ANNUAL REPORT 2020

channeladvisor®

Fellow Shareowners,

2020, our twentieth year in business, was a banner year for ChannelAdvisor, aided by the acceleration of e-commerce during the COVID-19 pandemic, the continued expansion of our brands customer base, and the investments we've made in platform innovation, sales capacity, and enhancements to our service capabilities.

Total revenues for the year exceeded $145 million, up 12% from 2019, and Adjusted EBITDA[1] exceeded $36 million, up 80% from 2019. Our strong execution and financial performance in 2020, including operating cash flow of more than $34 million, gave us the flexibility to step up our investments in several key areas to help us deliver continued long-term growth. One of those investments was expanding our capabilities through our acquisition of BlueBoard, a powerful analytics platform that helps brands better understand their presence on the digital shelf. BlueBoard's platform complements our other solutions for brands very well, and we're excited to welcome BlueBoard's team and customers to ChannelAdvisor.

Much has been written about the acceleration of e-commerce due to COVID-19. We share the view that consumer habits have likely changed permanently and that a significant proportion of the shift to digital and e-commerce is here to stay. We saw the immediate effects not only in the form of a significant increase in gross merchandise value, or GMV, processed through our platform throughout most of 2020, but also increased urgency and investment on the part of our customers and prospects. It's clear that many organizations felt the need to accelerate their digital initiatives, and we have worked hard to capitalize on this moment.

In particular, we believe ongoing product innovation, expanding our business with brands, and broadening our strategic partnerships continue to be the key elements of our strategy to drive our growth. We're pleased that brands represented about one-third of our revenues in 2020, and represented a substantial majority of our bookings for the year, setting us up for continued momentum into 2021. To help support our growing brands customer base, we intend to make considerable investments in our platform, grow our network of marketplaces, and expand our ability to deliver an enterprise level of service to better help our customers navigate their digital transformation. We believe these investments will reinforce and extend our position as a market leader globally.

2020 was also a year that fundamentally altered how we support and engage our employees and communities. We were early to move to a virtual work environment, putting employee safety and well-being first, and found that productivity and engagement actually went up. Remote and flexible work arrangements will be a permanent part of our culture going forward because they work. And, like many leaders, I spent hours in listening sessions with various groups of employees around the world in the wake of last year's racial unrest, and I was deeply touched by the stories I heard. We decided that ChannelAdvisor, always a model of inclusion, could do more. And so we established our diversity, equity, and inclusion (DE&I) task force with a mission to make long-lasting, impactful changes to better support all of our employees and to advocate more strongly for policies and programs that support equal justice and opportunity.

As we enter our third decade, we are proud of what we have built, but we're also just beginning. E-commerce is a massive market, and coming off a record year, we believe we are better positioned than ever to drive continued growth by providing exceptional value for our customers.

David Spitz
CEO

[1] Adjusted EBITDA is equal to net income adjusted for income tax expense, interest expense, depreciation and amortization, stock-based compensation and certain one-time costs. Adjusted EBITDA is not calculated in accordance with accounting principles generally accepted in the United States, or GAAP. We include a description of this measure and its limitations in our enclosed Annual Report on Form 10-K. Please see the section entitled "Adjusted EBITDA" in the annual report for more information and for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2020

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	Trading Symbol	Name of Each Exchange on which Registered
Common Stock, $0.001 par value	ECOM	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of ChannelAdvisor Corporation voting and non-voting common equity held by non-affiliates as of June 30, 2020 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing sale price of $15.84 as reported on the New York Stock Exchange on that date was $433,184,052.

At February 1, 2021, 29,047,290 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 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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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, or the Securities Act, 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

COMPANY OVERVIEW

Our mission is to connect and optimize the world's commerce. Our proprietary software-as-a-service, or SaaS, cloud platform helps brands and retailers 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. More specifically, our platform allows our customers to manage their product listings, inventory availability, pricing optimization, search terms, orders and fulfillment, and other critical functions across these channels. Our customers utilize our platform to connect with new and existing sources of demand for their products through hundreds of channels, including Amazon, eBay, Facebook, Google and Walmart. Our brand analytics solution helps leading global brands gain a competitive advantage on their e-commerce channels with actionable insights into how their products are performing across thousands of retailer websites and marketplaces. Our fulfillment solution makes it easier for customers to connect to their supply chain, which could include distributors, manufacturers and third-party logistics providers. We also offer solutions that allow brands to send their web visitors or digital marketing audiences directly to authorized resellers and to gain insight into consumer behavior. Overall, our platform delivers significant breadth, scalability and flexibility and facilitates billions of dollars in e-commerce transactions annually across the globe.

We serve customers across a wide range of industries and geographies. Our customers include the online businesses of brands and retailers, 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, with accelerated growth in 2020 due to the global novel coronavirus, or COVID-19, pandemic. This growth has been due to a number of factors, including:

- availability and ease of accessing a broader selection of merchandise online;
- consumer convenience and safety, as well as 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 brands and retailers, they also create additional complexity and challenges. Brands and retailers 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 fulfillment service providers around the world, each with different technological capabilities and communication requirements.

OUR MARKET OPPORTUNITY

We believe that the addressable market for our enterprise SaaS solutions is large, growing and under-penetrated, especially with brands customers. Our leading technology helps brands as well as retailers navigate the evolving e-commerce landscape and enables them to integrate, manage and optimize their merchandise sales across these disparate online channels. In addition, we facilitate improved collaboration between brands and their authorized resellers through solutions that deliver high value leads from brands to those resellers. We generate the majority of our revenue from our customers' 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:

- connect with new channels and more easily integrate with channels they already use;
- access 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 brand 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 usage of our platform 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 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 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 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 brands and retailers selling online

E-commerce is a large and global market that continues to expand as brands and retailers continue to increase their online sales. However, it is also an increasingly complex and fragmented market due to the hundreds of channels available to brands and retailers and the rapid pace of change and innovation across those channels. Historically, a brand or retailer 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, an increasing number of brands and many retailers sell their merchandise through multiple online channels, each with its own rules, requirements and specifications. In addition, brands and retailers 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:

- ***Increase in brands' participation in direct-to-consumer e-commerce***. With the rise of Amazon and the struggles of some traditional retail partners, more brands 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 brands 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 brands, many brands desire solutions that allow collaboration with those partners in addition to direct-to-consumer solutions.
- ***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 Albertsons, Target, Urban Outfitters and Walmart, have incorporated third-party marketplaces into their online storefronts, allowing other brands and retailers to market their products to consumers they might not otherwise reach.

- ***Mainstream adoption of mobile devices for e-commerce***. Smartphones 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 brands and retailers 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 brand websites, have emerged as key influencers and important points of product research for consumers making purchase decisions.

- ***Changing e-commerce landscape.*** In an effort to stay relevant to consumers, the large e-commerce platforms are expanding their offerings. Third-party marketplaces are monetizing their significant online traffic through search advertising, while traditional search engines and social networks are adding marketplace capabilities. The result is that brands and retailers need to have additional skills, tools and competencies to compete in this increasingly complex world.

- ***Expansion of the global e-commerce ecosystem.*** The increasingly global e-commerce ecosystem presents opportunities for brands and retailers to extend their online presence through country- or region-specific marketplaces, such as Alibaba in Asia, Zalando in the European Union and Catch in Australia. Conversely, the growth of marketplaces such as Amazon into new countries is driving selling opportunities for brands and retailers 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 brands and retailers can connect to consumers.

Challenges with alternative e-commerce solutions

The fragmentation and increasing complexity of e-commerce channels are placing greater demands on brands and retailers that seek to grow their online sales. These brands and retailers 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, brands and retailers 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 brands and retailers to help them manage single online channels or a single category of channels, but these point solutions often do not address the needs of brands and retailers seeking to manage pricing and inventory across multiple channels through a single, unified platform.

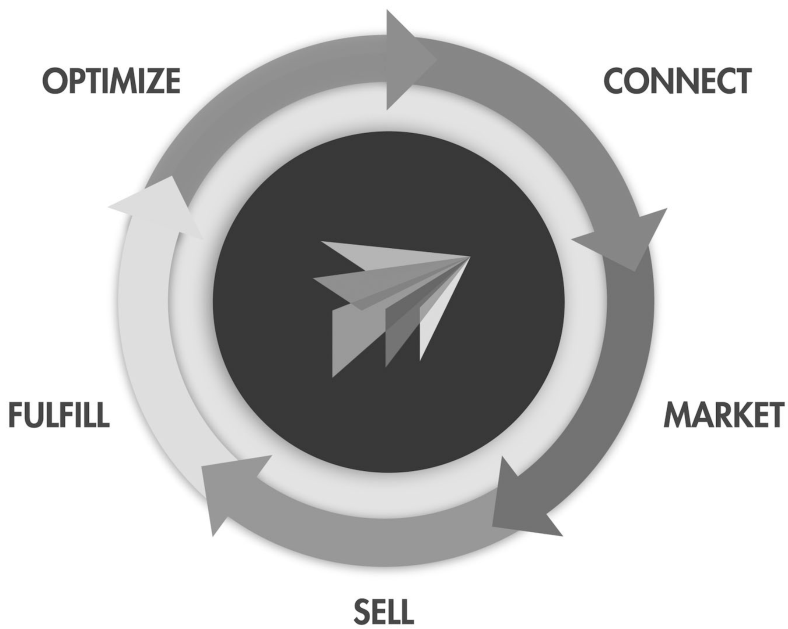
- ***Solutions provided by the channels are not aligned with customers' broader online goals***. Most online channels offer their own solutions that help brands and retailers connect with their specific channel and provide basic inventory control and data reporting functionality. By their very nature, 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, brands and retailers 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.

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 PLATFORM

The ChannelAdvisor platform allows our customers to more easily integrate, manage and optimize their e-commerce operations across the entire consumer journey.



