CHANNELADVISOR CORP
Form 10-K
February 13, 2018

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

FORM 10-K
(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number 001-35940
CHANNELADVISOR CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	56-2257867
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3025 Carrington Mill Boulevard Morrisville, NC	27560
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (919) 228-4700
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on which Registered
Common Stock, $0.001 par value	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes x No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of ChannelAdvisor Corporation voting and non-voting common equity held by non-affiliates as of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing sale price of $11.55 as reported on the New York Stock Exchange on that date was $290,341,405.

At February 1, 2018, 26,605,346 shares of ChannelAdvisor Corporation Common Stock, $0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, for its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve substantial risks and uncertainties. The forward-looking statements are contained principally in Part I, Item 1. "Business," Part I, Item 1A. "Risk Factors," and Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," but are also contained elsewhere in this Annual Report. In some cases, you can identify forward-looking statements by the words "may," "might," "will," "could," "would," "should," "expect," "intend," "plan," "objective," "anticipate," "believe," "estimate," "predict," "project," "potential," "continue" and "ongoing," or the negative of these terms, or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Annual Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. Forward-looking statements include statements about:

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

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

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PART I

ITEM 1. BUSINESS

OVERVIEW

We are a leading provider of software-as-a-service, or SaaS, solutions and our mission is to connect and optimize the world's commerce. Our e-commerce cloud platform helps retailers and branded manufacturers worldwide improve their online performance by expanding sales channels, connecting with consumers around the world, optimizing their operations for peak performance and providing actionable analytics to improve competitiveness. 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 Shopzilla, and social channels, such as Facebook, Instagram and Pinterest. Our fulfillment solution makes it easier for customers to connect to their supply chain, which could include distributors, manufacturers and third-party logistic providers. 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 or digital marketing audiences directly to authorized resellers and to gain insight into consumer behavior. Our proprietary cloud-based technology platform delivers significant breadth, scalability and flexibility. In 2017, our customers processed approximately $8.9 billion in gross merchandise value ("GMV") through our platform.

We serve customers across a wide range of industries and geographies. Our customers include the online businesses of traditional retailers, online retailers and branded manufacturers (manufacturers that market the products they produce under their own name), as well as advertising agencies that use our solutions on behalf of their clients.

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

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

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

While these e-commerce growth drivers create significant opportunity for retailers and branded manufacturers, they also create additional complexity and challenges. Retailers and branded manufacturers seeking new avenues to expand their online sales must manage product data and transactions across hundreds of highly fragmented online channels where data attributes vary, requirements change frequently and the pace of innovation is rapid and increasing. Speed of order fulfillment is becoming increasingly strategic to winning consumers' business. There are a significant number of possible fulfillment locations around the world, each with different technological capability and communication requirements.

We address these challenges by offering retailers and branded manufacturers SaaS solutions that enable them to integrate, manage and optimize their merchandise sales across these disparate online channels. In addition, we facilitate improved collaboration between branded manufacturers and their authorized resellers through solutions that deliver high value leads from branded manufacturers to those resellers. We generate the majority of our revenue from our customers' access to and usage of our SaaS solutions, which are organized into modules. Each module integrates with a particular type of channel, such as third-party marketplaces, digital marketing websites and authorized reseller websites. Using our solutions, customers can:

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- connect with new channels and more easily integrate with channels they already use;
- access emerging online sources of consumer demand, such as social networks and mobile devices;
- adapt to the frequently changing policies and requirements of each channel;
- manage real-time inventory allocation and availability across channels;
- implement dynamic pricing and promotion strategies across channels;
- efficiently manage, evaluate and optimize customer traffic to their own e-commerce websites;
- connect to fulfillment and logistics providers on a global scale;
- more easily sell into new geographic territories worldwide;
- provide a seamless consumer journey from branded manufacturer websites and digital marketing campaigns to the e-commerce sites and physical stores of authorized resellers;
- reduce dependence on in-house information technology staff and avoid significant up-front capital expenses; and
- access in real-time the latest product and software upgrades that we regularly release on our SaaS platform to keep up with the rapid pace of change and innovation in the market.

We derive our revenue primarily from subscription fees paid to us by our customers for access to and usage of our SaaS solutions for a specified contract term, which is usually one year. The majority of our subscription fee is based on the amount of a customer's GMV processed on our platform. Our subscription fee may also be based on the amount of advertising spend processed on our platform. A portion of the GMV-based or advertising spend-based subscription fee is typically fixed and is based on a specified minimum amount of GMV or advertising spend that a customer expects to process through our platform. The remaining portion of GMV-based or advertising spend-based subscription fee is typically variable and is based on a specified percentage of GMV or advertising spend processed through our platform that exceeded the customer’s specified minimum GMV or advertising spend amount. We believe that our subscription fee pricing model aligns our interests with those of our customers. We also receive implementation fees, which may include fees for providing launch assistance and training.

INDUSTRY BACKGROUND

Increasing complexity and fragmentation for retailers and branded manufacturers selling online

E-commerce is a large and global market that continues to expand as retailers and branded manufacturers continue to increase their online sales. However, it is also an increasingly complex and fragmented market due to the hundreds of channels available to retailers and branded manufacturers and the rapid pace of change and innovation across those channels. Historically, a retailer or branded manufacturer might have simply established an online storefront and used a basic paid search program to drive traffic to its website. Today, in order to gain consumers’ attention in a more crowded and competitive online marketplace, many retailers and an increasing number of branded manufacturers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In addition, retailers and branded manufacturers often seek to sell their products in multiple countries, each with its own local consumer preferences and behaviors.

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

- Emergence and growth of online third-party marketplaces. Third-party marketplaces, which are marketplaces that aggregate many sellers, are an increasingly important driver of growth for a number of large online retailers. Some of these marketplaces, such as Amazon, offer products from their own inventory, known as first-party products, as well as products sold by others, known as third-party products; other marketplaces, such as eBay, offer only third-party products. In addition, several of the largest traditional brick-and-mortar retailers, including La Redoute, Sears, Tesco and Walmart, have incorporated third-party marketplaces into their online storefronts, allowing other retailers and branded manufacturers to market their products to consumers they might not otherwise reach.
- Mainstream adoption of mobile devices for e-commerce. Mobile internet-enabled devices, such as smartphones and tablets, enable new consumer shopping behaviors, such as in-store barcode scanning to find online promotions, better pricing or alternative products. While benefiting consumers by increasing the transparency and accessibility of e-commerce, the proliferation of mobile devices and mobile commerce requires retailers and

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branded manufacturers to build additional device-specific optimization and functionality into their websites, increasing the complexity of managing their online presences.

- Growth of additional online consumer touch points. As consumers have moved more of their shopping and product discovery online, search engines, social networks and certain comparison shopping sites such as Google Shopping, as well as branded manufacturer websites, have emerged as key influencers and important points of product research for consumers making purchase decisions.
- Expansion of the global e-commerce ecosystem. The increasingly global e-commerce ecosystem presents opportunities for retailers and branded manufacturers to extend their online presence through country- or region-specific marketplaces, such as Alibaba in Asia. Conversely, the growth of marketplaces such as Amazon into new countries is driving selling opportunities for retailers and branded manufacturers to sell to a broader, global audience.
- Widespread use of social networking and commerce applications. The rapid growth of social networking and commerce applications provides a valuable channel through which retailers and branded manufacturers can connect to consumers.
- Increase in branded manufacturers' participation in direct-to-consumer e-commerce. With the rise of Amazon and the struggles of some traditional retail partners, more branded manufacturers are exploring or participating in direct-to-consumer online sales using their own websites and/or third-party marketplaces. The shift to direct-to-consumer online sales is forcing branded manufacturers to enhance their logistics and fulfillment capabilities compared to the traditional brick-and-mortar retail model. However, because those traditional retail partners still represent a majority of revenue for branded manufacturers, many branded manufacturers desire solutions that allow collaboration with those partners in addition to direct-to-consumer solutions.

Challenges with alternative e-commerce solutions

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

- In-house solutions are costly and may be slow to adapt to industry change and innovation. To maintain pace with the speed of change and innovation of online channels, retailers and branded manufacturers that rely on in-house capabilities are required to invest in and maintain significant technological infrastructure, human resources and industry relationships. Successful in-house solutions may typically require longer periods of setup time, substantial up-front capital expenditures and significant ongoing maintenance expense.
- Point solutions are limited in functionality and channels supported. There are numerous narrowly tailored, or point, solutions available for retailers and branded manufacturers to help them manage single online channels or a single category of channels, but these point solutions often do not address the needs of retailers and branded manufacturers seeking to manage pricing and inventory across multiple channels through a single, unified platform.
- Solutions provided by the channels are not aligned with customers' broader online goals. Most online channels offer their own solutions that help retailers and branded manufacturers connect with their specific channel and provide basic inventory control and data reporting functionality. By their very nature, however, these solutions are not channel independent and cannot help customers coordinate or optimize their online sales across the multiple online avenues available to them. As with point solutions, retailers and branded manufacturers must work with disparate third-party providers to connect with a broad array of channels, which requires significant time and costs.
- Neither in-house nor point solutions adequately address fulfillment requirements, leading to error-prone processes. In-house and point solutions tend to focus on point-to-point connectivity from channels to enterprise resource planning, with separate resources focusing on enterprise resource planning to fulfillment. This design leads to a disconnected experience, decreasing speed of fulfillment and increasing risk of product being out of stock. Slower fulfillment and delayed shipments negatively impact customer satisfaction and online sales.

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

THE CHANNELADVISOR SOLUTION

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

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

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

- Single, fully integrated solution. Through our SaaS platform, we provide our platform customers with a single web-based interface as the central location for them to control, analyze and manage their online sales across hundreds of available channels and multiple geographies. This unified view enables our customers to more cost-effectively manage product listings, inventory availability, pricing optimization, fulfillment, search terms, data analytics and other critical functions across channels based on the customer's specified rules and performance metrics in order to drive traffic and increase revenue.
- Reduced integration costs, time to market and dependence on in-house resources. Customers can more easily and quickly introduce their products, both to channels on which they already have a presence and to new channels, without the costs related to installing and maintaining their own hardware and software infrastructure. A customer's initial installation and integration of our solutions can often be completed in less than two months, with additional modules of our software generally available immediately without incurring significant additional resources to integrate. We manage and host our solutions on behalf of our customers, thereby reducing the customer's cost and dependency on dedicated IT staff or on-premises systems.
- Scalable technology platform. In 2017, our customers processed approximately $8.9 billion in GMV through our platform. We believe that the scalability of our platform allows us to quickly and efficiently support an increasing number of product listings and transactions processed through our platform as we add new customers, integrate new channels and accommodate seasonal surges in consumer demand.
- Flexibility to adapt and instantaneous access to our most up-to-date capabilities. Channels frequently update their product information requirements, policies, merchandising strategies and integration specifications, requiring customers to frequently revise their product listings, attributes, business rules and possibly even their overall online business strategies. Without the ability to quickly adapt to these changes, customers risk losing revenue. Through our single code base and multi-tenant architecture, we provide platform customers the latest channel updates through regular product upgrades. When we develop and deploy new features, functions and capabilities, or make changes to keep up with the changing priorities and requirements of each channel, our customers simultaneously benefit from those new capabilities and changes.
- Data and reporting analytics. Through our data and reporting analytics, we provide our customers with insight into the latest channel and consumer trends and general product performance. Our dashboards highlight sales trends, top performing products, seller reputation and repricing activity, among other key performance indicators, and alert customers to issues and errors in product listings. These capabilities provide actionable insights that allow customers to evaluate and, if necessary, improve the efficiency of their business rules on existing or new channels. Additionally, our solution provides branded manufacturers with insights about online assortment, product coverage gaps, pricing trends and adherence by their retailers to content guidelines.

We offer our platform customers the choice of self-service accounts or managed-service accounts. Self-service customers operate our software themselves, while managed-service customers generally outsource most or all of the management of one or more channels to our professional services team, which then operates our software on the customer’s behalf based on the customer's instructions.

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OUR PRODUCTS

The ChannelAdvisor Platform

We automate the workflow through which retailers and branded manufacturers manage their sales through online channels. Our suite of solutions includes the following key capabilities:

- Product catalog, inventory and order management. We provide a platform for our customers to upload and modify their product catalog data, monitor inventory stock levels and create a single inventory feed that serves multiple available online channels. Managing inventory and order data is the foundation for much of the customer activity on our platform. We offer a variety of ways for customers to enter and modify product data, including through a sophisticated user interface, file exchange and application programming interfaces, or APIs. Our platform is capable of scaling to support thousands of customers during critical selling periods, such as the year-end holiday season. The flexibility of the system allows each customer to customize the product catalog data specific to its products, such as size, color, height and width, and to vary the format of the data to meet the specific requirements of each channel. Our platform provides various features that allow a customer to list products on multiple channels while mitigating the risk of overselling. These features include the ability to allocate inventory across channels, set buffer quantities to avoid overselling and receive automatic updates based on changes to the customer's inventory.
- Product matching. Once inventory is loaded into the platform, we provide features that improve our customer's ability to successfully list its products on the various channels. Depending on the needs of the particular channel, we are able to pre-validate the customer's data and formats before sending them to the channel, reducing errors caused by poor data quality and thus reducing the time it takes to list products on that channel. On some channels, we employ advanced product-matching algorithms that are designed to accurately place the customer's product offerings within the channel's product classification taxonomy.
- Business rules and templates. Our platform offers tools that enable a customer to develop and manage sophisticated business rules and product listing templates that automatically determine how a product will be displayed and when it will be available for purchase in each channel. Through a single interface, a platform customer can utilize these tools to customize product listing descriptions across various channels using different attributes, such as price, brand, category and shipping weight. Features such as these allow customers to automatically advertise millions of products on multiple channels while ensuring accuracy of product availability, optimizing price and managing to specific margin thresholds, all at an individual product level.
- Price optimization. Our platform provides customers the ability to dynamically price their products across some of our available channels based on a number of factors, such as prices of competitors, margin thresholds, historical product sales and current promotions. Prices can vary by channel and, using our sophisticated technology, a customer can automatically update pricing based on the competitive environment. The customer avoids the manual effort of monitoring the competition and changing prices, while preserving the ability to remain price competitive. Our Algorithmic Repricer offers predictive analytics and machine learning that may help our customers make more sales while maximizing margin.
- Advertising management. Our platform provides customers the ability to create, manage and evaluate advertising across multiple channels. Advertising formats, which can vary and often change, are associated with numerous channels including search engines, social networks and marketplaces. By providing a unified platform to manage advertising, our customers are able to manage advertisements across a large number of channels more efficiently. Additionally, features such as an automated bid manager provide automation that updates bids based on the customer's goals and performance.
- Fulfillment. In 2017, we acquired a fulfillment and logistics platform that automates order management by connecting online storefronts and marketplaces to distribution and fulfillment centers, which we believe will further enhance our fulfillment network offering and capabilities. With this acquisition and through organic development, our platform provides customers the ability to connect to multiple fulfillment and logistics providers around the globe. These features include the ability to optimize how an order is fulfilled based on the preferences of our customers and the availability of products at different fulfillment locations. Fulfillment-centric functionality provides automated, near real-time inventory updates, cost updates and shipment notifications. Our solution also allows customers to generate shipping labels. In addition, our solution enables our customers to visualize fulfillment performance using

analytics. These capabilities are available in a single, unified experience.

