renewed, may not be renewed on the same or more favorable terms for us. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our solutions, the cost of our solutions, the cost of solutions offered by our competitors and reductions in our customers' spending levels. If our customers do not renew their subscriptions, renew on less favorable terms or for fewer modules, or do not purchase additional modules, our revenue may grow more slowly than expected or decline, and our ability to become profitable may be compromised.

As more of our sales efforts are targeted at larger higher-value customers, our sales cycle may become more time-consuming and expensive, and we may encounter pricing pressure, which could harm our business and operating results.

The cost and length of our sales cycle varies by customer. As we target more of our sales efforts at selling to larger higher-value customers, we may face greater costs, longer sales cycles and less predictability in completing some of our sales. These types of sales often require us to provide greater levels of education regarding our solutions. In addition, larger customers may demand more training and other professional services. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

We may not be able to compete successfully against current and future competitors. If we do not compete successfully, we could experience lower sales volumes and pricing pressure, which could cause us to lose revenues, impair our ability to pursue our growth strategy and compromise our ability to achieve profitability.

We face intense competition in the market for online channel management solutions and services, and we expect competition to intensify in the future. We have competitors, including some of the channels themselves, with longer operating histories, larger customer bases and greater financial, technical, marketing and other resources than we do. Increased competition may result in reduced pricing for our solutions, longer sales cycles or a decrease in our market share, any of which could negatively affect our revenue and future operating results and our ability to grow our business.

A number of competitive factors could cause us to lose potential sales or to sell our solutions at lower prices or at reduced margins, including:

- Potential customers may choose to continue using or to develop applications in-house, rather than pay for our solutions;

- The channels themselves, which typically offer software tools, often for free, that allow retailers and branded manufacturers to connect to them, may decide to compete more vigorously with us;

- Competitors may adopt more aggressive pricing policies and offer more attractive sales terms, adapt more quickly to new technologies and changes in customer requirements, and devote greater resources to the promotion and sale of their products and services than we can;

- Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and expand their markets, and consolidation in our industry is likely to intensify. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share;

- Current and potential competitors may offer software that addresses one or more online channel management functions at a lower price point or with greater depth than our solutions and may be able to devote greater resources to those solutions than we can; and

- Software vendors could bundle channel management solutions with other solutions or offer such products at a lower price as part of a larger product sale.

We may not be able to compete successfully against current and future competitors, including any channels that decide to compete against us more vigorously. In addition, competition may intensify as our competitors raise additional capital and as

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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 branded manufacturers seeking to sell online otherwise diminish, demand for our solutions could decline.

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

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

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

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

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

In addition, if consumer utilization of our primary e-commerce channels, such as Amazon, eBay and Google, does not grow or grows more slowly than we expect, demand for our solutions would be adversely affected, our revenue would be negatively impacted and our ability to pursue our growth strategy and become profitable would be compromised. Software errors, defects or failures or human error could cause our solutions to oversell our customers' inventory or misprice their offerings or could cause other errors, which would hurt our reputation and reduce customer demand.

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

transactions to be incorrectly processed that would cause GMV to be in excess of our customers' specified minimum amounts, in which case our variable subscription fee-based revenue could be overstated. Any of these results or other errors could reduce demand for our solutions and hurt our business reputation. Customers could also seek recourse against us in these cases and, while our contractual arrangements with customers typically provide that we are not liable for damages such as these, it is possible that these provisions would not be sufficient to protect us.

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

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

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

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

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

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

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

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

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

Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our solutions could harm our reputation and damage our customers' businesses. Interruptions in our services could reduce our revenue, require us to issue credits to customers, subject us to potential liability, cause our

existing customers to not renew their agreements or adversely affect our ability to attract new customers. Our data centers and cloud computing providers are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, cyber-attacks and similar events. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in the availability of our SaaS solutions or impair their functionality. Our business, growth prospects and operating results would also be harmed if our customers and potential customers are not confident that our solutions are reliable.