Specifically, our platform allows brands and retailers to:

- **Connect** to hundreds of global channels including marketplaces, dropship retailers, search and shopping engines, social media, and online storefronts in order to meet consumers where they prefer to discover and shop, without having to separately integrate with each channel.
- **Market** effectively to consumers on those channels by automating and optimizing processes related to the management of product content, pricing, advertising, competitive analysis and brand protection.
- **Sell** products to interested consumers on global marketplaces, in web stores, through resellers or, for some brands, by connecting those shoppers directly to authorized retail partners.
- **Fulfill** orders in a timely manner through integrations to distribution, fulfillment and logistics providers around the globe.
- **Optimize** e-commerce performance by highlighting channel sales and advertising results along with opportunities for improvement, and enabling brands to monitor their products on reseller sites globally.

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 experienced services team, which then provides services, including the operation of our software on the customer's behalf, based on best practices and the customer's instructions.

Our platform is a cloud-based, SaaS solution. 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 that we do not customize our products for individual platform customers. Our platform is highly configurable and designed to ensure that customers have the flexibility needed to implement their business processes. 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 platform offers the following key benefits for our customers:

- ***Single, fully integrated solution***. Through our SaaS platform, we provide our customers with a single web-based interface as the central location 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, ad campaigns, data analytics and other critical functions across channels based on the customer's specific 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 quickly and more easily 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 generally available without committing 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.*** The scalability of our platform allows us to quickly and efficiently support an increasing number of product listings and transactions as we add new customers, integrate new channels and accommodate seasonal surges in consumer demand.

- ***Security and privacy.*** Our platform and infrastructure are designed to ensure the security of customer data and consumer data throughout all data storage and processing in compliance with global and local privacy laws.

- ***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 their 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, their customers risk suspension or removal from a marketplace and loss of revenue. Through our single code base and multi-tenant architecture, we provide our customers with 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 platform's analytics and reporting capabilities, we provide our customers with insight into channel and 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 improve business results on existing or new channels. Additionally, our solution provides brands with insights about online assortment, product coverage gaps, pricing trends, customer reviews, and adherence by their retailers to content guidelines.

OUR PRODUCTS

Platform Solutions

Connect

ChannelAdvisor helps brands and retailers connect to hundreds of global channels

Connecting to global channels involves sophisticated integrations with unique requirements per channel. Our platform includes the following key capabilities to help brands and retailers efficiently manage global sales and advertising channels:

- ***Integrations***. Our platform is integrated with hundreds of channels, including global marketplaces, search and shopping engines, social media and dropship retailers. Our customers can also create product feeds to custom destinations.

- ***Product catalog***. Our platform allows customers to upload and regularly update their product catalog data with a single inventory feed using a sophisticated user interface, file exchange or application programming interface

(API). Each customer has the flexibility to customize product catalog data attributes for its unique requirements and to vary the format of the data to meet the specific requirements of each channel.

- ***Product matching***. Once the product catalog is loaded, our platform provides features that improve the ability of our customers to successfully list their products on the various channels. Depending on the needs of the particular channel, our platform can pre-validate customer data and formats before transmitting to the channel, reducing errors caused by poor data quality and 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 catalog within the channel's product classification taxonomy.

Market
ChannelAdvisor helps brands and retailers connect to consumers at exactly the right time

Connecting to consumers involves having the right offer, a competitive price, accurate and descriptive product content, and effective advertising to capture consumer attention. Our platform includes the following key capabilities to help brands and retailers connect with consumers when they are ready to buy:

- ***Product content management and optimization***. Our platform includes sophisticated tools and product listing templates for automating and optimizing product data for each channel. Brands and retailers can utilize these tools to customize product listing descriptions across various channels using product attributes. These features allow customers to automatically advertise and offer millions of products on multiple channels while ensuring accuracy of product content, availability and price at the individual product level. Our platform also allows brands to produce custom spreadsheets to provide product data to retailers that do not support an automated approach.

- ***Pricing automation***. Our platform provides customers the ability to dynamically price their products across some of our available channels in alignment with margin goals. Our sophisticated pricing algorithms take into account the channel, competitive environment, margin thresholds, historical product sales, and sales velocity. Using our solution, customers avoid the manual effort of monitoring the competition and changing prices, while preserving the ability to remain price competitive. Algorithmic repricing uses predictive analytics and machine learning that may help our customers increase sales while maximizing margin.

- ***Advertising management***. Our platform provides customers the ability to create, manage and evaluate advertising using a variety of ad formats across multiple channels, including search engines, social networks, marketplaces and retailers. Our unified platform enables our customers to manage advertising across a large number of channels more efficiently and use learnings from one channel to inform decisions on other channels. Campaign optimization features such as bid management and keyword harvesting can help drive ad spend efficiency.

- ***Digital shelf analytics***. Our platform enables global multi-channel brands to manage online distribution, grow sales and protect their brand reputation. Brand Analytics solutions help brands monitor product assortment and availability on retail channels, understand pricing dynamics, identify areas for search performance improvement on the digital shelf, and ensure that the brand looks its best through the use of approved product content and responses to critical customer reviews.

Sell
ChannelAdvisor helps brands connect shoppers to more buying options

Interested consumers are more likely to buy when the path to purchase is easy. To meet this need, brands and retailers require accurate product content, availability status and prices across their selling channels. Further, consumers researching a brand's products or seeing brand advertising may not always be aware of where those products are in-stock at that moment for purchase. Our platform helps create an easier path to purchase for interested consumers through the following capabilities:

- ***Inventory quantity and listing management***. Our platform provides features that allow brands and retailers 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 inventory. The platform supports regular updates to product listings to ensure that consumers have the most accurate product information, including availability and price.

- ***Shoppable Media solutions for brand sites***. Our platform allows brands to host a dynamically updated widget on their product pages that presents consumers with online retailers that have products in-stock and that links directly to product pages or shopping carts on those retail sites. Similarly, the widget can present consumers with local offline stores close to the consumer that carry the brand's products. This creates a seamless path to purchase for the consumer, improves brand relationships with retailers, and provides brands with consumer insights.

- ***Shoppable Media solutions for digital campaigns***. Our platform allows brands to create a one-click path to purchase from digital marketing and social campaigns, allowing for retail partners to be included in promotions while eliminating out-of-stock dead-ends by dynamically linking to in-stock retailers and product variations. Our platform also supports the creation of interstitials that enable consumers to choose preferred retailers after clicking on the digital campaign.

Fulfill
ChannelAdvisor helps brands and retailers connect orders to satisfied customers

After placing an online order, customers expect quick, reliable, and inexpensive or free shipping. Our platform includes the following key capabilities to help brands and retailers efficiently manage fulfillment operations:

- ***Order management automation***. Our platform consolidates marketplace, online storefront and dropship retail orders into a consolidated, customizable view, where they can be tagged, managed and exported in a variety of formats. Customers can manage delivery status, dates and tracking numbers.

- ***Shipping management***. Our platform integrates with a wide range of fulfillment options to enable maximum flexibility and resiliency for our customers. For customers that fulfill from their own warehouses, our platform provides shipping management functionality, including shipping label generation, connections to leading carriers and integrations with leading shipping management solutions. Our platform also supports Fulfillment by Amazon), Zalando Fulfillment Services, and integrations with leading third-party logistics providers, supporting features such as synchronization of product availability, the generation and distribution of custom purchase orders and simplification of order status management.

- ***Dropship fulfillment***. We provide advanced support for dropshipping to help ease common challenges. Our platform allows for the easy mapping of product catalogs to those of channel partners, helps avoid overselling through integrated inventory quantity management, incorporates intelligent order routing to find the best distributor based on availability, cost and shipping speed and enables the management of tracking updates.

- ***Custom fulfillment connections***. We can provide support for brands that are expanding or looking to more efficiently manage existing fulfillment capabilities by building, managing and monitoring connections to distribution points within the fulfillment network.

Our fulfillment capabilities are enhanced by strategic partnerships with leading players in logistics and fulfillment, including DHL, FedEx, Pitney Bowes, ShipStation and UPS.

Optimize
ChannelAdvisor helps brands and retailers connect insights to actions

- ***Direct-to-consumer channel performance***. For brands and retailers, our dashboards highlight sales trends, top performing products, seller reputation, repricing activity and buy box attainment, 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, cross-channel insights that allow customers to quickly revise their business rules, listings and ads with the goal of improving sales and profitability.

- ***Channel management***. Our brand analytics solution allows global multi-channel brands to monitor brand reputation and market trends across their online distribution partners. Our customers use the solution to address issues with product availability, pricing and content; understand how their products appear on the digital shelf in search results; assess customer sentiment and respond quickly to negative customer reviews.

Platform Modules

While our platform allows our customers to more easily integrate, manage and optimize their online sales across the entire consumer journey, our customers will often enter a relationship with us focused on one aspect of that journey. To that end, we offer our solutions as a series of modules, including:

- ***Marketplaces***. Our Marketplaces module connects customers to over 100 third-party marketplaces across the globe, including Amazon, eBay, Google, Newegg, Overstock.com, Target, TradeMe, Walmart and Zalando. It also allows for the connection of web stores from Shopify, BigCommerce and Magento. In addition, our platform allows our customers to compete more effectively through access to advertising programs, fulfillment services and other advanced features on major marketplaces.

- ***First-party Dropship***. Our First-Party Dropship module allows brands and distributors to manage purchase orders, shipment notifications, stock quantities and invoices for multiple retail dropship partners.

- ***Digital Marketing***. Our Digital Marketing module enables customers to advertise on comparison shopping websites such as Google Shopping, search engines such as Google and Microsoft's Bing, and social commerce sites such as Facebook, Instagram and Pinterest. It also supports advertising programs on some marketplaces such as Amazon, eBay and Walmart. In addition, the Digital Marketing module allows customers to generate and send customized product data feeds to their channel partners, including affiliate networks, retargeting vendors, personalization vendors and product review platforms.