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- Proprietary reporting and analytics. We provide proprietary reporting and analytics capabilities that allow our customers to view general product performance and trends affecting their consumer base across multiple channels and to obtain detailed performance data at a channel or stock-keeping unit level that can be used in a particular online sales campaign. Our dashboards highlight sales trends, top performing products, seller reputation and repricing activity, among other key performance indicators. The dashboards also alert customers to issues or errors, such as data that is in a form inconsistent with the requirements of a particular channel. These capabilities provide actionable insights that allow customers to revise their business rules and listings on a real-time basis with the goal of improving their sales and profitability.
- Developer ecosystem. We offer third-party developers of complementary e-commerce solutions access to our platform through APIs. These APIs enable these third-party developers to build connections to our platform that meet their specific needs without requiring us to offer customized software code to them. We currently provide APIs to hundreds of third-party developers who have integrated their solutions with ours. For example, our API integrates our platform with business software provided by NetSuite, a provider of SaaS enterprise resource planning, customer relationship management and e-commerce solutions, to further streamline our joint customers' e-commerce operations.

Individual Modules

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

- Marketplaces. Our Marketplaces module connects customers to third-party marketplaces including Amazon, Catch, eBay, Jet.com, La Redoute, Newegg, Sears, Tesco, TradeMe, Walmart and Zalando. Our standardized integration API, which we refer to as Access ChannelAdvisor, allows additional e-commerce channels to integrate with our platform requiring less support on launch, which we believe will result in a broader array of channels available to our customers. In addition, our platform provides our customers with access to advertising programs and advanced competitive features on major marketplaces to allow them to compete more effectively. As of December 31, 2017, we supported 89 marketplaces and a dozen first-party connections (first-party connections enable our customers to sell their products directly to the marketplace, which then sells the products to the consumer).
- Digital Marketing. Our Digital Marketing module connects customers to comparison shopping websites such as Google Shopping and Shopzilla, allows customers to advertise products on search engines such as Google, Microsoft's Bing and Yahoo! and connects customers to social commerce sites such as Facebook, Instagram and Pinterest. Our Digital Marketing module also allows customers to generate and send customized product data feeds to their partners, such as affiliate networks, retargeting vendors, personalization vendors and product review platforms.
- Where to Buy. Our Where to Buy solution allows branded manufacturers to provide their web visitors or digital marketing audiences with up-to-date information about the authorized resellers that carry their products and the availability of those products online, as well as the ability to identify offline retailers that generally carry those products. This provides consumers with an easier path to purchase from an authorized reseller of their choice. The solution improves the consumer experience and helps branded manufacturers gain a better understanding of consumer behavior through detailed data about the flow of traffic between the branded manufacturer and retailer.
- Product Intelligence. Our Product Intelligence solution provides branded manufacturers with insights about online assortment, product coverage gaps, pricing trends and adherence by their retailers to content guidelines.

OUR CUSTOMERS

As of December 31, 2017, we had 2,840 customers worldwide, including retail and branded manufacturer customers across many consumer product categories. For the year ended December 31, 2017, our ten largest customers in the aggregate accounted for 7.9% of our total revenue. No single customer accounted for more than 1.7% of our total revenue during the year ended December 31, 2017.

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OUR TECHNOLOGY PLATFORM

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

We develop our software using rapid iterations through small, incremental changes that are continuously integrated into our code base. We generally release new versions of our software approximately every 30 days, except during certain holiday seasons. Incremental improvements may be released on daily and weekly schedules. Through our single code base and multi-tenant software architecture, our customers benefit from our new capabilities as soon as they are made available.

Our platform uses a hybrid cloud architecture in which we utilize secure third-party data center facilities located in North America, as well as cloud-based infrastructure in North America and Europe. In the data center facilities, we deploy hardware we own and lease, including servers, networking systems and storage systems. We use virtualization to maximize the utilization we achieve from our hardware systems. The data center facilities are biometrically secured, environmentally controlled and redundantly powered. We employ system security, including firewalls, encryption technology and antivirus software, and we conduct regular system tests and vulnerability and intrusion assessments. In the event of failure, we have engineered our systems with backup and recovery capabilities designed to provide for business continuity. We also make use of additional third-party cloud-based systems, such as content delivery networks, to augment the capabilities of our platform.

RESEARCH AND DEVELOPMENT

Our research and development efforts are focused on enhancing the architecture of our technology platform, creating additional functionality for our customers, enhancing our external developer APIs and maintaining and extending the various points of integration we have to the online channels we support. We incurred research and development costs of $21.9 million, $17.7 million and $16.6 million during the years ended December 31, 2017, 2016 and 2015, respectively. In 2017, we expanded our research and development capabilities with new talent through organic growth, an acquisition and expanding our operations overseas with the opening of a new research and development facility in Madrid, Spain.

COMPETITION

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

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

We believe the principal competitive factors in our industry include:

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

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

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INTELLECTUAL PROPERTY

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

We have received patent protection for some of our technologies in the United States and expect to apply for additional patents to protect our intellectual property as appropriate. We own trademark registrations in the U.S., the European Union, Australia, China, Hong Kong and Brazil for ChannelAdvisor and expect to apply for additional trademark registrations as appropriate.

In addition to the foregoing, we have established business procedures designed to maintain the confidentiality of our proprietary information, including the use of confidentiality agreements and assignment-of-inventions agreements with employees, independent contractors, consultants and companies with which we conduct business.

BACKLOG

Backlog represents the total committed subscription fees to be received under our customer contracts that have not yet been invoiced or recognized as revenue. As of December 31, 2017 and 2016, our backlog was approximately $64.5 million and $55.2 million, respectively.

Our customer contracts usually have a term of one year, and therefore the substantial majority of our backlog is expected to be recognized as revenue within the one-year contract term. Revenue for any period is a function of revenue recognized from deferred revenue, backlog under contracts in existence at the beginning of the period, as well as contract renewals and new customer contracts during the period. As a result, our backlog at the beginning of any period is not necessarily indicative of our future performance. Our presentation of backlog may differ from other companies in our industry.

GOVERNMENT REGULATION

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

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

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

following:

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

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

Data privacy and security. Data privacy and security with respect to the collection of personally identifiable information continues to be a focus of worldwide legislation and compliance review. Examples include statutes adopted by various states that require online services to report breaches of the security of personal data, and to report to customers when their personal data might be disclosed to direct marketers. In the European Union, U.S. companies must protect personal data in accordance with the Data Protection Directive (and local implementing legislation in relevant jurisdictions), which requires comprehensive information privacy and security protections for consumers with respect to information collected about them. Compliance requirements include disclosures, consents, transfer restrictions, notice and access provisions for which we may in the future need to build further infrastructure to support. To comply with the Data Protection Directive, we have registered with the E.U.-U.S. Privacy Shield, which was approved by the European Commission on July 8, 2016.

In addition, in April 2016, the European Union adopted a new General Data Protection Regulation (the "GDPR") to unify data protection within the European Union under a single law, which may result in significantly greater compliance burdens and costs for companies with customers and operations in the European Union. The GDPR will introduce a number of privacy-related changes for companies operating in the European Union, including greater control for data subjects (e.g., the "right to be forgotten"), increased data portability for European Union consumers, data breach notification requirements and increased fines. In particular, under the GDPR, fines of up to 20 million euros or up to 4% of the annual global revenue of the non-compliant company, whichever is greater, could be imposed for violations of certain of the GDPR's requirements. This government action is typically intended to protect the privacy of personal data that is collected, processed and transmitted in or from the governing jurisdiction. These laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. The GDPR will go into effect and apply to us beginning in May 2018.

We will continue to follow developments and work to maintain conforming means of transferring data from Europe, but despite our efforts to address the changes, we may be unsuccessful in establishing conforming means of transferring data from Europe.

We post on our website our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, U.S. Federal Trade Commission, or FTC, requirements or other privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition.

In this regard, there are a large number of legislative proposals before the U.S. Congress and various state legislative bodies regarding privacy issues that could affect our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in customers and revenue. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before prospective buyers can interact with our customers. For example, we have had to work with our customers to comply with the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 instituted by the United Kingdom, commonly referred to as the UK Cookie Law, which was designed to protect computer users from technologies identifying their computers and specified activities conducted on those computers without the users' consent. We use tracking technology to track purchases from our customers through our platform, in order to calculate variable subscription fees owed by our customers, among other things. Prohibiting or inhibiting such tracking could make it difficult or impossible to monitor our variable

subscription fees. The interpretation and implementation of processes to comply with the UK Cookie Law continues to evolve, and we cannot predict how any new laws will apply to us or our business. Similar "do not track" legislative proposals have been considered in the United States at the federal level, although none have been enacted to date. If enacted, such legislative proposals could prohibit or restrict the use of certain technologies, including tracking technology.

Unsolicited e-mails and communications. The CAN-SPAM Act of 2003 and similar laws adopted by a number of states regulate unsolicited commercial e-mails, create criminal penalties for unmarked sexually-oriented material and e-mails containing fraudulent headers and control other abusive online marketing practices. Similarly, FTC guidelines impose responsibilities upon us and our customers for communications with consumers and impose fines and liability for any failure to

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comply with rules relating to advertising or marketing practices that the FTC may deem misleading or deceptive. The European Union also maintains standards and regulations with respect to communications with consumers that we must comply with as we expand our marketing practices into those countries or with which our customers, utilizing our solutions, must comply. Some ways we seek to comply with these measures include requiring our customers to communicate with their consumers in order to comply with laws concerning spam and unsolicited emails and establishing processes to allow direct receivers of e-mail marketing communications from us to opt out of future communications.

Credit card protections. Several major credit card companies have formed the Payment Card Industry Council, or PCI Council, in order to establish and implement security standards for companies that transmit, store or process credit card data. The PCI Council has created the Payment Card Industry Data Security Standard, or PCI DSS. Though the PCI DSS is not law, merchants using PCI Council members to process transactions are required to comply with the PCI DSS, with associated fines and penalties for non-compliance. Elements of the PCI DSS have begun to emerge as law in some states, however, and we expect the trend to continue as to further laws and restrictions in collecting and using credit card information. We do not receive, process, or store any credit card information. We utilize a third-party processor to collect credit card data in processing the fees paid to us by our customers. The third-party is certified as PCI DSS compliant for internet / e-commerce payment processing.

EMPLOYEES

As of December 31, 2017, we had 737 employees, most of whom are located in the United States. Certain of our employees in various countries outside of the United States are subject to laws providing representation rights. We consider our relationship with our employees to be good.

INFORMATION ABOUT SEGMENT AND GEOGRAPHIC REVENUE

Information about segment and geographic revenue is set forth in Part II, Item 8. "Note 10 - Segment and Geographic Information" of this Annual Report.

CORPORATE INFORMATION

We were incorporated under the laws of the State of Delaware in June 2001. Our principal executive offices are located at 3025 Carrington Mill Boulevard, Suite 500, Morrisville, North Carolina. Our telephone number is (919) 228-4700.

AVAILABLE INFORMATION

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

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

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ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

We have incurred significant net losses since inception, and 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 $16.6 million and $8.0 million during the years ended December 31, 2017 and 2016, respectively, and we had an accumulated deficit of $180.1 million as of December 31, 2017. It is possible that our operating expenses will increase in the foreseeable future as we invest in increased sales and marketing and research and development efforts. To achieve profitability, we will need to either increase our revenue sufficiently to offset increasing expenses or reduce our expense levels. Our recent revenue growth may not be sustainable, and if we are forced to reduce our expenses, our growth strategy could be compromised. If we are not able to achieve and maintain profitability, the value of our company and our common stock could decline significantly.

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

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

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

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

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.

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

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

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

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

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

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

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

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.

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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, content and logistics 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.

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.

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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.

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

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

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

Our operating results have historically fluctuated due to changes in our business, and our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. You

should not rely on period-to-period comparisons of our operating results as an indication of our future performance. Factors that may cause fluctuations in our quarterly operating results include, but are not limited to, the following:

- seasonal patterns in consumer spending;

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- 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.

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.

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

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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. As further described in this Annual Report on Form 10-K, we have entered into voluntary disclosure agreements, or VDAs, with certain jurisdictions and recorded a $2.5 million one-time charge in general and administrative expense for the year ended December 31, 2017. If the VDAs do not resolve all potential unpaid sales tax obligations, then it is possible that the actual aggregate unpaid sales tax liability may be higher than our estimate. Through December 31, 2017, we have paid approximately $1.5 million under terms of the VDAs that we have completed with certain jurisdictions. During the third quarter of 2017, one jurisdiction rejected our VDA application and will conduct a sales tax audit. We believe the scope of the audit will be limited and similar in principle to the VDA program. Any 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.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, new legislation went into effect that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

Our effective tax rate may fluctuate, and we may incur obligations in tax jurisdictions in excess of accrued amounts.

We are subject to taxation in numerous countries, states and local tax jurisdictions. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various places that we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each of such places. Nevertheless, our effective tax rate may be different than experienced in the past due to numerous factors, including passage of the newly enacted federal income tax law, changes in the mix of our profitability from jurisdiction to jurisdiction, the results of examinations and audits of our tax filings, our inability to secure or sustain acceptable agreements with tax authorities, changes in accounting for income taxes and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations and may result in tax obligations in excess of amounts accrued in our financial statements.

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

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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.

The laws in this area are complex and developing rapidly. In the United States, many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. Laws in 48 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach. The laws are not consistent, and compliance in the event of a widespread data breach is costly. Further, states are constantly amending existing laws, requiring attention to frequently changing regulatory requirements.

In April 2016, the European Union adopted a new General Data Protection Regulation (the "GDPR") to unify data protection within the European Union under a single law, which may result in significantly greater compliance burdens and costs for companies with customers and operations in the European Union. The GDPR creates a range of new compliance obligations and increases financial penalties for non-compliance, and extends the scope of the European Union data protection law to all companies processing data of European Union residents, regardless of the company's location. The GDPR will go into effect on May 25, 2018. We have not yet assessed the full effect of the GDPR on our business and operations.

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 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.

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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.