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We rely in part on a pricing model under which a variable portion of the subscription fees we receive from customers is based upon the amount of GMV 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
- costs related to acquisitions of other businesses.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

Although current U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales, an increasing number of states have considered or adopted laws that attempt to require out-of-state retailers to collect sales taxes on their behalf. In addition, the U.S. Senate and the U.S. House of Representatives are currently considering a variety of legislation, most notably the Marketplace Fairness Act, which would override the Supreme Court rulings and enable states to require that online retailers collect sales tax from the states' residents. Some larger online retailers, including Amazon, have announced their support for legislation along these lines. This is a rapidly evolving area and we cannot predict whether this or other similar legislation will ultimately be adopted or what form it might take if adopted. For example,



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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 sales taxes on out-of-state purchases, buying online would lose some of its current advantage over traditional retail models and could become less attractive to consumers. This could cause e-commerce to decline, which would, in turn, hurt the business of our customers, potentially make our products less attractive and cause the amount of GMV processed through our platform, and ultimately our revenue, to decline. In addition, it is possible that one or more states or the federal government or foreign countries may seek to impose a tax collection, reporting or record-keeping obligation on companies like us that facilitate e-commerce, even though we are not an online retailer. Similar issues exist outside of the United States, where the application of value-added tax or other indirect taxes on online retailers and companies like us that facilitate e-commerce is uncertain and evolving.

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

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

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

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

Changing industry standards and industry self-regulation regarding the collection, use and disclosure of data may have similar effects. Existing and future privacy and data protection laws and increasing sensitivity of consumers to unauthorized disclosures and use of personal information may also negatively affect the public's perception of our customers' sales practices. If our solutions are perceived to cause, or are otherwise unfavorably associated with, invasions of privacy, whether or not illegal, we or our customers may be subject to public criticism. Public concerns regarding data collection, privacy and security may also cause some consumers to be less likely to visit our customers' websites or otherwise interact with our customers, which could limit the demand for our solutions and inhibit the growth of our business.

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

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or other technical malfunctions, as well as employee error or malfeasance. Any unauthorized access or use of information, virus or similar breach or disruption to our, our customers', or our partners' systems and security measures could result in disrupted operations, loss of information, damage to our reputation and customer relationships, early termination of our contracts and other business losses, indemnification of our customers, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, financial penalties, litigation, regulatory investigations, and other significant liabilities, any of which could materially harm our business.

### Risks Related to the Software-as-a-Service (SaaS) Model

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

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

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

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

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

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

### 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;

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• 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 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



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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 but there can be no assurance that any 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 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,

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whether or not such litigation results in a determination that is unfavorable to us. In addition, litigation is inherently uncertain, and thus we may not be able to stop our competitors from infringing upon our intellectual property rights. Our use of “open source” software could negatively affect our ability to sell our solutions and subject us to possible litigation.

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

**Risks Related to Ownership of Our Common Stock**

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

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

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

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

- actual or anticipated variations in our operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- conditions or trends in our industry;
- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the software industry;
- 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. The consolidated case was dismissed April 6, 2016, and on April 29, 2016, the plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Fourth Circuit. This case and additional litigation, if instituted against us, could cause us to incur substantial costs and divert management’s attention and resources from our business.



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

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

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

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

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

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

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

- only one of our three classes of directors is elected each year;
- stockholders are not entitled to remove directors other than by a 66 2/3% vote and only for cause;
- stockholders are not permitted to take actions by written consent;
- stockholders cannot call a special meeting of stockholders; and
- stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings.

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

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not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) December 31, 2018, (2) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.0 billion, (3) the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, and (4) any date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

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

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

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

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

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

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

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

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

As a public company listed in the United States, we incur significant additional legal, accounting and other costs, which we expect to increase, particularly after we cease to be an "emerging growth company" under the JOBS Act. These additional costs could negatively affect our financial results. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and stock exchanges, may increase legal and financial compliance costs and make some activities more time consuming. These laws, regulations and standards are subject to varying interpretations and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased

general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If notwithstanding our efforts to comply with new laws, regulations and standards, we fail to comply, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Failure to comply with these rules might also make it more difficult for us to obtain some types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage or incur

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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 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from 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 the IPO of our common stock, pursuant to which we sold 6,612,500 shares of our common stock, including the full exercise of the underwriters' over-allotment option, 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 \$82.0 million (after underwriters' discounts and commissions of \$6.5 million and additional offering related costs of \$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.

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.

Item 6. Exhibits

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

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SIGNATURES

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

CHANNELADVISOR CORPORATION

Date: August 4, 2016 By: /s/ Mark E. Cook  
Mark E. Cook  
Chief Financial Officer  
(On behalf of the Registrant and as Principal Financial Officer)

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Exhibit Index

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

\*Filed herewith.

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