- ***Shoppable Media***. Our Shoppable Media module allows brands to provide their web visitors or digital campaign audiences with an easy path to purchase using dynamic links to the product pages or carts of retailers with the products in-stock. The solution improves the consumer experience and helps brands gain a better understanding of consumer behavior through detailed data about the flow of traffic between the brand and retailer.

- ***Brand Analytics***. Our Brand Analytics module helps leading global brands gain a competitive advantage on their e-commerce channels with actionable insights into how their products are performing across thousands of retailer websites and marketplaces.

Developer Ecosystem

We offer third-party developers of complementary e-commerce solutions access to our platform through APIs. These APIs enable third-party developers to build connections to our platform that meet their specific needs without requiring us to offer customized software code. 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.

KEY STRATEGIC OBJECTIVES AFFECTING OUR FUTURE FINANCIAL PERFORMANCE

Given the rapidly evolving e-commerce landscape and increased demand for our proprietary SaaS cloud platform, particularly driven by the effects of the COVID-19 pandemic on consumer shopping habits, we achieved substantial growth in revenue, especially from our brands customers, as well as adjusted EBITDA and cash flow. We intend to continue to make strategic investments focused on driving revenue growth, maintaining strong margin performance, and building shareholder value. We expect our financial performance in the future to be driven by our ability to:

- Increase penetration and expansion opportunities with new and existing brands customers;

- Maintain an appropriate number of sales representatives to address the increased demand for our platform;

- Enhance our services organization with investments in people and technology to better serve our customers;

- Expand the number of marketplaces we integrate with, in addition to Amazon, eBay and Walmart, to further enhance transaction volume from marketplaces; and

- Execute on strategic investments in product innovation targeted to expand and optimize our platform and drive new revenue streams.

OUR CUSTOMERS

During the year ended December 31, 2020, no single customer accounted for more than 1.6% of our total revenue. Increased penetration with brands customers is a key strategic priority for our company. Consequently, we have seen an increasing proportion of our customer base and revenues come from brands customers as more brands seek to directly manage the advertising and selling of their products online. We generally categorize a customer as a brand if it primarily focuses on selling its own proprietary products. For the year ended December 31, 2020, brands customers represented approximately 33% of our total revenue compared to approximately 30% for year ended December 31, 2019. We believe this is a positive trend and continue to focus our efforts on serving this important customer group. Our goal is to generate at least half of our revenues from brands by the end of 2022.

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 fees. Beginning in the second quarter and continuing through the end of 2020, we saw an increase in GMV processed through our platform, which does not follow the typical seasonal variations in our business, and resulted in higher than normal variable revenue throughout most of 2020. We believe this increase was primarily a result of the effect COVID-19 had on consumer shopping habits and dependency on e-commerce.

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. Incremental improvements are generally released daily, with more significant enhancements and capabilities communicated approximately every 90 days. 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 recorded research and development costs of $19.0 million, $19.2 million and $22.4 million during the years ended December 31, 2020, 2019 and 2018, respectively. The decrease in research and development costs in recent years is due to shifting certain research and development to lower cost office locations, which did not impact our product innovation.

COMPETITION

The market for products that help brands and retailers 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 brands and retailers with one or more online channels. We also compete with in-house solutions used by brands and retailers 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 brands and retailers 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 brands and retailers;
- 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.

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, Japan 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.

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 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 states that require online services to report breaches of the security of personal information, and to report to customers when their personal information might be disclosed to direct marketers. In addition, the California Consumer Privacy Act, or the CCPA, went into effect on January 1, 2020 and gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used by requiring companies to provide new disclosures to California consumers (as that term is broadly defined) and provide such consumers new ways to opt out of certain sales of personal information. A new privacy law, the California Privacy Rights Act, or CPRA, was approved by California voters November 3, 2020. The CPRA will create additional obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. Aspects of the CCPA and the CPRA, and their interpretation and enforcement, remain uncertain.

In Europe, the General Data Protection Regulation, or GDPR, went into effect in May 2018 with the intent of unifying 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 introduced 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 European Union. These laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information. As part of our GDPR compliance, we maintain an active registration with the E.U.-U.S. Privacy Shield, which was approved by the European Commission on July 8, 2016 as a mechanism to comply with data protection requirements when transferring personal data from the European Union to the United States. However, the European Court of Justice recently invalidated the use of the E.U.-U.S. Privacy Shield, which had enabled the transfer of personal data from the European Union to the United States for companies like us that were self-certified under the Privacy Shield. Alternative data transfer mechanisms, including the Standard Contractual Clauses may still be available while the authorities interpret the decisions and scope of the invalidated Privacy Shield and the alternative permitted data transfer mechanisms. The Standard Contractual Clauses, though approved by the European Commission as a suitable alternative, have faced challenges in European courts, and may be further challenged, suspended or invalidated. At present, there are few if any viable alternatives to the Privacy Shield and the Standard Contractual Clauses, so such developments may require us to implement costly substitutions for the data transfers we undertake in order to perform our services, or prevent such transfers entirely.

Further, the United Kingdom's vote in favor of exiting the European Union, referred to as Brexit, and ongoing developments in the United Kingdom have created uncertainty with regard to data protection regulation in the United Kingdom. Following the United Kingdom's withdrawal from the European Union on January 31, 2020, pursuant to the transitional arrangements agreed to between the United Kingdom and European Union, the GDPR continued to have effect in law in the United Kingdom, and continued to do so until December 31, 2020 as if the United Kingdom remained a Member State of the European Union for such purposes. Following December 31, 2020, and the expiry of those transitional arrangements, the data protection obligations of the GDPR continue to apply to United Kingdom related to processing of personal data in substantially unvaried form and fashion under the UK GDPR. However, going forward, there will be increasing scope for divergence in application, interpretation and enforcement of the data protection law as between the United Kingdom and EEA. Furthermore, the relationship between the United Kingdom and the EEA in relation to certain aspects of data protection law remains unclear. For example, it is still unclear whether transfers of data from the EEA to the United Kingdom will take place on the basis of an adequacy decision or whether we will need to implement appropriate safeguards as required by the GDPR. For the meantime, under the post-Brexit Trade and Cooperation Agreement, or the Trade and Cooperation Agreement, between the European Union and the United Kingdom, it has been agreed that transfers of personal data to the United Kingdom from European Union Member States will not be treated as "restricted transfers" to a non-EEA country for a period of up to six months from January 1, 2021. This will also apply to transfers to the United Kingdom from EEA Member States, assuming those Member States accede to the relevant provision of the Trade and Cooperation Agreement. Although the current maximum duration of the extended adequacy assessment period is six months it may end sooner, for example, in the event that the European Commission adopts an adequacy decision in respect of the United Kingdom, or the United Kingdom amends the UK GDPR and/or makes certain changes regarding data transfers under the UK GDPR/ Data Protection Act 2018 without the consent of the European Union (unless those amendments or decisions are made simply to keep relevant United Kingdom laws aligned with the European Union's data protection regime). Unless the European Commission adopts an adequacy decision in respect of the United Kingdom prior to the expiry of the extended adequacy assessment period, from that point onwards the United Kingdom will be an 'inadequate third country' under the GDPR and transfers of data from the EEA to the United Kingdom will require a 'transfer mechanism,' such as the standard contractual clauses. Additionally, as noted above, the United Kingdom has transposed the GDPR into United Kingdom domestic law by way of the UK GDPR with effect from in January 2021, which could expose us to two parallel regimes, each of which potentially authorizes similar fines and other potentially divergent enforcement actions for certain violations.

We will continue to follow developments and work to maintain conforming means of transferring data from Europe, but despite our efforts to address continuing 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 guidance 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 fees owed by our customers, among other things. Prohibiting or inhibiting such tracking could make it difficult or impossible to monitor our variable fees. The interpretation and implementation of processes to comply with the UK Cookie Law continues to evolve, and we cannot predict how any new laws will apply to us or our business. Similar "do not track" legislative proposals have been considered in the United States at the federal level, although none have been enacted to date. If enacted, such legislative proposals could prohibit or restrict the use of certain technologies, including tracking technology.

Unsolicited e-mails and communications. The CAN-SPAM Act of 2003 and similar laws adopted by a number of states regulate unsolicited commercial e-mails, create criminal penalties for unmarked sexually-oriented material and e-mails containing fraudulent headers and control other abusive online marketing practices. Similarly, FTC guidelines impose responsibilities upon us and our customers for communications with consumers and impose fines and liability for any failure to comply with rules relating to advertising or marketing practices that the FTC may deem misleading or deceptive. The European Union also maintains standards and regulations with respect to communications with consumers that we must comply with as we expand our marketing practices into those countries or with which our customers, utilizing our solutions, must comply. Some ways we seek to comply with these measures include requiring our customers to communicate with their consumers in order to comply with laws concerning spam and unsolicited emails and establishing processes to allow direct receivers of e-mail marketing communications from us to opt out of future communications.

Credit card protections. The Payment Card Industry Council, or PCI Council, established and maintains 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 are required by contracts among various stakeholders in the credit card ecosystem 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, which we believe limits our exposure to liability under the PCI DSS. 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, 2020, we had 725 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.

Our human capital resources objectives include, as applicable, identifying, recruiting, retaining, incentivizing and integrating our existing and new employees. The principal purposes of our equity incentive plans are to attract, retain and reward high performing employees through the granting of equity-based compensation awards in order to increase shareholder value and the success of our company by motivating employees to perform to the best of their abilities and achieve our company objectives.

In response to recent external events, ChannelAdvisor has formed a Diversity, Equity and Inclusion (DE&I) task force tasked with five key DE&I objectives for the company: driving awareness, accelerating opportunity, improving access, advocacy, and accountability. We are proud of our long history of inclusion and our merit-based culture, but also believe there is more work to do to promote DE&I internally and externally.

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 Exchange Act 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 SEC maintains an internet site that contains reports, proxy and information statements and other information that we file electronically with the SEC. The address of the SEC's website is www.sec.gov.

ITEM 1A. RISK FACTORS

RISK FACTOR SUMMARY

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.