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

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

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•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 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;

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•require technology changes to our software that would cause us to incur substantial cost;
•subject us to significant liabilities; and
•require us to cease some or all of our activities.

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

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

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

We have received patent protection for some of our technologies and are seeking patent protection for other of our technologies but there can be no assurance that any patents will ultimately be issued. We have registered domain names, trademarks and service marks in the United States and in jurisdictions outside the United States and are also pursuing additional registrations both in and outside the United States. Effective trade secret, copyright, trademark, domain name and patent protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and the costs of defending our rights. We may be required to protect our intellectual property in an increasing number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location. We may, over time, increase our investment in protecting our intellectual property through additional patent filings that could be expensive and time-consuming.

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

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

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

A portion of our technology platform and our solutions incorporates so-called "open source" software, and we may incorporate additional open source software in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to specified conditions, including requirements that we offer our solutions that incorporate the open source software for no cost,

that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes open source software we use were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, including being enjoined from the sale of our solutions that contained the open source software and required to comply with the foregoing conditions, which could disrupt the sale of the affected solutions. In

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

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

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

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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 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 expect to remain an emerging growth company until December 31, 2018.

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.

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

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

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

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

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

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

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

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

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

While we anticipate that our existing cash, together with our cash flow from operations, will be sufficient to fund our operations for at least the next 12 months, we may need to raise additional capital to fund operations in the future or to meet various objectives, including developing future technologies and services, increasing working capital, acquiring

businesses and responding to competitive pressures. If we seek to raise additional capital, it may not be available on favorable terms or may not be available at all. Lack of sufficient capital resources could significantly limit our ability to manage our business and to take advantage of business and strategic opportunities. Any additional capital raised through the sale of equity or debt securities

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with an equity component would dilute our stock ownership. If adequate additional funds are not available, we may be required to delay, reduce the scope of or eliminate material parts of our business strategy, including potential additional acquisitions or development of new technologies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices occupy approximately 130,000 square feet of leased office space in Morrisville, North Carolina pursuant to a lease agreement that expires in October 2022.

We also maintain sales, service, support and research and development offices in various domestic and international locations. Please refer to our website www.channeladvisor.com for a complete list of our domestic and international office locations.

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

ITEM 3. LEGAL PROCEEDINGS

The information required by this item is set forth under Note 6, "Commitments and Contingencies," in our consolidated financial statements included in Item 8 of this Annual Report, and is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

MARKET INFORMATION FOR COMMON STOCK

Our common stock is listed on the NYSE under the symbol "ECOM." The following table sets forth, for the periods indicated, the high and low reported sales prices of our common stock as reported on the NYSE:

	2017		2016	
	High	Low	High	Low
First quarter	$15.00	$10.35	$14.30	$10.28
Second quarter	$12.20	$10.90	$15.00	$11.03
Third quarter	$11.75	$9.85	$15.91	$11.61
Fourth quarter	$12.50	$8.40	$15.85	$10.50

STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on an initial investment of $100 in our common stock between May 23, 2013, the date on which our common stock began trading on the NYSE, and December 31, 2017, with the comparative cumulative total return of such amount on (i) the Dow Jones Industrial Average Total Return and (ii) the NASDAQ Computer Index over the same period. We have not paid any cash dividends and, therefore, the cumulative total return calculation for us is based solely upon our stock price appreciation or depreciation and does not include any reinvestment of cash dividends. The graph assumes our closing sales price on May 23, 2013 of $18.44 per share as the initial value of our common stock.

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

The information presented above in the stock performance graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that

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such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933, as amended, or a filing under the Securities Exchange Act of 1934, as amended.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We anticipate that we will retain all of our future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future.

STOCKHOLDERS

As of February 1, 2018, there were 77 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

RECENT SALES OF UNREGISTERED SECURITIES

None.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PARTIES

None.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 is derived from our audited consolidated financial statements. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data should be read together with Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in conjunction with the consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated statements of operations data:					
Revenue	$122,535	$113,200	$100,585	$84,901	$68,004
Gross profit	96,585	85,580	74,751	60,681	49,916
Loss from operations	(16,578)	(13,837)	(21,193)	(34,008)	(14,365)
Other income (expense)	305	172	57	(465)	(6,060)
Net loss	$(16,557)	$(8,007)	$(20,951)	$(34,514)	$(20,628)
Net loss per share—basic and diluted	$(0.63)	$(0.31)	$(0.84)	$(1.40)	$(1.51)
Weighted average shares of common stock outstanding used in computing net loss per share—basic and diluted	26,366,748	25,604,893	25,062,610	24,619,714	13,695,804
Other financial data:					
Adjusted EBITDA (1)	$4,569	$7,436	$1,443	$(19,532)	$(8,532)

(1) We define adjusted EBITDA as net loss plus or (minus): income tax expense (benefit), interest expense, net, depreciation and amortization, stock-based compensation, one-time charge for VDAs related to sales taxes in 2017, headquarters relocation and related costs in 2015, one-time severance and related costs in 2015, acquisition-related costs in 2014 and loss on extinguishment of debt in 2013. Please see "—Adjusted EBITDA" below for more information and for a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States, or GAAP.

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated balance sheets data:					
Cash and cash equivalents	$53,422	$65,420	$60,474	$68,366	$104,406
Accounts receivable, net	27,452	19,445	18,949	14,619	13,951
Total assets	140,511	139,158	130,956	127,047	148,786
Total liabilities	58,600	52,161	47,032	33,399	31,006
Additional paid-in capital	262,805	252,158	240,360	228,370	218,330
Total stockholders' equity	81,911	86,997	83,924	93,648	117,780

ADJUSTED EBITDA

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

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

evaluating our operating results.

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

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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 other GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results. The following table presents a reconciliation of net loss to adjusted EBITDA for each of the periods indicated:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Net loss	$(16,557)	$(8,007)	$(20,951)	$(34,514)	$(20,628)
Adjustments:					
Interest (income) expense, net	(222)	1	184	209	2,960
Income tax expense (benefit)	284	(5,658)	(185)	41	203
Depreciation and amortization expense	6,578	7,838	8,793	6,264	3,722
Total adjustments, net	6,640	2,181	8,792	6,514	6,885
EBITDA	(9,917)	(5,826)	(12,159)	(28,000)	(13,743)
Stock-based compensation expense	11,947	13,262	11,837	7,981	2,099
One-time charge for VDAs related to sales taxes	2,539	—	—	—	—
Headquarters relocation and related costs	—	—	1,109	—	—
One-time severance and related costs	—	—	656	—	—
Acquisition-related costs	—	—	—	487	—
Loss on extinguishment of debt	—	—	—	—	3,112
Adjusted EBITDA	$4,569	$7,436	$1,443	$(19,532)	$(8,532)

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

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

EXECUTIVE OVERVIEW

FINANCIAL RESULTS

- Total revenue of $122.5 million for the year ended December 31, 2017 increased 8.2% year over year;
- Average revenue per customer of $42,693 for the year ended December 31, 2017 increased 8.5% compared to $39,339 for the prior year;
- Revenue was comprised of 76.3% and 23.7% fixed and variable subscription fees, respectively, for the year ended December 31, 2017 compared to fixed and variable subscription fees of 76.0% and 24.0%, respectively, for the year ended December 31, 2016;
- Revenue derived from customers located outside of the United States as a percentage of total revenue was 21.9% for the year ended December 31, 2017 compared to 21.7% for the prior year;
- Gross margin of 78.8% for the year ended December 31, 2017 improved by 320 basis points compared to gross margin of 75.6% for the prior year;
- Operating margin of (13.5)% for the year ended December 31, 2017 declined 130 basis points compared to operating margin of (12.2)% for the prior year;
- Net loss for the year ended December 31, 2017 was $16.6 million compared to net loss of $8.0 million for the prior year;
- Adjusted EBITDA of $4.6 million for the year ended December 31, 2017 decreased 38.6% compared to adjusted EBITDA of $7.4 million for the prior year;
- Cash and cash equivalents was $53.4 million at December 31, 2017 compared to $65.4 million at December 31, 2016; and
- Operating cash flow was $(3.0) million for the year ended December 31, 2017 compared to $11.6 million for the prior year.

TRENDS IN OUR BUSINESS

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

- Growth in Online Shopping. Consumers continue to move more of their retail spending from offline to online retail. The continuing shift to online shopping and overall growth has contributed to our historical growth and we expect that this online shift will continue to benefit our business.
- Product Offering Expansion. As online shopping evolves, we continue to expand our product offerings to reflect the needs of companies seeking to attract consumers. This expansion may result in additional research and development investment.
- Growth in Mobile Usage. We believe the shift toward mobile commerce will increasingly favor aggregators such as Amazon, eBay and Google Shopping, all of which are focal points of our platform. The systems understand the identity of the buyer, helping to reduce friction in the mobile commerce process, while offering a wide selection of merchandise in a single location. The growth in mobile commerce may result in increased revenue for us.

Shift to Larger Customers. We believe that the growth in online shopping increasingly favors larger enterprises. This move impacts our business both in longer sales cycles as well as increased average revenue per customer.

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- Evolving Fulfillment Landscape. Consumers have been conditioned to expect fast, efficient delivery of products. We believe that determining and executing on a strategy to receive, process and deliver online orders, which we refer to collectively as fulfillment, is critical to success for online sellers. Therefore, it will be increasingly important for us to facilitate and optimize fulfillment services on behalf of our customers, which in turn may result in additional research and development investment. We believe our 2017 acquisition of a fulfillment platform will further enhance our fulfillment offering and strategy.
- Focus on Employees. None of our success would be possible without our team. We strive to provide our employees competitive compensation and benefits programs to help drive the success of our customers. We increased headcount by 5.7% from December 31, 2016 to December 31, 2017 to help drive revenue growth and support our overall operations.
- Shifts in Foreign Currency. Our operations in the United Kingdom were impacted by the 4.5% decline in the average exchange rate of the British Pound Sterling against the U.S. Dollar for the year ended December 31, 2017 as compared to the prior year. The decline of the British Pound Sterling against the U.S. Dollar resulted in a $0.7 million decrease in revenue for the year ended December 31, 2017 as compared to the year ended December 31, 2016.
- Seasonality. Our revenue fluctuates as a result of seasonal variations in our business, principally due to the peak consumer demand and related increased volume of our customers' GMV during the year-end holiday season. As a result, we have historically had higher revenue in our fourth quarter than other quarters due to increased GMV processed through our platform, resulting in higher variable subscription fees.

OPPORTUNITIES AND RISKS

- Dynamic E-commerce Landscape. We will need to continue to innovate in the face of a rapidly changing e-commerce landscape if we are to remain competitive, and we will need to effectively manage our growth, especially related to our international expansion.
- Retailers and Branded Manufacturers. As consumer preferences potentially shift from smaller retailers, we need to continue to add large retailers and branded manufacturers as profitable customers. These customers generally pay a lower percentage of GMV as fees to us based on the relatively higher volume of their GMV processed through our platform. To help drive our future growth, we have made significant investments in our sales force and allocated resources focused on growing our customer base of large retailers and branded manufacturers. We continue to focus our efforts on increasing value for our customers to support higher rates.
- Increasing Complexity and Fragmentation of E-commerce. Although e-commerce continues to expand as retailers and branded manufacturers continue to increase their online sales, it is also becoming more complex and fragmented due to the hundreds of channels available to retailers and branded manufacturers and the rapid pace of change and innovation across those channels. In order to gain consumers' attention in a more crowded and competitive online marketplace, many retailers and an increasing number of branded manufacturers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In particular, third-party marketplaces are an increasingly important driver of growth for a number of large online retailers and branded manufacturers, and as a result we need to continue to support multiple channels in a variety of geographies in order to support our targeted revenue growth. As of December 31, 2017, we supported 89 marketplaces, up from over 70 at December 31, 2016.
- Global Growth in E-commerce. We believe the growth in e-commerce globally presents an opportunity for retailers and branded manufacturers to engage in international sales. However, country-specific marketplaces are often the market share leaders in their regions, as is the case for Alibaba in Asia. In order to help our customers capitalize on this potential market opportunity, and to address our customers' needs with respect to cross-border trade, we intend to continue to invest in our international operations, specifically in the Asia Pacific region. Doing business overseas involves substantial challenges, including management attention and resources needed to adapt to multiple languages, cultures, laws and commercial infrastructure, as further described in this report under the caption "Risks Related to our International Operations."

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

we face.

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KEY FINANCIAL AND OPERATING METRICS

The average revenue generated by our customers is a primary determinant of our revenue. We calculate this metric by dividing our revenue for a particular period by the average monthly number of customers during the period, which is calculated by taking the sum of the number of customers at the end of each month in the period and dividing by the number of months in the period. We typically calculate average revenue per customer in absolute dollars on a 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. For purposes of this metric and the number of customers metric described below, we include all customers who subscribe to at least one of our solutions, excluding the approximately 50 net new customers acquired from our 2017 acquisition of HubLogix Commerce Corp., or HubLogix (renamed ChannelAdvisor Fulfillment, Inc.), and customers subscribing only to certain legacy product offerings that are no longer part of our strategic focus.

The number of customers decreased slightly in 2017. We continue our focus on obtaining large retailer and branded manufacturer customers, which may represent a smaller number of customers, but a potentially larger source of predictable or sustaining recurring revenue.

Adjusted EBITDA represents our earnings before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted to eliminate stock-based compensation expense, which is a non-cash item, a one-time charge of $2.5 million in 2017 for VDAs related to sales taxes, headquarters relocation and related costs in 2015 and one-time severance and related costs in 2015 (refer to Note 6 to our consolidated financial statements included elsewhere in this Annual Report for additional information regarding the one-time charge for VDAs related to sales taxes in 2017). Accordingly, we believe that adjusted EBITDA provides useful information to management and others in understanding and evaluating our operating results. However, adjusted EBITDA is not a measure calculated in accordance with GAAP and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. In addition, adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate adjusted EBITDA in the same manner that we do. Please refer to Item 6. "Selected Financial Data—Adjusted EBITDA" in this Annual Report for a discussion of the limitations of adjusted EBITDA and a reconciliation of adjusted EBITDA to net loss, the most comparable GAAP measurement.

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RESULTS OF OPERATIONS

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

	Year Ended December 31,			Period-to-Period Change			
	2017	2016	2015	2017 to 2016		2016 to 2015	
(dollars in thousands)							
Revenue	$122,535	$113,200	$100,585	$9,335	8.2 %	$12,615	12.5 %
Cost of revenue	25,950	27,620	25,834	(1,670)	(6.0)	1,786	6.9
Gross profit	96,585	85,580	74,751	11,005	12.9	10,829	14.5
Operating expenses:							
Sales and marketing	63,495	56,602	53,770	6,893	12.2	2,832	5.3
Research and development	21,868	17,736	16,566	4,132	23.3	1,170	7.1
General and administrative	27,800	25,079	25,608	2,721	10.8	(529)	(2.1)
Total operating expenses	113,163	99,417	95,944	13,746	13.8	3,473	3.6
Loss from operations	(16,578)	(13,837)	(21,193)	(2,741)	19.8	7,356	(34.7)
Other income (expense):							
Interest income (expense), net	222	(1)	(184)	223	*	183	(99.5)
Other income (expense), net	83	173	241	(90)	(52.0)	(68)	(28.2)
Total other income (expense)	305	172	57	133	77.3	115	201.8
Loss before income taxes	(16,273)	(13,665)	(21,136)	(2,608)	19.1	7,471	(35.3)
Income tax expense (benefit)	284	(5,658)	(185)	5,942	(105.0)	(5,473)	*
Net loss	$(16,557)	$(8,007)	$(20,951)	$(8,550)	106.8	$12,944	(61.8)

* Not meaningful.

	Year Ended December 31,		
	2017	2016	2015
	(as a percentage of revenue)		
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	21.2	24.4	25.7
Gross profit	78.8	75.6	74.3
Operating expenses:			
Sales and marketing	51.8	50.0	53.5
Research and development	17.8	15.7	16.5
General and administrative	22.7	22.2	25.5
Total operating expenses	92.4	87.8	95.4
Loss from operations	(13.5)	(12.2)	(21.1)
Other income (expense):			
Interest expense, net	0.2	—	(0.2)
Other income (expense), net	0.1	0.2	0.2
Total other income (expense)	0.2	0.2	0.1
Loss before income taxes	(13.3)	(12.1)	(21.0)
Income tax expense (benefit)	0.2	(5.0)	(0.2)
Net loss	(13.5)	(7.1)	(20.8)

Reclassification

In 2015 and prior, we presented depreciation and amortization expense as a separate component, both of cost of revenue and of operating expenses, in our consolidated statements of operations. Beginning with the first quarter of 2016, we include

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depreciation and amortization expense in cost of revenue and the applicable line items of operating expenses. Since the first quarter of 2016, we have also disclosed the depreciation and amortization expense amounts included in each financial statement line item in the notes to our 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 year ended December 31, 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 audited consolidated financial statements included elsewhere in this report. All reclassifications had no effect on our reported gross profit or net loss for the year ended December 31, 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 or advertising spend that a customer expects to process through our platform. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV or advertising spend processed through our platform in excess of the customer's specified minimum GMV or advertising spend amount. In most cases, the specified percentage of excess GMV or advertising spend on which the variable portion of the subscription is based is fixed and does not vary depending on the amount of the excess. We also receive implementation fees, which may include fees for providing launch assistance and training. 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 four conditions have been satisfied:

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

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The primary products we offer are:

- Marketplaces. Our Marketplaces module connects customers to third-party marketplaces such as Amazon, eBay, Jet.com, La Redoute, Newegg, Sears, Tesco, TradeMe, Walmart and Zalando.
- Digital Marketing. Our Digital Marketing module connects customers to search engines and comparison shopping websites, such as Google, Microsoft's Bing and Shopzilla, and social channels, such as Facebook, Instagram and Pinterest.
- Other. Other revenue is derived from our Where to Buy and Product Intelligence solutions, as well as from channel integration agreements. Our Where to Buy solution allows branded manufacturers to provide their web visitors or customers of their digital marketing initiatives with up-to-date information about the authorized resellers that carry their products and the availability of those products. Our Product Intelligence solution provides branded manufacturers with insights about online assortment, product coverage gaps, pricing trends, and adherence by their retailers to content guidelines. We also enter into integration agreements with certain marketplaces or channels under which the partner engages us to integrate our platform with their marketplace or channel.

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

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

Comparison of 2017 to 2016

Revenue increased by 8.2%, or $9.3 million, to $122.5 million for the year ended December 31, 2017 due to an increase in the average revenue per customer.

On a trailing twelve-month basis, average revenue per customer increased 8.5%, to $42,693 for the year ended December 31, 2017 as compared to $39,339 for the year ended December 31, 2016. The increase in the average revenue per customer was primarily driven by revenue growth of 8.3% from our marketplaces solution. The growth of our marketplaces solution was largely attributable to an overall increase in transaction volume and, to a lesser extent, to modest overall increases in the percentage fees assessed on the fixed and variable portions of GMV under our contractual arrangements with some of our customers during the period. Because we generally enter into annual contracts with our customers, we may renegotiate either or both of the fixed and variable components of the pricing structure of a customer’s contract each year. In addition, the increase in average revenue per customer was due in part to our established customers who have increased their revenue over time on our platform. In general, as customers mature they generate a higher amount of GMV from which we derive revenue and in some cases they may subscribe to additional modules on our platform, thereby increasing our subscription revenue.

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Comparison of 2016 to 2015

Revenue increased by 12.5%, or $12.6 million, to $113.2 million for the year ended December 31, 2016 due to an increase in the average revenue per customer.

On a trailing twelve-month basis, average revenue per customer increased 14.0% to $39,339 for the year ended December 31, 2016 as compared to $34,513 for the year ended December 31, 2015. The increase in the average revenue per customer was primarily driven by revenue growth of 16.3% from our marketplaces solution from 2015 to 2016.

COST OF REVENUE

Cost of revenue primarily consists of:

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

Comparison of 2017 to 2016

Cost of revenue decreased by 6.0%, or $1.7 million, to $26.0 million for the year ended December 31, 2017, with the change being comprised primarily of decreases of:

- $1.1 million in compensation and employee-related costs, including stock-based compensation expense, due to changes in headcount; and
- $0.5 million in co-location and infrastructure maintenance costs primarily associated with closing a data center and retiring servers used to support legacy product offerings that are no longer part of our strategic focus.

Comparison of 2016 to 2015

Cost of revenue increased by 6.9%, or $1.8 million, to $27.6 million for the year ended December 31, 2016, with the change being comprised of increases (decreases) of:

- $1.7 million in compensation and employee-related costs mainly due to additional headcount to support our customers;
- $0.4 million in contractor costs primarily to support our international services team; and
- $0.2 million in rent and facilities costs due to the relocation of our corporate headquarters in the fourth quarter of 2015; partially offset by
- $0.4 million reduction in hosting, co-location and infrastructure maintenance costs primarily due to our migration to a public cloud infrastructure.

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OPERATING EXPENSES

SALES AND MARKETING EXPENSE

Sales and marketing expense consists primarily of:

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

Comparison of 2017 to 2016

Sales and marketing expense increased by 12.2%, or $6.9 million, to $63.5 million for the year ended December 31, 2017 with the change being comprised primarily of increases of:

- $4.5 million in compensation and employee-related costs, mainly due to additional headcount in our sales organization; and
- $2.1 million in marketing and advertising expenses, promotional event programs and travel costs to support expanding marketing activities to continue to grow our business.

Comparison of 2016 to 2015

Sales and marketing expense increased by 5.3%, or $2.8 million, to $56.6 million for the year ended December 31, 2016 with the change being comprised of increases of:

- $2.5 million in compensation and employee-related costs, mainly due to additional headcount in our sales organization, stock-based compensation and the payment of increased sales commissions; and
- $0.3 million in recruiting fees, namely for expanding our international sales personnel, and consulting fees.

RESEARCH AND DEVELOPMENT EXPENSE

Research and development expense consists primarily of:

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

Comparison of 2017 to 2016

Research and development expense increased by 23.3%, or $4.1 million, to $21.9 million for the year ended December 31, 2017, with the change being comprised primarily of increases of:

- $3.4 million in compensation and employee-related costs, mainly due to additional headcount from our acquisition of HubLogix and the expansion of our R&D footprint with the opening of our engineering office in Madrid, Spain to support our growth and the enhancement of our product offerings; and

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- $0.5 million in software, hosting and travel costs to further support our growth and investment in research and development.

Comparison of 2016 to 2015

Research and development expense increased by 7.1%, or $1.2 million, to $17.7 million for the year ended December 31, 2016, with the change driven primarily by an increase of $1.0 million in compensation and employee-related costs, mainly due to additional headcount and stock-based compensation.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense consists primarily of:

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

Comparison of 2017 to 2016

General and administrative expense increased by 10.8%, or $2.7 million, to $27.8 million for the year ended December 31, 2017, with the change being comprised primarily of:

- a $2.5 million one-time charge in connection with entering into VDAs related to sales taxes with certain jurisdictions; and
- increases of $0.2 million in compensation and employee-related costs, mainly due to additional headcount.

Comparison of 2016 to 2015

General and administrative expense decreased by 2.1%, or $0.5 million, to $25.1 million for the year ended December 31, 2016 with the change being comprised of (decreases) increases of:

- $(1.1) million due to headquarters relocation and related expenses charged in the fourth quarter of 2015;
- $(0.7) million due to one-time severance and related costs charged in the second quarter of 2015 to support our strategic effort to strengthen margins in our business and identify operating efficiencies;
- $(0.7) million in bad debt expense driven by lower bad debt write-offs and reductions to our allowance for doubtful accounts based on collections activities; and
- $(0.6) million due to indirect taxes charged in the fourth quarter of 2015; partially offset by
- $2.7 million in compensation and employee-related costs, mainly due to additional headcount, incentive bonuses and stock-based compensation, all to support growth in our business.

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GROSS AND OPERATING MARGINS

Comparison of 2017 to 2016

Gross margin improved by 320 basis points to 78.8% during the year ended December 31, 2017 as a result of the increase in revenue and decrease in cost of revenue noted above. Our improved gross margin is a result of our continuing strategic efforts to achieve increasing scale in our business operations.

Operating margin declined by 130 basis points to (13.5)% during the year ended December 31, 2017 due to a 13.8% growth in operating expenses which includes the $2.5 million one-time charge for VDAs related to sales taxes described above and an increase in compensation and employee-related costs driven by additional headcount as we invest in resources to support the growth of our business. These operating expenses exceeded the 8.2% year-over-year increase in our revenue and 6.0% decrease in our cost of revenue.

Comparison of 2016 to 2015

Gross margin improved by 130 basis points to 75.6% during the year ended December 31, 2016 as a result of the increase in revenue, only partially offset by a slower rate of growth in cost of revenue noted above. Our improved gross margin is a result of our strategic efforts to achieve increasing scale in our business operations.

Operating margin improved by 890 basis points to (12.2)% during the year ended December 31, 2016 due to our 12.5% increase in revenue, which exceeded the increases in our cost of revenue and operating expenses of 6.9% and 3.6%, respectively, as a result of a strategic effort to strengthen margins in our business.

TOTAL OTHER INCOME (EXPENSE)

Other income (expense) consists primarily of:

- Interest received on our cash and cash equivalents;
- Interest expense on our capital leases; and
- The net effect of foreign currency revaluation gains and losses.

Comparison of 2017 to 2016

Other income (expense) increased by $0.1 million to $0.3 million for the year ended December 31, 2017 primarily due to interest income on our cash and cash equivalents.

Comparison of 2016 to 2015

Other income (expense) increased by $0.1 million to $0.2 million for the year ended December 31, 2016 primarily due to interest income on our cash and cash equivalents.

INCOME TAX EXPENSE (BENEFIT)

Our provision for income taxes consists of provisions for federal, state, and foreign income taxes. We operate in an international environment with operations in various locations outside of the United States. Accordingly, our combined income tax rate is a composite rate reflecting our operating results in various locations and the applicable rates.

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Comparison of 2017 to 2016

Income tax expense was $0.3 million for the year ended December 31, 2017 compared to an income tax benefit of $5.7 million for the year ended December 31, 2016. The change was primarily due to the release of a valuation allowance in the fourth quarter of 2016 on deferred tax assets in several of our foreign jurisdictions totaling $5.3 million. The release of the valuation allowance was the result of our evaluation of the likelihood of potential tax benefits related to our foreign subsidiaries' most recent three years of operating results and projections of future profitability, which primarily resulted from a change in our global transfer pricing methodology.

Comparison of 2016 to 2015

Income tax benefit was $5.7 million for the year ended December 31, 2016 compared to an income tax benefit of $0.2 million for the year ended December 31, 2015 primarily due to the release of a valuation allowance in the fourth quarter of 2016 on deferred tax assets in several of our foreign jurisdictions totaling $5.3 million noted above.

LIQUIDITY AND CAPITAL RESOURCES

We derive our liquidity and operating capital primarily from cash flows from operations. Based on our current level of operations and anticipated growth, we believe our future cash flows from operating activities and our existing cash balances will be sufficient to meet our cash requirements for at least the next 12 months. During this period, we expect our capital expenditure requirements to approximate a range of $2.0 million to $4.0 million, which will primarily consist of computer hardware and purchased software.

WORKING CAPITAL

The following table summarizes our cash and cash equivalents, accounts receivable and working capital as of the end of each of the last three years:

	December 31,		
	2017	2016	2015
	(in thousands)		
Cash and cash equivalents	$53,422	$65,420	$60,474
Accounts receivable, net of allowance	27,452	19,445	18,949
Working capital	45,862	52,137	52,413

Our cash at December 31, 2017 was held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide liquidity. Accordingly, our cash is invested primarily in demand deposit accounts and short-term money market accounts.

Of our total cash and cash equivalents, approximately 10% was held outside of the United States at December 31, 2017. Our international operations primarily consist of selling and marketing and research and development functions supported by our U.S. operations, and we are dependent on our U.S. operations for our international working capital needs. If our cash and cash equivalents held outside of the United States were ever needed for our operations inside the United States, we could be required to accrue and pay U.S. taxes to repatriate these funds. We currently intend to permanently reinvest these foreign amounts outside the United States, and our current plans do not demonstrate a need to repatriate the foreign amounts to fund our U.S. operations.

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CASH FLOWS

Free Cash Flow

We view free cash flow as an important financial metric as it demonstrates our ability to generate cash and can allow us to pursue opportunities that enhance shareholder value. Free cash flow is a non-GAAP financial measure that should be considered in addition to, not as a substitute for, measures of our financial performance prepared in accordance with GAAP. The following table presents a reconciliation of cash (used in) provided by operating activities, the most directly comparable GAAP measure, to free cash flow for each of the periods indicated:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash (used in) provided by operating activities	$(2,996)	$11,571	$(1,459)
Less: Purchases of property and equipment	(2,790)	(1,755)	(4,062)
Free cash flow	$(5,786)	$9,816	$(5,521)

Free cash flow decreased by $15.6 million to $(5.8) million for the year ended December 31, 2017 and increased $15.3 million to $9.8 million for the year ended December 31, 2016. The decrease in free cash flow for the year ended December 31, 2017 is primarily a result of a $(4.9) million change in assets and liabilities, net of acquisition, combined with our strategic investment in additional headcount and territorial expansion for our sales and marketing and research and development functions to support the growth of our business. Further analysis on the increases (decreases) in the components of free cash flow is provided below.