Among these important risks are the following:

- ***Global economic conditions, including those resulting from the COVID-19 pandemic, could materially adversely affect demand for our solutions and our financial performance.***
- ***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.***
- ***We rely in part on a pricing model under which a variable portion of the 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 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 maintain profitability.***
- ***If we are unable to retain our existing customers, our revenue and results of operations could be adversely affected.***
- ***As more of our sales efforts are targeted at brands and 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.***
- ***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 maintain profitability.***
- ***If the e-commerce industry consolidates around a limited number of online channels, or if the complexities and challenges faced by brands and retailers seeking to sell online otherwise diminish, demand for our solutions could decline.***
- ***Our growth depends in part on the success of our strategic relationships with third parties.***
- ***If we pursue opportunistic acquisitions or investments they may be unsuccessful and/or divert our management's attention and consume significant resources.***
- ***Errors, defects or failures in our software, 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.***
- ***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.***
- ***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.***
- ***Our quarterly operating results have fluctuated in the past and may do so in the future, which could cause our stock price to decline.***
- ***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.***
- ***Cybersecurity incidents could harm our business and negatively impact our financial results.***
- ***Activities of our customers or the content of their websites could subject us to liability.***

RISKS RELATED TO OUR BUSINESS

Global economic conditions, including those resulting from the COVID-19 pandemic, could materially adversely affect demand for our solutions and our financial performance.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions, including the ongoing global disruption due to the COVID-19 pandemic, and any subsequent outbreaks of COVID-19 or other infectious diseases, could negatively affect our ability to generate sales of our solutions. For example, customers may be unwilling to enter into or renew contracts with us as a result of reduced demand for their own products or their own economic uncertainty. In addition, tighter credit policies, increased unemployment rates, negative financial news or declines in income or asset values and other macroeconomic factors, or the perception that any of these may occur, could have a material negative effect on our customers' demand for our solutions and, accordingly, on our business, results of operations and financial condition. In addition, a prolonged recession or market correction resulting from the COVID-19 pandemic could decrease technology spending, adversely affecting demand for our solutions, or could lead customers to renegotiate contracts and seek pricing concessions or terminate their contracts, which could negatively impact our revenues and the value of our common stock.

The global pandemic of COVID-19 continues to evolve rapidly, and we continue to monitor the situation closely and assess the potential effects on our business; however, the ultimate impact is highly uncertain and subject to change and will depend on a number of future developments, such as the ultimate geographic spread of the disease, the duration and any future recurrences of the outbreak, the duration and effect of business disruptions and the short-term effects and ultimate effectiveness of the travel restrictions, quarantines, social distancing requirements, vaccine deployment and business closures in the United States and other countries to prevent, contain and treat the disease. Accordingly, we do not yet know the full extent of potential impacts on our business and operations, or those of our business partners and customers, or the global economy as a whole. While the COVID-19 pandemic did not have a significant adverse impact on our results of operations during the year ended December 31, 2020, it is possible that the pandemic could adversely affect our revenue growth and financial results for 2021 or beyond. Because our solutions are primarily sold on a subscription basis, any such adverse effects may not be fully reflected in our operating results until future periods. Accordingly, the current results and financial condition discussed in this report may not be indicative of our future operating results and trends.

In addition to overall economic and market conditions resulting from COVID-19, our business could be negatively impacted by other developments that result in decreased consumer spending. For example, the United States has recently imposed increased tariffs on certain imports from China and has expressed a willingness for further tariffs on goods imported from China and other countries. Any economic uncertainty caused by the United States tariffs imposed or expected to be imposed on goods from China or other countries, and any retaliatory counter-measures imposed by countries subject to such tariffs, could have a negative impact on consumer spending for discretionary items, which in turn could hurt our brand and retailer customers in a manner that might cause them to spend less on our solutions. Any such outcome could impair our revenues and results of operations.

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 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 make significant changes to their respective business models, policies, systems, plans or ownership, 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 rely in part on a pricing model under which a variable portion of the 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 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 fees. Most of our customer contracts include this variable fee component. If sales or advertising spend by our customers processed through our platform were to decline, or if more of our customers require 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.

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 maintain profitability.

The e-commerce market is characterized by rapid technological change and frequent changes in rules, specifications and other requirements for brands and retailers 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. Economic conditions resulting from the COVID-19 pandemic could also affect our customers' decisions on whether or not to renew their subscriptions with us. 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 maintain profitability may be compromised.

As more of our sales efforts are targeted at brands and 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 brands and 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, brands and 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 maintain 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 brands and retailers 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 brands and retailers seeking to sell online otherwise diminish, demand for our solutions could decline.

Our solutions enable brands and retailers to manage their merchandise sales through hundreds of disparate online channels. One of the key attractions of our solutions to brands and retailers is the ability to help address the complexity and fragmentation of selling online. Although the number and variety of online channels available to brands and retailers 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 brands and retailers could decline, which might make our solutions less important to brands and retailers and could cause demand for our solutions to decline.

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

We anticipate that we will continue to depend on our relationships with various third parties, including marketplaces and technology, 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 we pursue opportunistic acquisitions or investments they may be unsuccessful and/or divert our management's attention and consume significant resources.

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;
- inability to achieve our targeted or forecasted financial results following an acquisition;
- 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 associated with 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.

Errors, defects or failures in our software, 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 exceed contractually agreed-upon thresholds, triggering imposition of variable fees on our customers, in which case our variable 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; 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.

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. Similarly, privacy regulations may extend to those tracking technologies and restrict how we can use such technologies.

Privacy regulations might also restrict how our customers deploy our cookies and other tracking technologies on their sites, and this could potentially increase the number of internet users that choose to proactively disable cookies and other tracking technologies on their systems. In the European Union, for example, 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.

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, cybersecurity incidents 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.

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:

- the potential and evolving impact of the COVID-19 pandemic on our business and that of our customers;
- seasonal patterns in consumer spending;
- the addition of new customers or the loss of existing customers;
- changes in demand for our software;
- the timing and amount of sales and marketing expenses;
- changes in the prospects of the economy generally, which could alter current or prospective customers' spending priorities, or could increase the time it takes us to close sales;
- changes in our pricing policies or the pricing policies of our competitors;
- costs necessary to improve and maintain our software platform; and
- costs related to acquisitions of other businesses.

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

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, household data, location data and other information, may limit or inhibit our ability to operate or expand our business.

Such laws and regulations require or may in the future require us or our customers to implement privacy and security policies and practices; permit individuals to access, correct or delete personal information stored or maintained by us or our customers; inform individuals of security incidents that affect their personal information; and, in some cases, obtain consent to use personal information for specified purposes. Other proposed legislation could, if enacted, impose additional requirements and prohibit the use of specific technologies, such as those that track individuals' activities on web pages or record when individuals click on a link contained in an email message. Such laws and regulations could restrict our customers' ability to collect and use web browsing data and personal information, which may reduce our customers' demand for our solutions.

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 all 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 adopting new laws or amending existing laws, requiring attention to frequently changing regulatory requirements. For example, California enacted the California Consumer Privacy Act, or the CCPA, on June 28, 2018, which went into effect on January 1, 2020 and has been dubbed the first "GDPR-like" law in the United States (referring to the EU's General Data Protection Regulation, described below). The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used by requiring covered companies to provide new disclosures to California consumers (as that term is broadly defined) and provide such consumers new ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Additionally, a new privacy law, the California Privacy Rights Act, or CPRA, was approved by California voters in the November 3, 2020 election. The CPRA will create additional obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. Aspects of the CCPA and the CPRA, and their interpretation and enforcement, remain uncertain. We cannot fully predict the impact of the CCPA or the CPRA on our business or operations, but they may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. Other states are beginning to pass similar laws.

The General Data Protection Regulation, or GDPR, went into effect in the European Union in May 2018, with the intent of unifying data protection within the European Union under a single law. The GDPR has resulted in significantly greater compliance burdens and costs for companies with customers or 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 personal data of European Union data subjects, regardless of the company's location. These laws apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information.

Further, the United Kingdom's vote in favor of exiting the European Union, often referred to as Brexit, and ongoing developments in the United Kingdom have created uncertainty with regard to data protection regulation in the United Kingdom. Following the United Kingdom's withdrawal from the European Union on January 31, 2020, pursuant to the transitional arrangements agreed to between the United Kingdom and European Union, the GDPR continued to have effect in law in the United Kingdom, and continued to do so until December 31, 2020 as if the United Kingdom remained a Member State of the European Union for such purposes. Following December 31, 2020, and the expiry of those transitional arrangements, the data protection obligations of the GDPR continue to apply to United Kingdom related to processing of personal data in substantially unvaried form and fashion under the UK GDPR. However, going forward, there will be increasing scope for divergence in application, interpretation and enforcement of the data protection law as between the United Kingdom and EEA. Furthermore, the relationship between the United Kingdom and the EEA in relation to certain aspects of data protection law remains unclear. For example, it is still unclear whether transfers of data from the EEA to the United Kingdom will take place on the basis of an adequacy decision or whether we will need to implement appropriate safeguards as required by the GDPR. For the meantime, under the post-Brexit Trade and Cooperation Agreement, or the Trade and Cooperation Agreement, between the European Union and the United Kingdom, it has been agreed that transfers of personal data to the United Kingdom from European Union Member States will not be treated as "restricted transfers" to a non-EEA country for a period of up to six months from January 1, 2021. This will also apply to transfers to the United Kingdom from EEA Member States, assuming those Member States accede to the relevant provision of the Trade and Cooperation Agreement. Although the current maximum duration of the extended adequacy assessment period is six months it may end sooner, for example, in the event that the European Commission adopts an adequacy decision in respect of the United Kingdom, or the United Kingdom amends the UK GDPR and/or makes certain changes regarding data transfers under the UK GDPR/ Data Protection Act 2018 without the consent of the European Union (unless those amendments or decisions are made simply to keep relevant United Kingdom laws aligned with the European Union's data protection regime). Unless the European Commission adopts an adequacy decision in respect of the United Kingdom prior to the expiry of the extended adequacy assessment period, from that point onwards the United Kingdom will be an 'inadequate third country' under the GDPR and transfers of data from the EEA to the United Kingdom will require a 'transfer mechanism,' such as the standard contractual clauses. Additionally, as noted above, the United Kingdom has transposed the GDPR into United Kingdom domestic law by way of the UK GDPR with effect from in January 2021, which could expose us to two parallel regimes, each of which potentially authorizes similar fines and other potentially divergent enforcement actions for certain violations.

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. For example, the European Court of Justice recently invalidated the use of the E.U.-U.S. Privacy Shield, which had enabled the transfer of personal data from the European Union to the United States for companies like us that were self-certified under the Privacy Shield. Alternative data transfer mechanisms, including the Standard Contractual Clauses may still be available while the authorities interpret the decisions and scope of the invalidated Privacy Shield and the alternative permitted data transfer mechanisms. The Standard Contractual Clauses, though approved by the European Commission as a suitable alternative, have faced challenges in European courts, and may be further challenged, suspended or invalidated. At present, there are few if any viable alternatives to the Privacy Shield and the Standard Contractual Clauses, so such developments may require us to implement costly substitutions for the data transfers we undertake in order to perform our services, or prevent such transfers entirely. If we are unable to efficiently process personal data from the European Union, or such transfers are prevented entirely, our ability to acquire customers could be negatively impacted.

There is also significant uncertainty related to the manner in which data protection authorities will seek to enforce compliance with GDPR. For example, it is not clear if the authorities will conduct random audits of companies doing business in the European Union, or if the authorities will just continue to wait for complaints to be filed by individuals who claim their rights have been violated. Enforcement uncertainty and the costs associated with ensuring GDPR compliance could be onerous and adversely affect our business, financial condition, results of operations and prospects. While we do not currently believe that our compliance with the GDPR will have a material effect on our business, we will continue to monitor regulation and enforcement under this new law.

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, insecurity of personal information, 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 or security 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, targeted at us or our third-party contractors or consultants, and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential or personal information, corrupting data or causing operational disruption. Such disruptions may be caused by events such as computer hacking, phishing attacks, ransomware, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks, exploits by trusted insiders and other malicious activity, as well as power outages, natural disasters (including extreme weather), terrorist attacks, user error or other similar events. The possibility of such events may be increased in the current environment in which all of our employees and the employees of our customers are working remotely. We believe that we take reasonable steps that are designed 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, our system redundancy may be ineffective or inadequate, or we could be impacted by software bugs or other technical malfunctions, as well as error or malfeasance by anyone with access to our data. In addition, while we believe we have adequate insurance coverage to compensate for any losses associated with such events, the coverage may in fact not be adequate to cover all potential losses. The development and maintenance of these systems, controls and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly sophisticated. 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.

Activities of our customers or the content of their websites could subject us to liability.

Existing laws relating to the liability of providers of online products and services for activities of their users are in flux both within the United States and internationally. Our customer contracts require that our customers are only permitted to use our products in accordance with applicable law. However, if our customers were to use our products in violation of applicable law, we may become subject to lawsuits and liability arising from their conduct. Additionally, the conduct of our customers may subject us to regulatory enforcement actions or liability.

Although we do not have significant opportunities for users of our service to publish user-defined content, we have certain protections against copyright infringement or defamatory content. Specifically, the Digital Millennium Copyright Act, or DMCA, contains provisions that limit liability for some user-generated materials that infringe copyrights. In addition, Section 230 of the Communications Decency Act, or CDA, provides immunity from liability for providers of an interactive computer service who publish defamatory information provided by users of the service. Immunity under the DMCA and the

CDA has been well-established through case law. On a regular basis, however, challenges to both laws seek to limit immunity. For example, a recent executive order and a letter from several senators to the U.S. Federal Communications Commission have renewed calls for the protections of Section 230 to be scaled back. Any such changes could affect our ability to claim protection under the CDA.

Although these and other similar legal provisions, such as the European Union e-Commerce Directive, provide limited protections from liability for providers like us, those protections may not be interpreted in a way that applies to us, may be amended in the future, or may not provide us with complete protection from liability claims. If we are found not to be protected by the safe harbor provisions of the DMCA, CDA or other similar laws, or if we are deemed subject to laws in other countries that may not have the same protections or that may impose more onerous obligations on us, we may owe substantial damages and our brand, reputation and financial results may be harmed.

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 brands and retailers 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 revenue fluctuates, with the variable portion of our 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 maintain profitability.

We have experienced, and may experience in the future, 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 may place in the future, 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 information management 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 increase, we may be required to concurrently deploy our hosting infrastructure at multiple additional locations or provide increased levels of customer service. Failure to accomplish any of these requirements could impair our ability to continue to deliver our solutions in a timely fashion, fulfill existing customer commitments or attract and retain new customers.

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

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

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

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. In 2018, the U.S. Supreme Court reversed its prior decision that prohibited states from requiring online retailers without a physical presence to collect and remit sales tax. In its decision, the Supreme Court upheld a South Dakota statute that imposed a sales tax collection obligation on remote sellers with sales exceeding specified thresholds. 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. This is a rapidly evolving area and we cannot predict what legislative or enforcement action might be taken by the states of the federal government or foreign countries.

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. We do not currently have any ongoing sales tax audits, though 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. The imposition of a tax collection, reporting or record-keeping obligation in a jurisdiction where we do not currently have such an obligation could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors and decrease our future sales, which could have a material adverse impact on our business and operating results.

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 jurisdiction. Nevertheless, our effective tax rate may be different than experienced in the past due to numerous factors, including passage of new federal income tax laws, 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.

For example, in 2017, the Tax Cuts and Jobs Act, or the Tax Act, went into effect significantly revising the Internal Revenue Code of 1986, as amended. The Act, 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 Tax Act 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 Tax Act. 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 ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2020, we had $110.3 million of U.S. federal and $136.5 million of state net operating loss carryforwards available to reduce future taxable income, which will begin to expire in 2026 for federal and 2021 for state tax purposes. It is possible that we will not generate taxable income in time to use these net operating loss carryforwards before their expiration or at all. Under legislative changes made in December 2017, as modified by federal tax law changes enacted in March 2020, U.S. federal net operating losses incurred in tax years beginning after December 31, 2017 and in future years may be carried forward indefinitely, but, for tax years beginning after December 31, 2020, the deductibility of such net operating losses is limited. In addition, the federal and state net operating loss carryforwards and certain tax credits may be subject to significant limitations under Section 382 and Section 383 of the Internal Revenue Code of 1986, as amended, or the Code, respectively, and similar provisions of state law. Under those sections of the Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income or tax may be limited. In general, an "ownership change" will occur if there is a cumulative change in our ownership by "5-percent shareholders" that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We have completed a Section 382 review and have determined that, excluding a de minimis amount of acquired net operating losses, none of the operating losses will expire solely due to Section 382 limitation(s). However, we may experience ownership changes in the future as a result of future shifts in our stock ownership, some of which may be outside of our control. If an ownership change occurs and our ability to use our net operating loss carryforwards and tax credits is materially limited, it would harm our business by effectively increasing our future tax obligations.

We recorded a valuation allowance against all of our U.S. federal and state deferred tax assets as of December 31, 2020. We intend to continue maintaining a full valuation allowance on these deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that in the foreseeable future, sufficient positive evidence may become available to reach a conclusion that a portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are still unknown and will be based on a number of factors, including the level of profitability that we are able to actually achieve.

We have incurred significant net losses since inception, and even though we achieved net income for the most recent and prior year periods, it is possible that our operating expenses will increase in the future and impact our level of profitability.

We had an accumulated deficit of $157.7 million as of December 31, 2020 due to net losses incurred in periods prior to 2019. Although we achieved net income of $18.8 million and $3.5 million for the years ended December 31, 2020 and 2019, respectively, it is possible that our operating expenses will increase in the future, which could negatively impact our prospects for maintaining profitability in future periods. If we are not able to maintain profitability, the value of our company and our common stock could decline significantly.

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.

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

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

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

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

We derive most of our revenue from subscription agreements, which are typically one year in length. As a result, a significant portion of the revenue we report in each quarter is generated from customer agreements entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our financial performance in that quarter but might negatively affect our revenue in future quarters. Accordingly, the effect of significant declines in sales and market acceptance of our solutions, including as a result of the COVID-19 pandemic, 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 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 international operations and may further expand 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;
- compliance with changing foreign privacy, data protection and information security laws and regulations and the risks and costs of noncompliance;
- cross-border data transfers among us, our subsidiaries, and our customers, vendors, and business partners;
- 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;
- tariffs, customs, trade sanctions, trade embargoes and other barriers to importing or exporting materials and products in a cost-effective and timely manner, or changes in applicable tariffs or customs rules;
- foreign exchange controls that might prevent us from repatriating cash earned outside the United States;
- economic and political instability in some countries, including terrorist attacks and civil unrest;
- less protective intellectual property laws;
- compliance with the laws of numerous foreign taxing jurisdictions in which we conduct business, potential double taxation of our international earnings and potentially adverse tax consequences due to changes in applicable U.S. and foreign tax laws;

- increased costs to establish and maintain effective controls at foreign locations; and
- overall higher costs of doing business internationally.

If our revenue from our international operations does not exceed the expense of establishing and maintaining these operations, our business and operating results will suffer and we may decide to make changes to our business in an effort to mitigate losses. For example, in the third quarter of 2019, as part of a strategic initiative to reduce our expenses and align our operations with evolving business needs, we discontinued our physical operations in China.

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 impermissibly being provided to U.S. sanctions targets, if our solutions and services were to impermissibly 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 and business partners against claims that our solutions infringe the intellectual property rights of third parties.