Operating activities cash flows are largely driven by:

- The amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business;
- The amount and timing of customer payments;
- The seasonality of our business, as noted above, which results in variations in the timing of invoicing and the receipt of payments from our customers; and
- In 2017, the amounts paid in connection with entering into VDAs related to sales taxes.

Investing activities cash flows are largely driven by:

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

Financing activities cash flows are largely driven by:

- Proceeds from the exercises of stock options;
- Payments on capital lease obligations;
- Tax withholdings related to the net-share settlement of restricted stock units; and
- In 2016, acquisition-related contingent consideration.

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2017

Operating Activities

Our cash used in operating activities consisted of a net loss of $(16.6) million adjusted for certain non-cash items totaling $18.5 million, which consisted of stock-based compensation expense, depreciation and amortization expense, bad debt expense and other non-cash items, principally the amortization of a lease incentive obligation related to our corporate headquarters.

The net decrease in cash resulting from changes in assets and liabilities, net of acquisition, of $(4.9) million primarily consisted of:

- a $8.3 million increase in accounts receivable as a result of increased billings, primarily driven by an increase in average contract size as well as more semi-annual and annual contracts being invoiced; and
- a $5.5 million increase in prepaid expenses and other assets, primarily related to certain customer arrangements for which we collect and remit monthly activity-based fees incurred for specific channels on behalf of our customers (we record the amounts due from customers as a result of these arrangements as other receivables). These decreases in cash were partially offset by increases in cash due to
- a $5.2 million increase in accounts payable and accrued expenses, primarily driven by timing of payments to our vendors and a one-time charge in connection with our decision to enter into VDAs related to our potential unpaid sales tax obligations; and
- a $3.6 million increase in deferred revenue as a result of an increased number of customers prepaying for subscription services invoiced on a semi-annual and annual basis.

Investing Activities

Our cash used in investing activities consisted of:

- $2.8 million of capital expenditures primarily related to the purchase of computer equipment;
- $2.2 million for the acquisition of HubLogix, net of cash acquired; and
- $0.3 million of internal-use software development costs.

Financing Activities

Our cash used in financing activities consisted of:

- $2.8 million used for the repayment of capital leases;
- $2.7 million used for the payment of taxes related to the net-share settlement of restricted stock units; partially offset by
- $1.4 million in cash received upon the exercise of stock options.

2016

Operating Activities

Our cash provided by operating activities consisted of a net loss of $(8.0) million adjusted for certain non-cash items totaling $15.1 million, which consisted of stock-based compensation expense, depreciation and amortization expense, bad debt expense and other non-cash items, principally the amortization of a lease incentive obligation related to our new corporate headquarters.

The net increase in cash resulting from changes in assets and liabilities of $4.5 million primarily consisted of:

- a $4.7 million increase in deferred revenue as a result of an increased number of customers prepaying for subscription services invoiced on a semi-annual and annual basis; and
- a $3.7 million increase in accounts payable and accrued expenses, primarily related to activity-based fees incurred for specific channels on behalf of our customers. These increases in cash were partially offset by decreases in cash due to
- a $2.0 million increase in prepaid expenses and other assets, primarily related to certain customer arrangements for which we collect and remit monthly activity-based fees incurred for specific channels on behalf of our customers (we record the amounts due from customers as a result of these arrangements as other receivables). The increase is partially offset by the receipt of cash for a lease incentive related to our new corporate headquarters; and
- a $1.9 million increase in accounts receivable as a result of increased billings, primarily driven by an increase in average contract size as well as more semi-annual and annual contracts being invoiced.

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Investing Activities

Our cash used in investing activities consisted of:

- $1.8 million of capital expenditures primarily related to the purchase of computer equipment; and
- $0.2 million for the payment of internal-use software development costs.

Financing Activities

Our cash used in financing activities consisted of:

- $2.4 million used for the payment of taxes related to the net-share settlement of restricted stock units;
- $2.1 million used for the repayment of capital leases;
- $0.3 million used for the payment of our acquisition-related contingent consideration; partially offset by
- $0.9 million in cash received upon the exercise of stock options.

CONTRACTUAL OBLIGATIONS

Our principal commitments consist of non-cancelable leases for our office space and computer equipment and purchase commitments for our co-location and other support services, as well as commitments related to our annual marketing events. The following table summarizes these contractual obligations at December 31, 2017. Future events could cause actual payments to differ from these estimates.

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Operating lease obligations	$25,511	$ 5,893	$9,816	$ 8,806	$ 996
Capital lease obligations	1,679	1,027	652	—	—
Purchase commitments	4,422	2,909	1,513	—	—
Total	$31,612	$ 9,829	$11,981	$ 8,806	$ 996

Operating lease obligations reflected above exclude future sublease income from certain spaces that we have subleased to third parties. We anticipate receiving $0.5 million, based on the exchange rate as of December 31, 2017, and $0.2 million in annual rental payments during the terms of the sublease agreements, which are through December 2018 and August 2022, respectively.

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

CRITICAL ACCOUNTING POLICIES

Our management’s discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, and to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

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

Revenue Recognition and Deferred Revenue

The following discussion of our revenue recognition and deferred revenue accounting policies is based on the accounting principles that were used to prepare the audited consolidated financial statements included in this Annual Report on Form 10-K. On January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Refer to Note 2 to our consolidated financial statements appearing elsewhere in this Annual Report for a discussion of ASU 2014-09 and other recently issued accounting pronouncements.

We derive the majority of our revenue from subscription fees paid to us by our customers for access to and usage of our SaaS platform for a specified contract term, which is typically one year. A portion of the subscription fee is typically fixed and is based on a specified minimum amount of GMV or advertising spend that a customer expects to process through our platform over the contract term. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV or advertising spend processed through our platform in excess of the customer’s specified minimum GMV or advertising spend amount. We also receive implementation fees, which may include fees for providing launch assistance and training. We recognize revenue when there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fee is reasonably assured and the amount of the fee to be paid by the customer is fixed or determinable. Our contractual arrangements include performance, termination and cancellation provisions, but do not provide for refunds. Customers do not have the contractual right to take possession of our software at any time.

We generally recognize the fixed portion of subscription fees and implementation fees ratably over the contract term. Recognition begins when the customer has access to the Company's platform or to its solutions for branded manufacturers and transactions can be processed, provided all other revenue recognition criteria has been met. For customers that elect a managed-service solution, customer transactions cannot be processed through our platform until the completion of implementation services. As such, revenue is contingent upon our completion of the implementation services and recognition commences when transactions can be processed on our platform, provided all other revenue recognition criteria have been met. At that time, we recognize a pro-rata portion of the fees earned since the inception of the arrangement. The balance of the fees is recognized ratably over the remaining contract term.

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

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

Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable are stated at realizable value, net of an allowance for doubtful accounts that we maintain for estimated losses expected to result from the inability of some customers to make payments as they become due. Our estimate is based on historical collection experience and a review of the current status of accounts receivable. Historically, our actual collection experience has not varied significantly from our estimates, due primarily to our collection policies and the financial strength of our customers. However, adverse changes in general economic conditions could affect our allowance estimates, collectability of accounts receivable, cash flows and results of operations. At December 31, 2017, our allowance for doubtful accounts was 2.2% of our gross accounts receivable. A hypothetical 1% increase or decrease in the value of our allowance for doubtful accounts receivable as of December 31, 2017 would have resulted in an increase or decrease of $0.3 million to our pre-tax net loss for the year ended December 31, 2017.

Goodwill

Goodwill arises from business combinations and is measured as the excess of the cost of the business acquired over the sum of the acquisition-date fair value of tangible and identifiable intangible assets acquired, less any liabilities assumed. In connection with the acquisition of HubLogix in May 2017, we recorded a $1.9 million increase in goodwill.

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We test goodwill for impairment annually or more frequently if events or changes in business circumstances indicate the asset might be impaired. During 2016, we changed the date of our annual impairment testing from December 31 to October 1. Refer to Note 2 to our consolidated financial statements appearing elsewhere in this Annual Report for information regarding our voluntary change in the date of our annual goodwill impairment testing.

To perform our impairment testing, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount. The qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company-specific events, changes in circumstances and after-tax cash flows. If the qualitative factors indicate that the fair value of the reporting unit is greater than the carrying value of the net assets assigned to the reporting unit, then we do not consider the assigned goodwill to be impaired. We are only required to perform the two-step impairment test if the qualitative factors indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We may elect to perform the two-step impairment test without considering such qualitative factors. As of December 31, 2017 and 2016, we concluded there was no impairment of goodwill.

Stock-Based Compensation

Stock-based compensation awards, which include stock options and restricted stock units, or RSUs, are measured at fair value at each grant date. We recognize stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche. Options generally vest either quarterly or annually over a four-year period. RSUs generally vest annually over a four year period.

The determination of the fair value of stock options is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Refer to Note 8 to our consolidated financial statements appearing elsewhere in this Annual Report for the assumptions used for estimating the fair value of stock options granted to employees.

We have assumed no dividend yield because we do not expect to pay dividends in the future, which is consistent with our history of not paying dividends. The risk-free interest rate assumption is based on observed interest rates for constant maturity U.S. Treasury securities consistent with the expected life of our employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. Under the simplified method, the expected life of an option is presumed to be the midpoint between the vesting date and the end of the contractual term. We used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is estimated based on the historical volatility of our stock. Prior to the fourth quarter of 2017, expected volatility was estimated based on volatilities of publicly traded stock for comparable companies over the estimated expected life of the stock options.

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

Our estimate of pre-vesting forfeitures, or forfeiture rate, is based on our historical experience and is reviewed on an annual basis, at a minimum. The estimated forfeiture rate is applied to the total estimated fair value of the awards to compute the stock-based compensation expense, net of pre-vesting forfeitures, to be recognized in our consolidated statements of operations. A hypothetical increase of 1% in our forfeiture rate assumption would have resulted in a $0.5 million decrease in stock-based compensation expense for the year ended December 31, 2017. A hypothetical decrease of 1% in our forfeiture rate assumption would have resulted in a $0.5 million increase in stock-based compensation expense for the year ended December 31, 2017.

Stock-based compensation expense is expected to increase in 2018 compared to 2017 as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees.

Income Taxes

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

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

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

Significant judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Our judgments, assumptions and estimates relative to the provision for income taxes take into account current tax laws, our interpretation of current tax laws, and possible outcomes of future audits conducted by foreign and domestic tax authorities. Although we believe that our estimates are reasonable, the final tax outcome of matters could be different from that which is reflected in our historical income tax provision and accruals. Such differences, if identified in future periods, could have a material effect on the amounts recorded in our consolidated financial statements.

The Tax Cuts and Jobs Act of 2017 ("Tax Act"), which went into effect on December 22, 2017, significantly revises the Internal Revenue Code of 1986, as amended ("IRC"). The Tax Act contains, among other things, significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time and modifying or repealing many business deductions and credits. The Tax Act is complex and it will take time to assess the implications thoroughly. Please refer to Note 7 to our consolidated financial statements appearing elsewhere in this Annual Report for additional information regarding the recently enacted Tax Act and its expected impact on our financial results as of and for the year ended December 31, 2017.

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into exchange rate hedging arrangements to manage the risks described below.

FOREIGN CURRENCY EXCHANGE RISK

With international operations, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and if our exposure increases, adverse movement in foreign currency exchange rates could have a material adverse impact on our financial results. Our primary exposures are related to non-U.S. dollar denominated revenue and operating expenses transacted in British Pounds Sterling, Euros, Australian dollars, Brazilian reals, Chinese yuan renminbi and Hong Kong dollars. As a result, we would experience increased revenue and operating expenses at our non-U.S. operations if there were a decline in the value of the U.S. dollar relative to these foreign currencies. Conversely, we would experience decreased revenue and operating expenses at our non-U.S. operations if there were an increase in the value of the U.S. dollar relative to these foreign currencies. However, based on the size of our international operations and the amount of our revenue and expenses

denominated in foreign currencies, a 10% change in foreign exchange rates would not have had a material impact on our results of operations for the year ended December 31, 2017.

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INTEREST RATE RISK

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

INFLATION RISK

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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of ChannelAdvisor Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ChannelAdvisor Corporation and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with US generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we were required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2001.
Raleigh, North Carolina
February 13, 2018

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

	December 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$53,422	$65,420
Accounts receivable, net of allowance of $609 and $594 as of December 31, 2017 and 2016, respectively	27,452	19,445
Prepaid expenses and other current assets	16,462	10,972
Total current assets	97,336	95,837
Property and equipment, net	10,877	13,252
Goodwill	23,486	21,632
Intangible assets, net	2,503	2,660
Long-term deferred tax assets, net	5,550	5,244
Other assets	759	533
Total assets	$140,511	$139,158
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$7,243	$4,709
Accrued expenses	12,611	11,067
Deferred revenue	27,143	23,474
Other current liabilities	4,477	4,450
Total current liabilities	51,474	43,700
Long-term capital leases, net of current portion	641	1,262
Lease incentive obligation	3,328	4,206
Other long-term liabilities	3,157	2,993
Total liabilities	58,600	52,161
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 2016, respectively	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 26,601,626 and 25,955,759 shares issued and outstanding as of December 31, 2017 and 2016, respectively	27	26
Additional paid-in capital	262,805	252,158
Accumulated other comprehensive loss	(789)	(1,612)
Accumulated deficit	(180,132)	(163,575)
Total stockholders' equity	81,911	86,997
Total liabilities and stockholders' equity	$140,511	$139,158

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

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

	Year Ended December 31,		
	2017	2016	2015
Revenue	$122,535	$113,200	$100,585
Cost of revenue	25,950	27,620	25,834
Gross profit	96,585	85,580	74,751
Operating expenses:			
Sales and marketing	63,495	56,602	53,770
Research and development	21,868	17,736	16,566
General and administrative	27,800	25,079	25,608
Total operating expenses	113,163	99,417	95,944
Loss from operations	(16,578)	(13,837)	(21,193)
Other income (expense):			
Interest income (expense), net	222	(1)	(184)
Other income (expense), net	83	173	241
Total other income (expense)	305	172	57
Loss before income taxes	(16,273)	(13,665)	(21,136)
Income tax expense (benefit)	284	(5,658)	(185)
Net loss	$(16,557)	$(8,007)	$(20,951)
Net loss per share:			
Basic and diluted	$(0.63)	$(0.31)	$(0.84)
Weighted average common shares outstanding:			
Basic and diluted	26,366,748	25,604,893	25,062,610