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

- hurt our reputation;

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

In addition to liability for monetary damages against us, which may be tripled and may include attorneys' fees under certain statutes, 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, or license or develop substitute solutions, 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. 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 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.

Stockholders may initiate class action lawsuits against us following periods of volatility in the market prices of our common stock. For example, in 2015, two purported class action complaints were filed against us, alleging violations of the federal securities laws. The cases were later dismissed by federal courts without any liability to us. 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, and we have limited research coverage by equity research analysts. Equity research analysts may elect not to initiate or continue to provide research coverage of our common stock, and such lack of research coverage may adversely affect the market price of our common stock. Even if we have equity research analyst coverage, we will not have any control over the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices occupy approximately 110,000 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 may 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.

PART II

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

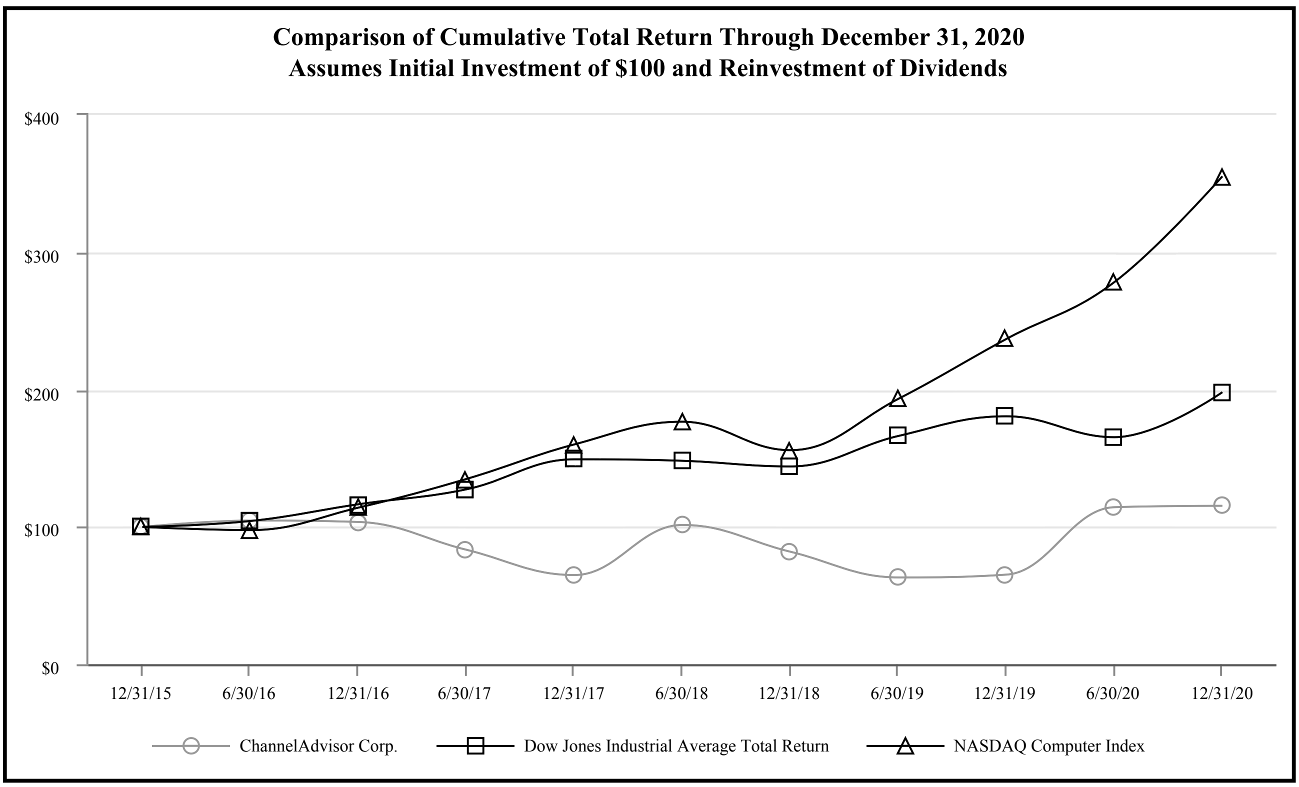
MARKET INFORMATION FOR COMMON STOCK

Our common stock is listed on the NYSE under the symbol "ECOM."

STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on an initial investment of $100 in our common stock from December 31, 2015 through December 31, 2020, 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 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 such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or a filing under the Exchange Act.

STOCKHOLDERS

As of February 1, 2021, there were 60 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.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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 HIGHLIGHTS

- Total revenue of $145.1 million for the year ended December 31, 2020 increased 11.6% from the prior year;
- Revenue was comprised of 73.9% subscription revenue and 26.1% variable revenue for the year ended December 31, 2020 compared with 79.6% subscription revenue and 20.4% variable revenue for the prior year;
- Revenue from our brands customers represented 33.1% of total revenue for the year ended December 31, 2020, up from 29.6% for the prior year;
- Revenue derived from customers located outside of the United States as a percentage of total revenue was 25.2% for the year ended December 31, 2020 compared with 25.3% for the prior year;
- Gross margin of 79.1% for the year ended December 31, 2020 improved by 140 basis points compared with gross margin of 77.7% for the prior year;
- Operating margin of 13.2% for the year ended December 31, 2020 improved 1,030 basis points compared with operating margin of 2.9% for the prior year;
- Net income was $18.8 million for the year ended December 31, 2020 compared with $3.5 million for the prior year;
- Adjusted EBITDA, a non-GAAP measure, of $36.3 million for the year ended December 31, 2020 increased 80.0% compared with adjusted EBITDA of $20.2 million for the prior year;
- Cash and cash equivalents were $71.5 million at December 31, 2020 compared with $51.8 million at December 31, 2019;
- Operating cash flow was $34.3 million for the year ended December 31, 2020 compared with $13.0 million for the prior year; and
- Free cash flow, a non-GAAP measure, was $29.6 million for the year ended December 31, 2020 compared with $9.3 million for the prior year.

EFFECTS OF COVID-19 ON OUR BUSINESS

In late February 2020, in response to the rapidly-evolving COVID-19 pandemic, we activated our business continuity program led by our business continuity team, to help us manage the situation. In early March, we implemented a COVID-19 work-from-home policy for our various global offices. The transition to a COVID-19 work-from-home model went smoothly because our employees already had the equipment necessary to do their jobs remotely (including laptops and video conferencing systems), our back-office systems were already cloud-based, and because our interactions with customers, prospects, and business partners do not require in-person interaction. Accordingly, our business has not been dependent on our physical office locations nor on travel. We have conducted surveys of our employees and the vast majority have responded that they felt as (or more) productive working remotely and that they had what they needed to do their jobs. We believe we will be able to continue to operate effectively under this model for the foreseeable future.

COVID-19 has affected e-commerce in different ways. In general, the closing of many physical retail stores and the stay-at-home orders issued by many jurisdictions have driven a substantial shift in commerce to online channels like Amazon and Walmart. Beginning in March, we saw a significant increase in gross merchandise value, or GMV, processed through our platform, which benefited our variable revenue. At the same time, in March and early in the second quarter of 2020, sellers of certain categories of products, like apparel, were impacted by reduced demand while concurrently dealing with store closures and, in some cases, disruptions to supply chains or fulfillment operations. We proactively adjusted contract and/or payment terms for some customers who were facing financial or operational distress in an effort to help them get through this period and to maintain long-term client relationships.

COVID-19 presents our business with both opportunities and risks. Our business has been positively affected by a substantial increase in e-commerce volumes, which drove an increase in GMV and variable revenue compared to the prior years. How long, and to what extent, this level of higher GMV can continue is very difficult to forecast. We believe that the heightened GMV levels we have seen are likely to dissipate somewhat over time as retail stores reopen and stay-at-home orders ease, but we also believe it is possible that some level of increased e-commerce may become permanent as customers become more regular online shoppers.

Lastly, we cannot ignore that tens of millions of people around the world have lost their jobs due to COVID-19 and that the global economy has experienced, and may continue to experience, economic distress. Governments around the world, including the U.S. Federal government and European Union, have enacted historic fiscal and monetary stimulus programs in an effort to mitigate the economic impact of COVID-19, and we believe these programs have helped support consumer spending. Whether and when, and to what extent, future stimulus programs are enacted is difficult to predict. Therefore, the risk of continued global economic distress remains high and may impact consumer demand and, hence, e-commerce volumes. How long this economic climate lasts, and whether or not the impact on consumer demand is more than offset by the shift to online shopping that we have seen since March 2020 is not knowable at this point.

For all of these reasons, it has remained difficult to forecast our revenue and profitability for future periods, especially as continued outbreaks of COVID-19 could disrupt our operations and/or those of our customers. However, we believe we currently have sufficient liquidity and that our business model, which is substantially based on subscription revenues, positions us to continue to manage through the challenges presented by COVID-19.

TRENDS IN OUR BUSINESS

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

- ***Growth in Online Shopping.*** Consumers continue to move more of their spending from offline to online. 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. Global efforts to implement social distancing, including stay-at-home orders and similar mobility and gathering restrictions, due to the COVID-19 pandemic, have increased e-commerce as consumers have increasingly turned to online purchasing for many products they would have purchased at brick and mortar stores. However, it is unclear to what degree this recent shift in favor of e-commerce will continue once the public health impacts of the COVID-19 pandemic have begun to subside.

- ***Product Offering Expansion.*** As online shopping evolves, we continue to expand our product offerings to reflect the needs of companies seeking to attract consumers. We continue to enhance our product offerings by increasing online shopping channel integrations, including marketplace and first-party retail programs, and providing capabilities that allow brands and retailers to be more competitive. This includes support for advertising, advanced algorithmic repricing, machine learning-based demand forecasting, improving our analytics capabilities, most recently with our acquisition of Blueboard, a private limited company organized under the laws of France, or BlueBoard, fulfillment features and user experience.

- ***Growth in Mobile Usage.*** We believe the shift toward mobile commerce will increasingly favor aggregators such as Amazon, eBay, Google and Walmart, all of which are focal points of our platform. These 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. We believe that the growth in mobile commerce may result in increased revenue for us.

- ***Evolving Fulfillment Landscape.*** Consumers have been conditioned to expect fast, efficient delivery of products. We believe that determining and executing on a strategy to more expeditiously 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.

- ***Focus on Employees.*** We strive to provide competitive compensation and benefits programs to help attract and retain employees who are focused on facilitating the success of our customers. We implemented a COVID-19 global work-from-home policy beginning in March 2020 to help protect our employees and support our communities' efforts to slow the transmission of COVID-19. This transition went smoothly, as our workforce is globally distributed and employees have the equipment they need to work from home, including global video communications systems. We are not substantially dependent on our physical office locations or travel for our business operations. In response to recent external events, we formed a Diversity, Equity and Inclusion (DE&I) task force tasked with five key DE&I objectives for the company: driving awareness, accelerating opportunity, improving access, advocacy, and accountability. We are proud of our long history of inclusion and our merit-based culture, but also believe there is more work to do to promote DE&I internally and externally. We conduct periodic surveys to assess employee engagement and our surveys reflect a high level of employee engagement.

- ***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 fees. Since the second quarter of 2020, we have seen an increase in GMV processed through our platform, which does not follow the typical seasonal variations in our business, and resulted in higher than normal variable revenue throughout most of 2020. Refer to "Revenue" below for additional information.

OPPORTUNITIES AND RISKS

- ***Brands.*** As the e-commerce landscape evolves to increasingly favor brands, we have identified that growing our brands business represents a significant strategic opportunity for us. We generally categorize a customer as a brand if it primarily focuses on selling its own proprietary products. Brands tend to have longer customer life cycles, stronger financial stability and overall better unit economics than retailers, which we consider to be companies focused primarily on selling third-party products. Brands also offer increased expansion opportunities to grow their e-commerce business through our platform; however they tend to have longer sales cycles. To help drive our future growth, we have made significant investments in our sales force, modified our sales compensation plans and allocated resources focused on growing our customer base of brands. These investments have also contributed to expanding the relationships we already have with our current brands customers.

- ***Dynamic E-commerce Landscape.*** We need to continue to innovate in the face of a rapidly changing e-commerce landscape if we are to remain competitive.

- ***Strategic Partnerships.*** Our business development team's mission is to expand our sales and market opportunities through strategic partner relationships. We plan to continue to invest in initiatives to expand our strategic partnership base to further enhance our offerings for customers and to help support our indirect sales channel efforts. The goal of these strategic partnerships is to further improve the value of our platform for our customers and, when possible, provide us opportunities for incremental revenue streams.

- ***Increasing Complexity of E-commerce.*** Although e-commerce continues to expand as brands and retailers continue to increase their online sales, it is also becoming more complex due to the hundreds of channels available to brands and retailers 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, an increasing number of brands and retailers 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 brands and large online retailers. As a result, we need to continue to support multiple channels in a variety of geographies in order to support our targeted revenue growth.

- ***Global Growth in E-commerce.*** We believe the growth in e-commerce globally presents an opportunity for brands and retailers to engage in international sales. However, country-specific marketplaces are often a market share leader in their regions, as is the case for Zalando in Europe, for example. 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. 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.

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			
	2020	2019	2018	2020 to 2019		2019 to 2018	
(dollars in thousands)							
Revenue	$ 145,072	$ 129,959	$ 131,218	$ 15,113	11.6 %	$ (1,259)	(1.0)%
Cost of revenue	30,354	29,008	29,501	1,346	4.6	(493)	(1.7)
Gross profit	114,718	100,951	101,717	13,767	13.6	(766)	(0.8)
Operating expenses:							
Sales and marketing	52,905	52,813	60,080	92	0.2	(7,267)	(12.1)
Research and development	18,990	19,200	22,359	(210)	(1.1)	(3,159)	(14.1)
General and administrative	23,739	25,136	26,784	(1,397)	(5.6)	(1,648)	(6.2)
Total operating expenses	95,634	97,149	109,223	(1,515)	(1.6)	(12,074)	(11.1)
Income (loss) from operations	19,084	3,802	(7,506)	15,282		11,308	
Other income (expense):							
Interest income (expense), net	175	754	510	(579)	(76.8)	244	47.8
Other income (expense), net	9	(385)	9	394	*	(394)	*
Total other income (expense)	184	369	519	(185)	(50.1)	(150)	(28.9)
Income (loss) before income taxes	19,268	4,171	(6,987)	15,097		11,158	
Income tax expense	443	689	614	(246)	(35.7)	75	12.2
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)	$ 15,343		$ 11,083	

* Not meaningful.

	Year Ended December 31,		
	2020	2019	2018
	(as a percentage of revenue)		
Revenue	100.0 %	100.0 %	100.0 %
Cost of revenue	20.9	22.3	22.5
Gross profit	79.1	77.7	77.5
Operating expenses:			
Sales and marketing	36.5	40.6	45.8
Research and development	13.1	14.8	17.0
General and administrative	16.4	19.3	20.4
Total operating expenses	65.9	74.8	83.2
Income (loss) from operations	13.2	2.9	(5.7)
Other income (expense):			
Interest income (expense), net	0.1	0.6	0.4
Other income (expense), net	—	(0.3)	—
Total other income (expense)	0.1	0.3	0.4
Income (loss) before income taxes	13.3	3.2	(5.3)
Income tax expense	0.3	0.5	0.5
Net income (loss)	13.0	2.7	(5.8)

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, which is defined as net income (loss) plus (or minus): income tax expense (benefit); interest (income) expense, net; depreciation and amortization; and stock-based compensation. For some periods, we have also excluded non-recurring costs, such as severance and related costs or transaction costs in connection with acquisitions. We have provided a reconciliation below of adjusted EBITDA to net income (loss), the most directly comparable GAAP financial measure, for the years ended December 31, 2020, 2019 and 2018.

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 income and expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our business. Accordingly, we believe that adjusted EBITDA provides useful information to investors in understanding and evaluating our operating results.

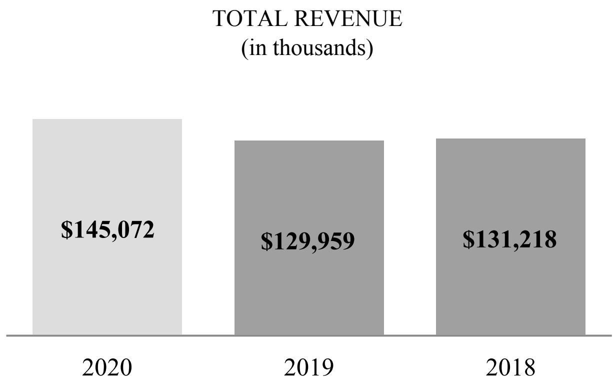
Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect interest or income 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.

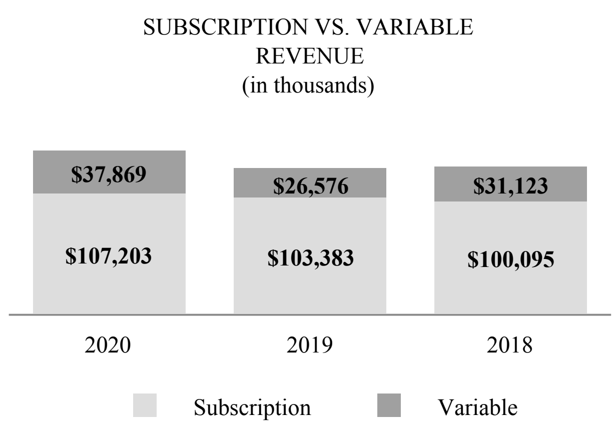
	Year Ended December 31,		
	2020	**2019**	**2018**
		(in thousands)	
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Adjustments:			
Interest (income) expense, net	(175)	(754)	(510)
Income tax expense	443	689	614
Depreciation and amortization expense	6,513	6,336	6,094
Total adjustments, net	6,781	6,271	6,198
EBITDA	25,606	9,753	(1,403)
Stock-based compensation expense	10,200	8,976	10,598
Transaction costs in connection with acquisition	488	—	—
Non-recurring severance and related costs	—	1,429	587
Adjusted EBITDA	$ 36,294	$ 20,158	$ 9,782

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 typically one year. A customer typically pays a recurring subscription fee based on a specified minimum amount of GMV or advertising spend that the customer expects to process through our platform. Subscription fees may also include implementation fees such as launch assistance and training fees. The remaining portion of a customer's 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 fee is based is fixed and does not vary depending on the amount of the excess.

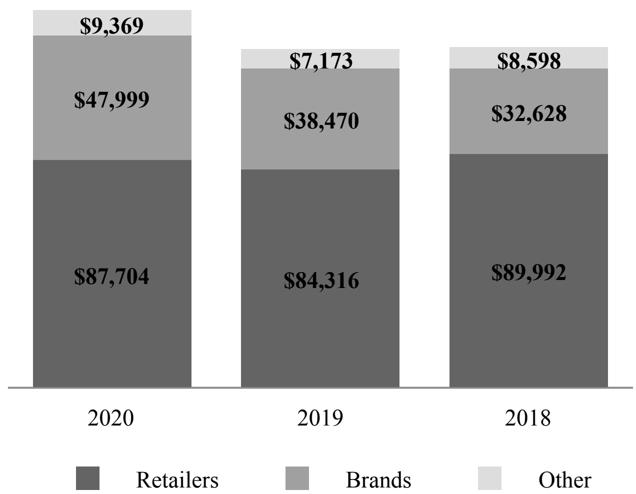
Because our customer contracts generally contain both subscription and variable pricing components, changes in GMV between periods do not translate directly or linearly into changes in our revenue. We use customized pricing structures for each of our customers depending upon the individual situation of the customer. For example, some customers may commit to a higher specified minimum GMV amount per month in exchange for a lower 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 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 subscription fees and implementation fees ratably over the contract period beginning on the date the customer has access to the software. In determining the amount of revenue to be recognized, we apply the following steps:

- Identify the promised services in the contract;
- Determine whether the promised services are performance obligations, including whether they are distinct in the context of the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations based on estimated selling prices; and
- Recognize revenue as we satisfy each performance obligation.