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

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

	Year Ended December 31,		
	2017	2016	2015
Net loss	$(16,557)	$(8,007)	$(20,951)
Other comprehensive income (loss):			
Foreign currency translation adjustments	823	(719)	(763)
Total comprehensive loss	$(15,734)	$(8,726)	$(21,714)

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

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2014	24,915,510	$ 25	$228,370	$ (130)	$(134,617)	$ 93,648
Exercise of stock options and vesting of restricted stock units	386,654	—	892	—	—	892
Stock-based compensation expense	—	—	11,837	—	—	11,837
Statutory tax withholding related to net-share settlement of restricted stock units	(71,206)	—	(739)	—	—	(739)
Net loss	—	—	—	—	(20,951)	(20,951)
Foreign currency translation adjustments	—	—	—	(763)	—	(763)
Balance, December 31, 2015	25,230,958	25	240,360	(893)	(155,568)	83,924
Exercise of stock options and vesting of restricted stock units	924,196	1	930	—	—	931
Stock-based compensation expense	—	—	13,262	—	—	13,262
Statutory tax withholding related to net-share settlement of restricted stock units	(199,395)	—	(2,394)	—	—	(2,394)
Net loss	—	—	—	—	(8,007)	(8,007)
Foreign currency translation adjustments	—	—	—	(719)	—	(719)
Balance, December 31, 2016	25,955,759	26	252,158	(1,612)	(163,575)	86,997
Exercise of stock options and vesting of restricted stock units	893,843	1	1,427	—	—	1,428
Stock-based compensation expense	—	—	11,947	—	—	11,947
Statutory tax withholding related to net-share settlement of restricted stock units	(247,976)	—	(2,727)	—	—	(2,727)
Net loss	—	—	—	—	(16,557)	(16,557)
Foreign currency translation adjustments	—	—	—	823	—	823
Balance, December 31, 2017	26,601,626	$ 27	$262,805	$ (789)	$(180,132)	$ 81,911

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

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

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net loss	$(16,557)	$(8,007)	$(20,951)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:			
Depreciation and amortization	6,578	7,838	8,793
Bad debt expense	727	528	1,236
Stock-based compensation expense	11,947	13,262	11,837
Deferred income taxes	130	(5,649)	(244)
Other items, net	(869)	(875)	(85)
Changes in assets and liabilities, net of effects from acquisition:			
Accounts receivable	(8,261)	(1,885)	(5,833)
Prepaid expenses and other assets	(5,514)	(2,014)	(2,921)
Accounts payable and accrued expenses	5,242	3,697	3,608
Deferred revenue	3,581	4,676	3,101
Net cash and cash equivalents (used in) provided by operating activities	(2,996)	11,571	(1,459)
Cash flows from investing activities			
Purchases of property and equipment	(2,790)	(1,755)	(4,062)
Payment of internal-use software development costs	(293)	(208)	(190)
Acquisition, net of cash acquired	(2,177)	—	—
Net cash and cash equivalents used in investing activities	(5,260)	(1,963)	(4,252)
Cash flows from financing activities			
Repayment of capital leases	(2,840)	(2,096)	(1,745)
Proceeds from exercise of stock options	1,428	930	892
Payment of contingent consideration	—	(338)	—
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(2,727)	(2,394)	(739)
Net cash and cash equivalents used in financing activities	(4,139)	(3,898)	(1,592)
Effect of currency exchange rate changes on cash and cash equivalents	397	(764)	(589)
Net (decrease) increase in cash and cash equivalents	(11,998)	4,946	(7,892)
Cash and cash equivalents, beginning of year	65,420	60,474	68,366
Cash and cash equivalents, end of year	$53,422	$65,420	$60,474
Supplemental disclosure of cash flow information			
Cash paid for interest	$111	$127	$155
Cash paid for income taxes, net	$196	$115	$170
Supplemental disclosure of non-cash investing and financing activities			
Accrued capital expenditures	$80	$233	$563
Capital lease obligations entered into for the purchase of fixed assets	$567	$1,771	$2,207
Non-cash leasehold improvements	$—	$—	$5,263

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

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Reclassification

Certain prior period amounts included in the consolidated statements of operations have been reclassified to conform to the current period’s presentation. In 2015 and prior, depreciation and amortization expense was presented separately from cost of revenue and operating expenses in the consolidated statements of operations. Beginning with the first quarter of 2016, the Company now includes depreciation and amortization expense in cost of revenue and operating expenses in the consolidated statements of operations and separately discloses the amounts reflected in each financial statement line item in the notes to its consolidated financial statements. In addition, the Company has 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 year ended December 31, 2015.

The tables below summarize these reclassifications (in thousands):

	Year Ended December 31, 2015		
	As Previously Reported	Reclassification	As Reclassified
Cost of revenue	$20,848	$ 4,986	$ 25,834
Depreciation - Cost of revenue	4,986	(4,986)	—
Sales and marketing	51,941	1,829	53,770
Research and development	16,060	506	16,566
General and administrative	24,136	1,472	25,608
Depreciation and amortization	3,807	(3,807)	—

Depreciation and amortization expense is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 (in thousands):

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	2017	2016	2015
Cost of revenue	$3,955	$4,632	$4,986
Sales and marketing	1,062	1,136	1,264
Research and development	424	458	506
General and administrative	1,137	1,612	2,037
	$6,578	$7,838	$8,793

Recent Accounting Pronouncements

Standard	Description	Effect on the Financial Statements or Other Significant Matters
Standards that are not yet adopted		
Leases:		
ASU 2016-02, Leases (Topic 842) Effective date: January 1, 2019	The standard requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. The standard also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases.	The Company has formed a project team to prepare for the adoption of the standard by its effective date. The project team has identified a preliminary population of leases and is evaluating the impact that adjustments to them under ASU 2016-02 will have to its consolidated financial statements.
Financial Instruments:		
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) Effective date: January 1, 2020	The standard replaces the incurred loss impairment methodology in current U.S. GAAP (defined below) with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses.	The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.
Standards adopted effective January 1, 2017		
Stock-Based Compensation:		
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718)	The standard is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.	The Company adopted the standard effective January 1, 2017. As a result of this adoption, the Company recognized $8.2 million of deferred tax assets attributable to accumulated excess tax benefits that under the previous guidance could not be recognized until the benefits were realized through a reduction in income taxes payable. This adjustment was applied using a modified retrospective method with a cumulative-effect adjustment to the accumulated deficit for the excess tax benefits not previously recognized. However, given the full valuation allowance of $8.2 million placed on the additional deferred tax assets, the recognition upon adoption had no impact on the Company's accumulated deficit as of January 1, 2017. Further, the Company has elected to continue to estimate forfeitures to determine the amount of compensation cost to be recognized in each period.

Standards adopted effective January 1, 2018
Cash Flow:

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ASU 2016-18, Restricted Cash	The standard requires that entities show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. Transfers between cash, cash equivalents and restricted cash should not be presented as cash flow activities on the statement of cash flows.	The Company adopted this standard effective January 1, 2018. The adoption did not have a material impact on its consolidated financial statements.

Revenue Recognition:

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Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606)	The standard will replace existing revenue recognition standards and provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard.	The Company formed a project team to evaluate and direct the implementation of the new revenue recognition standard and related amendments. The project team developed an implementation plan centered around specific functional areas expected to be impacted by the standard and its amendments, including accounting and reporting, information technology ("IT"), internal audit and contracts and legal, among others. As part of the adoption process, findings and progress of the implementation plan have been reported to management and to the Audit Committee on a frequent basis over the last two years. The Company adopted this standard effective January 1, 2018 using the modified retrospective transition method. The most significant impacts of the new standard upon adoption relate to the timing of revenue recognition of fixed fees for the Company's contracts, as well as the accounting for costs to obtain contracts. Under the new standard, for managed-service contracts, revenue recognition for the managed-service subscription and implementation fees will begin on the launch date and will be recognized over time through the contract end date. The Company currently defers revenue until the completion of the implementation services, at which point the Company recognizes a cumulative catch-up adjustment equal to the revenue earned during the implementation period but previously deferred. The remaining balance of these fixed fees is recognized ratably over the remaining term of the contract. Additionally, under the new standard, the Company will defer and amortize sales commissions and a portion of other incentive compensation. The Company currently expenses these contract costs as incurred. The adoption of the standard as of January 1, 2018 will result in an adjustment to accumulated deficit of between $8.0 million and $9.0 million related to the deferral of contract costs and an adjustment to accumulated deficit of less than $1.0 million related to the timing of revenue recognition.
ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)	The standard clarifies implementation guidance on principal versus agent considerations in ASU 2014-09.	
ASU 2016-10, Identifying Performance Obligations and Licensing	The standard clarifies implementation guidance on the identification of performance obligations and the licensing implementation guidance in ASU 2014-09.	
ASU 2016-12, Narrow-Scope Improvements and Practical Expedients	The standard clarifies the guidance on assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition.	
ASU 2016-20, Technical Corrections and Improvements to Topic 606	The standard clarifies certain narrow aspects of ASU 2014-09.	For the year ending December 31, 2018, the Company expects a net benefit to operating income on its consolidated statement of operations of between $5.0 million and $7.0 million related to deferring contract costs and a net benefit of less than $1.0 million related to the timing of revenue recognition resulting from the adoption of the standard.

The Company has reviewed other new accounting pronouncements that were issued as of December 31, 2017 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.

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Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

On an ongoing basis, the Company evaluates its estimates, including those related to the accounts receivable allowance, the useful lives of long-lived assets and other intangible assets, 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.

Cash and Cash Equivalents

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

Revenue Recognition and Deferred Revenue

The majority of the Company’s revenue is derived from subscription fees paid by customers for access to and usage of the Company’s cloud-based SaaS platform for a specified period of time, which is typically one year. A portion of the subscription fee is typically fixed and is based on a specified minimum amount of gross merchandise value ("GMV") or advertising spend that a customer expects to process through the Company’s platform over the contract term. The remaining portion of the subscription fee is variable and is based on a specified percentage of GMV or advertising spend processed through the Company’s platform in excess of the customer’s specified minimum amount. In addition, other sources of revenue consist primarily of implementation fees, which may include fees for providing launch assistance and training. Implementation services are provided at the customer's option and are not essential to the functionality of the Company's platform, nor is the customer required to purchase these services in order to access the Company's platform. The Company also generates revenue from its solutions that allow branded manufacturers to direct potential consumers from their websites and digital marketing campaigns to authorized resellers. These contracts are generally one year in duration. The Company recognizes revenue when there is persuasive evidence of an arrangement, the service has been provided to the customer, the collection of the fee is reasonably assured and the amount of the fee to be paid by the customer is fixed or determinable. The Company’s contractual arrangements include performance, termination and cancellation provisions, but do not provide for refunds. Customers do not have the contractual right to take possession of the Company’s software at any time.

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

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

recognized ratably over the remaining contract term.

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

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

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

Sales Commissions

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

Cost of Revenue

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

Fair Value of Financial Instruments

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

•Level 1. Observable inputs based on unadjusted quoted prices in active markets for identical assets or liabilities;

•Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

•Level 3. Unobservable inputs for which there is little or no market data, which require the Company to develop its own assumptions.

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

In 2014, the Company, through its wholly owned subsidiary ChannelAdvisor UK Limited ("ChannelAdvisor UK"), acquired the issued and outstanding shares of E-Tale Holdings Limited ("E-Tale"), renamed ChannelAdvisor Brands UK Limited. The acquisition of E-Tale included a contingent consideration arrangement that allowed 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 was remeasured to fair value at each reporting date until the contingency was resolved. The fair value is reported within Other current liabilities and Other long-term liabilities on the consolidated balance sheets at December 31, 2016. Changes in the fair value of contingent consideration have been recognized within general and administrative expenses in the Company’s consolidated statements of operations.

The fair value of contingent consideration related to the E-Tale acquisition was based on projected quarterly revenue targets for E-Tale through June 2017. As of December 31, 2016, the Company's liability for acquisition-related contingent consideration was $0.2 million. The contingent consideration arrangement concluded in June 2017.

Concentration of Credit Risk

Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All of the Company’s cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. The Company’s cash and cash equivalents accounts exceed federally insured limits. The Company has not experienced any losses on its cash and cash equivalents accounts to date. To manage accounts receivable risk, the Company maintains an allowance for doubtful accounts. The Company did not have any customers that individually comprised a significant concentration of its accounts receivable as of December 31, 2017 and 2016, or a significant concentration of its revenue for the years ended December 31, 2017, 2016 and 2015.

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Accounts Receivable and Allowance for Doubtful Accounts

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

The following table presents the changes in the Company's allowance for doubtful accounts during the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Balance at Beginning of Period	Additions Charged To Expense/ Against Revenue	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2017	$ 594	727	(712)	$ 609
Year ended December 31, 2016	$ 785	528	(719)	$ 594
Year ended December 31, 2015	$ 673	1,236	(1,124)	$ 785

Other Receivables

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

Other receivables of $10.6 million and $7.6 million are included in Prepaid expenses and other current assets on the consolidated balance sheets as of December 31, 2017 and 2016, respectively.

Property and Equipment

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

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

Purchased software, including internal-use software	3 years
Computer hardware	3 years
Furniture and office equipment	3 to 5 years
Leasehold improvements	Lesser of remaining lease term or useful life

Repairs and maintenance costs are expensed as incurred.

Identifiable Intangible Assets

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

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

Impairment of Long-Lived Assets

The Company reviews long-lived assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is

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measured by a comparison of the carrying amount of the asset or asset group to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2017 and 2016, management does not believe any long-lived assets are impaired and has not identified any assets as being held for sale.

Goodwill

Goodwill represents the excess of the aggregate of the fair value of consideration transferred in a business combination over the fair value of assets acquired, net of liabilities assumed. The Company recorded goodwill in connection with its business acquisitions. See Note 3 below for information regarding goodwill recorded in connection with the acquisition of HubLogix. Goodwill is not amortized, but is subject to an annual impairment test, as described below.

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

During the fourth quarter of 2016, the Company voluntarily changed the date of its annual goodwill impairment testing from December 31, the last day of the fiscal year, to October 1, the first day of the fourth quarter. This change provides the Company with additional time to complete its annual goodwill impairment testing in advance of its year-end reporting and results in better alignment with the Company's strategic planning and forecasting process. The voluntary change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. This change is not being applied retrospectively, as it would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

As a result of the Company's annual impairment tests as of October 1, 2017 and 2016, goodwill was not considered impaired and, as such, no impairment charges were recorded.

Advertising Costs

The Company expenses advertising costs as incurred. The amount expensed during the years ended December 31, 2017, 2016 and 2015 was $5.3 million, $4.1 million and $4.3 million, respectively.

Income Taxes

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

The Company applies the accounting guidance for uncertainties in income taxes, which prescribes a recognition threshold and measurement process for recording uncertain tax positions taken, or expected to be taken, in a tax return

in the financial statements. Additionally, the guidance also prescribes the treatment for the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company accrues for the estimated amount of taxes for uncertain tax positions if it is more likely than not that the Company would be required to pay such additional taxes.

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An uncertain tax position will be recognized if it is more likely than not to be sustained. The Company did not have any accrued interest or penalties associated with unrecognized tax positions as of December 31, 2017 and 2016.

Foreign Currency Translation

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

Stock-Based Compensation

The Company accounts for stock-based compensation awards, which include stock options and restricted stock units ("RSUs"), based on the fair value of the award as of the grant date. The Company recognizes stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche.

The Company uses the Black-Scholes option pricing model for estimating the fair value of stock options. The use of the option valuation model requires the input of the Company's stock price, as well as highly subjective assumptions, including the expected life of the option and the expected stock price volatility based on peer companies. Additionally, the recognition of expense requires the estimation of the number of awards that will ultimately vest and the number of awards that will ultimately be forfeited. The fair value of the Company's common stock, for purposes of determining the grant date fair value of option and RSU awards, has been determined by using the closing market price per share of common stock as quoted on the New York Stock Exchange on the date of grant.

Basic and Diluted Loss per Common Share

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.

3. BUSINESS COMBINATION

HubLogix

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

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

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

Based on management's assessment of the acquisition-date fair value of the assets acquired and liabilities assumed, the purchase price of $2.3 million was allocated to the Company’s assets and liabilities as follows: $1.9 million to goodwill, $0.5 million to identifiable intangible assets and $0.1 million to working capital as a net current liability.

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

The Company incurred transaction costs in connection with the acquisition of $0.3 million, which are included in General and administrative expense in the accompanying consolidated statements of operations for the year ended December 31, 2017.

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

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Purchased software, including internal-use software	$14,813	$13,821
Computer hardware	12,129	11,608
Furniture and office equipment	2,583	2,767
Leasehold improvements	7,819	7,642
Construction in process	221	149
	37,565	35,987
Less: accumulated depreciation	(26,688)	(22,735)
Property and equipment, net	$10,877	$13,252

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $6.0 million, $7.3 million and $7.9 million, respectively. During the year ended December 31, 2015, the Company recorded $0.7 million of accelerated depreciation expense as a result of relocating the Company's corporate headquarters to a new facility.

5. GOODWILL AND INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the year ended December 31, 2017 (in thousands):

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

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

Intangible assets consisted of the following (in thousands):

	December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in years)
Customer relationships	$2,230	$ (961)	$ 1,269	7.0
Acquired technology	2,030	(796)	1,234	7.0
Total	$4,260	$ (1,757)	$ 2,503	7.0

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	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in years)
Customer relationships	$2,100	$ (650)	$ 1,450	7.0
Acquired technology	1,700	(526)	1,174	7.0
Trade names	130	(94)	36	3.0
Total	$3,930	$ (1,270)	$ 2,660	6.9

Amortization expense for the years ended December 31, 2017, 2016 and 2015 was $0.6 million, $0.6 million and $0.9 million, respectively. As of December 31, 2017, expected amortization expense over the remaining intangible asset lives is as follows (in thousands):

Year Ending December 31,	
2018	$609
2019	609
2020	609
2021	518
2022	65
Thereafter	93
Total	$2,503

6. COMMITMENTS AND CONTINGENCIES

Operating and Capital Lease Commitments

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

	Operating Leases	Capital Leases
Year Ending December 31,		
2018	$ 5,893	$ 1,027
2019	4,779	652
2020	5,037	—
2021	4,773	—
2022	4,033	—
Thereafter	996	—
Total minimum lease payments	$ 25,511	1,679
Less: imputed interest		(45)
Less: current portion		(993)
Capital lease obligations, net of current portion		$ 641

The gross book value of fixed assets under capital leases as of December 31, 2017 and 2016 was approximately $8.2 million and $7.6 million, respectively. The net book value of fixed assets under capital leases as of December 31, 2017 and 2016 was approximately $1.4 million and $3.5 million, respectively. Capital lease obligations are included in Other current liabilities and Long-term capital leases, net of current portion in the accompanying consolidated balance sheets. The amortization of fixed assets under capital leases is included in depreciation expense within Cost of revenue and operating expenses in the accompanying consolidated statements of operations.

Future minimum lease payments due under the non-cancelable operating lease arrangements contain fixed rent increases over the term of the lease. Rent expense on these operating leases is recognized over the term of the lease on a straight-line basis. The excess of rent expense over future minimum lease payments due has been reported in Other current liabilities and

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Other long-term liabilities in the accompanying consolidated balance sheets. As of December 31, 2017 and 2016, deferred rent related to these leases totaled $1.1 million and $1.0 million, respectively.

The Company's lease agreement for its current corporate headquarters commenced in October 2015 and has a term of seven years. The Company may elect to renew the lease term for two additional five-year periods, subject to certain conditions and notice obligations set forth in the lease agreement. Minimum annual rental payments were $3.2 million the first lease year, and are scheduled to increase in each subsequent lease year by 2.75%. As of January 2017, the Company began paying its proportionate share of the landlord's operating expenses for the building, as specified in the lease agreement, subject to certain limitations.

In December 2015, the Company exercised its right to terminate the lease for its previous corporate headquarters effective as of October 1, 2016. In conjunction with the exercise of its early termination right, the Company paid approximately $1.0 million during the fourth quarter of 2015.

Total rent expense for the years ended December 31, 2017, 2016 and 2015 was $4.3 million, $3.9 million and $3.1 million, respectively.

Litigation and Other Contingencies

From time to time, the Company is subject to litigation and claims arising in the ordinary course of business. It is not currently party to any material legal proceedings and it is not aware of any pending or threatened legal proceeding against the Company that it believes could have a material adverse effect on its business, operating results, cash flows or financial condition.

During the first quarter of 2017, the Company completed its analysis with regard to potential unpaid sales tax obligations. Based on the results of this analysis, the Company made the decision to enter into voluntary disclosure agreements ("VDAs") with certain jurisdictions to reduce the Company’s potential sales tax liability. VDAs generally provide for a maximum look-back period, a waiver of penalties and, at times, interest as well as payment arrangements. The Company's estimated aggregate VDA liability of $2.5 million was recorded as a one-time charge in General and administrative expense in the accompanying consolidated statements of operations for the year ended December 31, 2017. This amount represents the Company's estimate of its potential unpaid sales tax liability through the anticipated look-back periods including interest, where applicable, in all jurisdictions in which the Company has entered into VDAs. If the VDAs do not resolve all potential unpaid sales tax obligations, then it is possible that the actual aggregate unpaid sales tax liability may be higher or lower than the Company's estimate.

Through December 31, 2017, the Company has paid approximately $1.5 million under terms of the VDA agreements that it has completed with certain jurisdictions. During the third quarter of 2017, one jurisdiction rejected the Company's VDA application and will conduct a sales tax audit. The Company believes the scope of the audit will be limited and similar in principle to the VDA program offered by that jurisdiction; as a result, the Company has determined not to revise its estimate of its potential unpaid sales tax liability. The completion date of the sales tax audit has not been determined.

7. INCOME TAXES

The components of loss before income taxes for the years ended December 31, 2017, 2016 and 2015 were as follows (in thousands):

	2017	2016	2015
Domestic	$(11,089)	$(10,761)	$(21,146)
Foreign	(5,184)	(2,904)	10
Total loss before income taxes	$(16,273)	$(13,665)	$(21,136)

The provision for income tax expense (benefit) included the following for the years ended December 31, 2017, 2016 and 2015 (in thousands):

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	2017	2016	2015
Current:			
Federal	$(39)	$—	$—
State	—	(19)	(101)
Foreign	193	10	160
Total	154	(9)	59
Deferred:			
Federal	(73)	43	37
State	15	6	15
Foreign	188	(5,698)	(296)
Total	130	(5,649)	(244)
Total tax expense (benefit)	$284	$(5,658)	$(185)

The Tax Cuts and Jobs Act of 2017 ("Tax Act"), which went into effect on December 22, 2017, significantly revises the Internal Revenue Code of 1986, as amended ("IRC"). The Tax Act contains, among other things, significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time and modifying or repealing many business deductions and credits. The Tax Act is complex and it will take time to assess the implications thoroughly. The Company is currently evaluating the Tax Act with its professional advisors and has included the effects of the following changes enacted in the Tax Act in this Annual Report on Form 10-K:

•The Company reduced its expected U.S. federal corporate income tax rate used to measure its deferred tax assets and liabilities to 21% from 34%, which had been used as of December 31, 2016. This resulted in a reduction of the Company’s net deferred tax assets of $16.6 million, which was offset by a corresponding reduction in the valuation allowance of $16.7 million that is recorded against its U.S. deferred tax assets, net of certain deferred tax liabilities.

•The Company incorporated the newly enacted rules relating to IRC Section 162(m), which provide for a limitation on the annual deduction of excessive executive compensation. The new rules have an impact on the deferred tax asset recorded on stock-based compensation at the end of 2017. This resulted in a de minimis reduction in the end of year deferred tax asset on stock compensation, which was completely offset by a reduction in the valuation allowance.

Other provisions of the law might have a significant impact on the Company, such as the new rules covering net operating loss carryforwards, the repeal of the alternative minimum tax, the new requirement to capitalize research and experimentation expenses, and the creation of the base erosion anti-abuse tax, the global intangible low taxed income inclusion, and the foreign derived intangible income deduction. However, the Company has determined that these changes will have no material impact on its financial results as of and for the year ended December 31, 2017.

The Company is analyzing the other changes enacted in the Tax Act and has made a preliminary determination that they should not have a material impact on the Company's financial statements based on current operations. However, new developments such as changes in the Company’s operations or the issuance of additional guidance from the Internal Revenue Service could result in changes to the Company’s initial determination. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, we have determined that the $16.6 million reduction to the Company's net deferred tax assets to account for the decrease in the U.S. federal tax rate and the de minimis reduction in the end of year deferred tax asset to account for the changes to IRC Section 162(m) were provisional amounts and a reasonable estimate at December 31, 2017. Additional work is necessary for a more detailed analysis of the impacts of the Tax Act. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the

analysis is complete.

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Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. During the first quarter of 2016, the Company elected to early adopt ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740), to present balance sheet classification of deferred income taxes as noncurrent. This adoption was applied prospectively and, therefore, prior periods were not retrospectively adjusted.

The components of the Company's net deferred tax asset (liability) as of December 31, 2017 and 2016 were as follows (in thousands):

	2017	2016
Deferred tax assets:		
Domestic tax loss carryforwards	$28,403	$32,539
Foreign tax loss carryforwards	6,849	5,455
Stock-based compensation	3,750	4,864
Tax credits	2,231	1,624
Lease incentive obligation	1,119	1,978
Other assets	2,232	2,248
Valuation allowance	(38,054)	(41,926)
Total deferred tax assets	6,530	6,782
Deferred tax liabilities:		
Fixed assets	645	1,328
Intangible assets	604	566
Total deferred tax liabilities	1,249	1,894
Net deferred tax asset	$5,281	$4,888

The Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718) effective January 1, 2017. As a result of this adoption, the Company recognized $8.2 million of deferred tax assets attributable to accumulated excess tax benefits that under the previous guidance could not be recognized until the benefits were realized through a reduction in income taxes payable. This adjustment was applied using a modified retrospective method with a cumulative-effect adjustment to the accumulated deficit for the excess tax benefits not previously recognized. However, given the full valuation allowance of $8.2 million placed on the additional deferred tax assets, the recognition upon adoption had no impact on the Company's accumulated deficit as of January 1, 2017. Further, the Company has elected to continue to estimate forfeitures to determine the amount of compensation cost to be recognized in each period.

At December 31, 2017 and 2016, the Company had federal net operating loss ("NOL") carryforwards of $114.2 million and $109.5 million, respectively, which expire beginning in 2022. At December 31, 2017 and 2016, the Company had state NOL carryforwards of $136.2 million and $128.3 million, respectively, which expire beginning in 2018. At December 31, 2017 and 2016, the Company had U.S. federal income tax credit carryforwards of $3.0 million and $2.1 million, respectively, which expire beginning in 2034. The utilization of the NOL and tax credit carryforwards may be subject to limitation under the rules regarding a change in stock ownership as determined by the Internal Revenue Code and state and foreign tax laws. Prior to the utilization of these tax attributes, the Company will assess any limitations, particularly related to NOL carryforwards from its acquired entities. For each of the periods ended December 31, 2017 and 2016, the Company also had foreign NOL carryforwards for use against future tax in those jurisdictions of $35.2 million and $27.3 million, respectively. The majority of the Company's foreign NOLs can be carried forward indefinitely.

A valuation allowance has been recognized to offset deferred tax assets, primarily attributable to NOL carryforwards that the Company has determined are not more likely than not to be realized. In 2016, the Company released $5.3 million of the valuation allowance on deferred tax assets in several of its foreign jurisdictions based on the result of the Company's evaluation of the likelihood of potential tax benefits related to the foreign entities' most recent three years of operating results and projections of future profitability, which primarily resulted from a change in the Company's global transfer pricing methodology. There was a net decrease in valuation allowance of $3.9 million during the year ended December 31, 2017, which was comprised of a net decrease of $12.6 million that was allocable

to current operations (includes the reduction in the valuation allowance of $16.7 million noted above resulting from the Tax Act), an increase of $8.2 million from the adoption of ASU 2016-09 that was allocable to accumulated deficit and an increase of $0.5 million that was allocable to goodwill as part of the HubLogix acquisition. The Company does not generally consider deferred tax liabilities on indefinite-lived assets as a

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source of future taxable income available to be able to realize deferred tax assets. However, the Company considers the deferred tax liability associated with an indefinite-lived intangible asset as a source of future taxable income available to be able to realize the deferred tax asset recorded for the U.S. federal alternative minimum tax credit, which can be carried forward indefinitely. Since both the deferred tax liability and the deferred tax asset have indefinite lives, they offset each other to arrive at the net deferred tax liability.

Undistributed earnings of the Company's foreign subsidiaries are indefinitely reinvested offshore and, accordingly, no provision for U.S. federal or state income taxes has been provided thereon. The cumulative amount of undistributed earnings of the Company's non-U.S. subsidiaries for the years ended December 31, 2017 and 2016 was nominal. The determination of the deferred tax liability, which requires complex analysis of international tax situations related to repatriation, is not practicable at this time. The Company is presently investing in international operations located in Europe, Asia, Australia and South America. The Company is funding the working capital needs of its foreign operations through its U.S. operations. In the future, the Company will utilize any foreign undistributed earnings, as well as continued funding from its U.S. operations, to support its continued investment in foreign growth.

A reconciliation of the difference between the effective income tax rate and the statutory federal income tax rate for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
U.S. statutory federal rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from:			
State taxes, net of federal benefit	2.5	3.2	4.3
Change in U.S. federal statutory rate	(102.2)	—	—
Nondeductible expenses	(10.5)	(1.6)	(14.0)
Effect of foreign tax rate differential	(5.3)	(3.8)	(0.1)
Uncertain tax position	(1.6)	(0.8)	(1.5)
Research and development credit	5.6	4.1	3.7
Change in valuation allowance	77.1	11.2	(20.3)
Other	(1.3)	(4.9)	(5.2)
Effective tax rate	(1.7)%	41.4 %	0.9 %

The Company's effective tax rates for the years ended December 31, 2017 and 2015 are lower than the U.S. federal statutory rate of 34% primarily due to operating losses which are subject to a valuation allowance. The Company cannot recognize the tax benefit of operating loss carryforwards generated in certain jurisdictions due to uncertainties relating to future taxable income in those jurisdictions in terms of both its timing and its sufficiency, which would enable the Company to realize the benefits of those carryforwards. For the year ended December 31, 2016, the effective tax rate is higher than the U.S. federal statutory rate of 34% primarily due to the $5.3 million release of the valuation allowance on deferred tax assets in several of its foreign jurisdictions. In 2017, due to the release of the valuation allowance at the end of 2016, the Company recognizes tax expense in most of these foreign jurisdictions. In addition, during 2017 the Company no longer had sufficient deferred tax liabilities in one of its foreign subsidiaries necessary to realize the tax benefit of all of its deferred tax assets for that same foreign subsidiary. The Company recorded a valuation allowance against the deferred tax assets of that foreign subsidiary, net of deferred tax liabilities. As a result, the Company is not currently permitted to recognize the tax benefit of that subsidiary's losses. The remeasurement of the Company's U.S. net deferred tax assets to reflect the newly enacted U.S. statutory tax rate of 21% resulted in tax expense of $16.6 million, which was offset by a corresponding reduction to the valuation allowance of $16.7 million. The net result from the change in the U.S. federal statutory tax rate was a tax benefit of $0.1 million. The nondeductible expenses during the years ended December 31, 2017, 2016 and 2015 primarily related to stock-based compensation expense associated with nondeductible stock awards. Nondeductible stock award expense and share-based compensation shortfalls had a larger impact on the December 31, 2015 tax rate than they did on the tax rate for the years ended December 31, 2017 and 2016. The decrease in the effective tax rate impact from the effect of foreign tax rate differential for the years ended December 31, 2017 and 2016 compared to the year ended December 31, 2015, was primarily due to an increase in the percentage of the Company's worldwide book losses recorded outside the U.S. during these periods. The Company's foreign jurisdictions comprise a mix of income and

loss making entities. In 2017 and 2016, foreign losses exceeded foreign income.

The Company accounts for uncertain tax provisions in accordance with Accounting Standards Codification Topic 740-10, Income Taxes ("ASC 740-10"). This guidance provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return.

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The following table shows the changes in unrecognized tax benefits in accordance with ASC 740-10 for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Balance as of January 1,	$766	$681	$782
Increases related to current tax positions	199	146	345
Increases related to prior year tax positions	317	—	79
Decreases related to prior year tax positions	—	(42)	(411)
Decreases related to the expirations of statutes of limitations	—	(19)	(114)
Balance as of December 31,	$1,282	$766	$681

Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that a de minimis amount of unrecognized tax benefits could reverse in the next twelve months. If the total unrecognized tax benefit was recognized, there would be a de minimis impact on the effective tax rate. As of December 31, 2017 and 2016, the Company had no accrued interest or penalties related to the tax contingencies. The Company's policy for recording interest and penalties is to record them as a component of provision for income taxes. The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state and local tax examinations by tax authorities for years prior to 2013, although carryforward attributes that were generated prior to 2013 may still be adjusted upon examination by the Internal Revenue Service if they either have been or will be used in a future period. The Company is no longer subject to examination in foreign tax jurisdictions for tax periods 2013 and prior. No income tax returns are currently under examination by taxing authorities.

8. EQUITY INCENTIVE PLANS AND STOCK-BASED COMPENSATION

In May 2013, the Company's board of directors adopted, and the Company's stockholders approved, the 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which the Company initially reserved 1,250,000 shares of its common stock for issuance to its employees, directors and non-employee third parties. The 2013 Plan provides for the grant of incentive stock options to employees, and for the grant of nonqualified stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other forms of stock compensation to the Company's employees, directors, and non-employee third parties. The number of shares of common stock reserved for issuance under the 2013 Plan will automatically increase on January 1 each year, for a period of ten years, from January 1, 2014 through January 1, 2023, by 5% of the total number of shares of the Company's common stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares as may be determined by the Company's board of directors. Accordingly, on January 1, 2018 the number of shares reserved for issuance under the 2013 Plan increased by 1,330,081 shares. As of December 31, 2017, 1,085,091 shares remained available for future grant under the 2013 Plan. As a result of the adoption of the 2013 Plan, no further grants may be made under the former 2001 Stock Plan, although outstanding awards under the 2001 Stock Plan continue to vest in accordance with their terms until exercised, forfeited or expired.

Stock-based compensation expense is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Cost of revenue	$807	$1,259	$992
Sales and marketing	3,971	4,775	4,421
Research and development	2,260	1,962	1,689
General and administrative	4,909	5,266	4,735
	$11,947	$13,262	$11,837

Stock Option Awards

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The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." Under the "simplified method," the expected life of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. The Company used the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is estimated based on the historical volatility of the Company's stock. Prior to the fourth quarter of 2017, expected volatility was estimated based on volatilities of publicly traded stock for comparable companies over the estimated expected life of the stock options. The Company assumed no dividend yield because dividends are not expected to be paid in the near future, which is consistent with the Company's history of not paying dividends.

The following table summarizes the assumptions used for estimating the fair value of stock options granted for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Risk-free interest rate	1.4% - 2.1%	0.8% - 1.8%	0.9% - 1.7%
Expected term (years)	6.25	6.25	6.25
Expected volatility	45% - 51%	46% - 50%	45% - 47%
Dividend yield	0%	0%	0%

The following is a summary of the option activity for the year ended December 31, 2017:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding balance at December 31, 2016	1,686,095	$ 9.78		
Granted	674,245	10.26		
Exercised	(172,690)	8.29		
Forfeited	(59,590)	11.90		
Expired	(19,668)	23.60		
Outstanding balance at December 31, 2017	2,108,392	$ 9.87	7.26	$ 1,685
Exercisable at December 31, 2017	940,485	$ 9.02	5.49	$ 1,662
Vested and expected to vest at December 31, 2017	1,924,479	$ 9.80	7.13	$ 1,682

The weighted average grant date fair value for the Company's stock options granted during the years ended December 31, 2017, 2016, and 2015 was $4.17, $4.73 and $4.29 per share, respectively.

The total fair value of stock options vested during the years ended December 31, 2017, 2016 and 2015 was $1.2 million, $1.1 million and $1.2 million, respectively.

The total compensation cost related to nonvested stock options not yet recognized as of December 31, 2017 was $2.1 million and will be recognized over a weighted average period of approximately 1.9 years.

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2017, 2016, and 2015 was $0.5 million, $2.1 million and $1.2 million, respectively.

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Restricted Stock Units

The following table summarizes the RSU activity for the year ended December 31, 2017:

	Number of RSUs	Weighted Average Grant-Date Fair Value
Unvested RSUs as of December 31, 2016	2,151,658	$ 12.54
Granted	1,378,259	10.37
Vested	(721,495)	13.43
Forfeited	(327,385)	12.08
Unvested RSUs as of December 31, 2017	2,481,037	$ 11.14

The total unrecognized compensation cost related to the unvested RSUs as of December 31, 2017 was $9.3 million and will be recognized over a weighted average period of approximately 1.7 years.

9. NET LOSS PER SHARE

The following securities have been excluded from the calculation of weighted average common shares outstanding because the effect is anti-dilutive for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Stock options	2,108,392	1,686,095	1,470,293
RSUs	2,481,037	2,151,658	1,949,702

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 years ended December 31, 2017 and 2016. The following table summarizes revenue by geography and product for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Revenue by geography:			
Domestic	$95,722	$88,668	$76,446
International	26,813	24,532	24,139
Total	$122,535	$113,200	$100,585
Revenue by product:			
Marketplaces	$93,449	$86,312	$74,210
Digital marketing	18,076	19,367	20,182
Other	11,010	7,521	6,193
Total	$122,535	$113,200	$100,585

The Company's revenue from external customers based in the United Kingdom totaled approximately $11.7 million, $12.7 million and $13.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

11. RETIREMENT PLANS

The Company provides retirement plans whereby participants may elect to contribute a portion of their annual compensation to the plans, after complying with certain requirements and subject to certain limitations. The Company

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contributed an aggregate of $1.5 million, $1.0 million and $0.8 million to the plans for the years ended December 31, 2017, 2016 and 2015, respectively.

12. SELECTED QUARTERLY INFORMATION (UNAUDITED)

	Three Months Ended,			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
	(in thousands, except per share amounts)			
Revenue	$28,329	$30,004	$30,097	$34,105
Gross profit	21,487	23,484	23,548	28,066
Loss from operations	(8,053)	(3,968)	(4,121)	(436)
Net loss	(8,056)	(3,985)	(4,055)	(461)
Net loss per share:				
Basic and diluted	$(0.31)	$(0.15)	$(0.15)	$(0.02)

	Three Months Ended,			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	(in thousands, except per share amounts)			
Revenue	$26,347	$27,098	$27,992	$31,763
Gross profit	19,434	20,235	21,181	24,730
(Loss) income from operations	(4,639)	(6,740)	(2,680)	222
Net (loss) income	(4,563)	(6,727)	(2,552)	5,835
Net (loss) income per share:				
Basic	(0.18)	(0.26)	(0.10)	0.23
Diluted	(0.18)	(0.26)	(0.10)	0.21

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including our chief executive officer, who is our principal executive officer, and our chief financial officer, who is our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2017, the end of the period covered by this Annual Report. The term "disclosure controls and procedures," as set forth in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and

procedures

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as of December 31, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

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

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2018 Annual Meeting of Stockholders (the "2018 Proxy Statement") with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2018 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is hereby incorporated by reference to the sections of the 2018 Proxy Statement under the captions "Information Regarding the Board of Directors and Corporate Governance," "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference to the sections of the 2018 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

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

The information required by Item 12 is hereby incorporated by reference to the sections of the 2018 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

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

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The information required by Item 13 is hereby incorporated by reference to the sections of the 2018 Proxy Statement under the captions "Transactions with Related Persons" and "Independence of the Board of Directors."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference to the sections of the 2018 Proxy Statement under the caption "Ratification of Selection of Independent Auditors."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-35940), filed with the Securities and Exchange Commission on May 29, 2013).
3.2	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-35940), filed with the Securities and Exchange Commission on May 29, 2013).
4.1	Specimen stock certificate evidencing shares of Common Stock (incorporated herein by reference to Exhibit 4.2 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on May 9, 2013).
10.1+	2001 Stock Plan, as amended (incorporated herein by reference to Exhibit 10.12 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.2+	Form of Stock Option Agreement under 2001 Stock Plan (incorporated herein by reference to Exhibit 10.13 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 11, 2013).
10.3+	2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.6 to the Registrant’s Registration Statement on Form S-8 (File No. 333-188988), filed with the Securities and Exchange Commission on May 31, 2013).
10.4+	Form of Stock Option Grant Notice and Stock Option Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.5+	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the Securities and Exchange Commission on April 26, 2013).
10.6+	Form of Indemnification Agreement with non-employee directors (incorporated herein by reference to Exhibit 10.19 to the Registrant’s Registration Statement on Form S-1 (File No. 333-187865), filed with the

	Securities and Exchange Commission on April 11, 2013).
10.7+	Amended and Restated Executive Severance and Change in Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and David J. Spitz (incorporated herein by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 26, 2015).
10.8+	Schedule of Compensation for Non-Employee Directors, adopted effective as of February 22, 2017 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on May 4, 2017).

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10.9	Office lease, dated as of August 15, 2014, by and between the Registrant and SVT Perimeter Four, LP. (as successor in interest to Duke Realty Limited Partnership) (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 6, 2014).
10.10+	Executive Severance and Change in Control Letter Agreement, dated as of December 17, 2014, by and between the Registrant and Diana S. Allen (incorporated herein by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 26, 2015).
10.11	First Amendment to Office Lease, dated as of December 10, 2015, by and between the Registrant and SVT Perimeter Four, LP. (as successor in interest to Duke Realty Limited Partnership) (incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form Report on Form 10-K (File No. 001-35940), filed with the SEC on February 25, 2016).
10.12+	Executive Severance and Change in Control Letter Agreement, dated as of August 31, 2015, by and between the Registrant and Mark E. Cook (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-35940), filed with the Securities and Exchange Commission on November 5, 2015).
10.13	Second Amendment to Office Lease, dated as of August 25, 2017, by and between the Registrant and SVT Perimeter Four, LP. (as successor in interest to Duke Realty Limited Partnership).
21.1	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm.
24.1	Power of Attorney (contained on signature page hereto).
31.1	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act.
32.1^	Certifications of Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
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

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

+Indicates management contract or compensatory plan.

(b) Financial Statement Schedules

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

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ITEM 16. SUMMARY

None.

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SIGNATURES

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

CHANNELADVISOR CORPORATION

By: /s/ David J. Spitz
David J. Spitz
Chief Executive Officer

February 13, 2018

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

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

Signature	Title	Date
/s/ David J. Spitz David J. Spitz	Chief Executive Officer and Director (Principal Executive Officer)	February 13, 2018
/s/ Mark E. Cook Mark E. Cook	Chief Financial Officer (Principal Financial Officer)	February 13, 2018
/s/ Richard F. Cornetta Richard F. Cornetta	Vice President of Finance and Chief Accounting Officer (Principal Accounting Officer)	February 13, 2018
/s/ M. Scot Wingo M. Scot Wingo	Director	February 13, 2018
/s/ Timothy J. Buckley Timothy J. Buckley	Director	February 13, 2018
/s/ Joseph L. Cowan Joseph L. Cowan	Director	February 13, 2018
/s/ Janet R. Cowell Janet R. Cowell	Director	February 13, 2018
/s/ Marc E. Huffman Marc E. Huffman	Director	February 13, 2018
/s/ Timothy V. Williams Timothy V. Williams	Director	February 13, 2018

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