REVENUE BY CUSTOMER TYPE (1)
(in thousands)



(1) Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no impact on the reported total revenue for the period.

Our customers are categorized as follows:

- *Retailers*. We generally categorize a customer as a retailer if it primarily focuses on selling third-party products.
- *Brands*. We generally categorize a customer as a brand if it primarily focuses on selling its own proprietary products.
- *Other*. Other is primarily comprised of strategic partnerships.

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

In general, we invoice and recognize revenue from the variable portion of fees in the period in which the related GMV or advertising spend is processed.

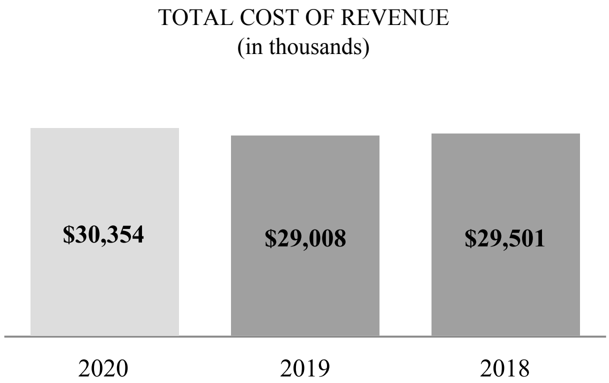
Comparison of 2020 to 2019

Revenue increased by 11.6%, or $15.1 million, to $145.1 million for the year ended December 31, 2020 compared with $130.0 million for the prior year. The change was primarily due to an $11.3 million increase in variable revenue, primarily driven by sustained and broad-based growth in GMV processed on our platform as e-commerce spending remained elevated for most of the year, consistent with broader e-commerce trends as the COVID-19 pandemic caused a shift in consumer buying behavior. Subscription revenue increased $3.8 million compared to the prior year, driven by strong net bookings, particularly from brands customers. Revenue from our brands customers increased 24.8%, or $9.5 million, compared to the prior year, driven by an increase in new customers, expansions with existing customers and improved customer retention, as well as an increase in transaction volume and variable revenue during the period as mentioned above. For the year ended December 31, 2020, brands customers represented approximately 33% of our total revenue compared to approximately 30% for the prior year. Revenue from our strategic partnerships also increased $2.2 million compared to the prior year, driven primarily by growth in GMV as mentioned above as well as a continued focus on strategic partnerships.

Comparison of 2019 to 2018

Revenue decreased by 1.0%, or $1.3 million, to $130.0 million for the year ended December 31, 2019 compared with $131.2 million for the prior year. The change was primarily due to a $4.5 million decline in variable revenue, primarily due to a shift in our revenue mix from variable to subscription resulting from more customers moving to higher subscription fee tiers and some of our strategic partner agreements evolving to incorporate more subscription fees instead of purely variable revenues. This decrease was partially offset by a $3.3 million increase in subscription revenue primarily attributable to growth in our international operations, as well as continued revenue growth from our brands customers. For the year ended December 31, 2019, brands customers represented approximately 30% of our total revenue compared to approximately 25% for the year ended December 31, 2018.

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 2020 to 2019

Cost of revenue increased by 4.6%, or $1.3 million, to $30.4 million for the year ended December 31, 2020 compared with $29.0 million for the prior year. The change was comprised primarily of compensation and employee-related costs due to an increase in quarterly bonuses earned from strong net bookings performance, as well as an increase in headcount, with the prior year being impacted by our implementation of a plan to reduce expenses and align our operations with evolving business needs in the third quarter of 2019, or the 2019 Actions.

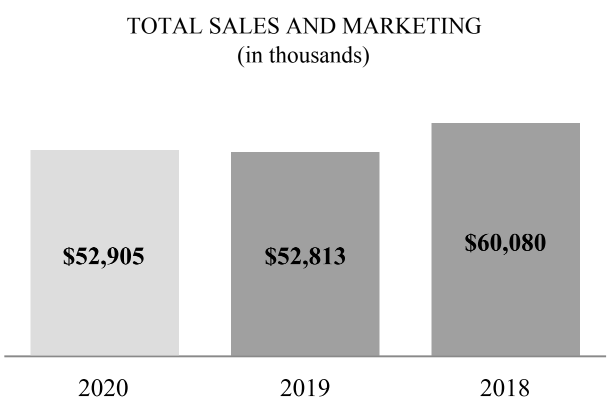
Comparison of 2019 to 2018

Cost of revenue decreased by 1.7%, or $0.5 million, to $29.0 million for the year ended December 31, 2019 compared with $29.5 million for the prior year. The change was comprised primarily of (decreases) increases of:

- $(0.6) million in compensation and employee-related costs due to reductions in headcount, primarily as a result of the 2019 Actions; partially offset by
- $0.2 million in non-recurring severance and related costs in connection with the 2019 Actions.

OPERATING EXPENSES

SALES AND MARKETING EXPENSE



Sales and marketing expense consists primarily of:

- Salaries and personnel-related costs for our sales and marketing employees, including benefits, bonuses and stock-based compensation;
- Amortization of capitalized sales commissions and related incentive payments over their expected term of benefit;
- Marketing, advertising and promotional event programs; and
- Corporate communications.

Comparison of 2020 to 2019

Sales and marketing expense increased by 0.2%, or $0.1 million, to $52.9 million for the year ended December 31, 2020 compared with $52.8 million for the prior year. The change was comprised primarily of increases (decreases) of:

- $2.5 million in compensation and employee-related costs, including stock-based compensation, due to an increase in amortization of deferred contract costs, as well as an increase in headcount, with the prior year being impacted by the 2019 Actions; partially offset by

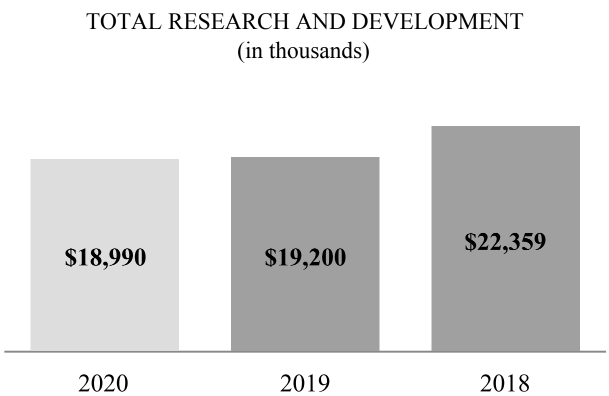
- $(1.9) million in our promotional event programs and travel, primarily due to travel and gathering restrictions as a response to the COVID-19 pandemic; and
- $(0.5) million in allocated expenses, driven by certain office closures, including our operations in China.

Comparison of 2019 to 2018

Sales and marketing expense decreased by 12.1%, or $7.3 million, to $52.8 million for the year ended December 31, 2019 compared with $60.1 million for the prior year. The change was comprised primarily of (decreases) increases of:

- $(5.5) million in compensation and employee-related costs, including stock-based compensation expense, due to reductions in headcount, primarily as a result of the 2019 Actions; and
- $(1.6) million in promotional event programs, marketing, advertising and travel, primarily due to reductions in costs associated with our annual e-commerce conference; partially offset by
- $0.4 million in non-recurring severance and related costs in connection with the 2019 Actions.

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 2020 to 2019

Research and development expense decreased by 1.1%, or $0.2 million, to $19.0 million for the year ended December 31, 2020 compared with $19.2 million for the prior year. The change was comprised primarily of (decreases) increases of:

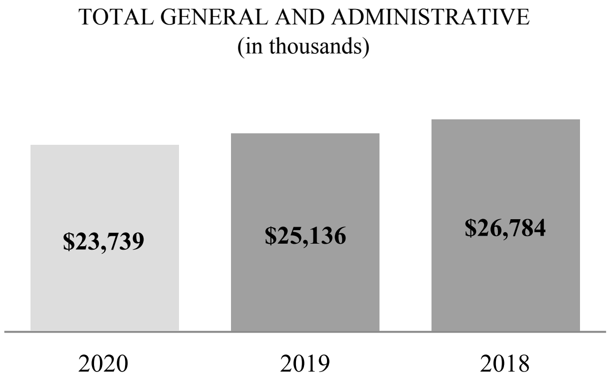
- $(0.4) million in compensation and employee-related costs due to an increase in capitalized employee-related costs attributable to software development to support the enhancement of our product offerings; and
- $(0.3) million in allocated expenses, driven by certain office closures, including our operations in China; partially offset by
- $0.6 million in compensation and employee-related costs due to an increase in quarterly bonuses earned from strong net bookings performance, as well as an increase in headcount driven by our acquisition of BlueBoard in July 2020.

Comparison of 2019 to 2018

Research and development expense decreased by 14.1%, or $3.2 million, to $19.2 million for the year ended December 31, 2019 compared with $22.4 million for the prior year. The change was comprised primarily of (decreases) of:

- $(2.0) million in compensation and employee-related costs, mainly due to an increase in capitalized employee-related costs attributable to software development to support the enhancement of our product offerings; and
- $(0.7) million in compensation and employee-related costs due to shifting certain research and development to lower cost office locations, which did not impact our product innovation.

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;
- Costs associated with SEC compliance, including with the Sarbanes-Oxley Act and other regulations governing public companies; and
- Transaction related costs.

Comparison of 2020 to 2019

General and administrative expense decreased by 5.6%, or $1.4 million, to $23.7 million for the year ended December 31, 2020 compared with $25.1 million for the prior year. The change was comprised primarily of (decreases) increases of:

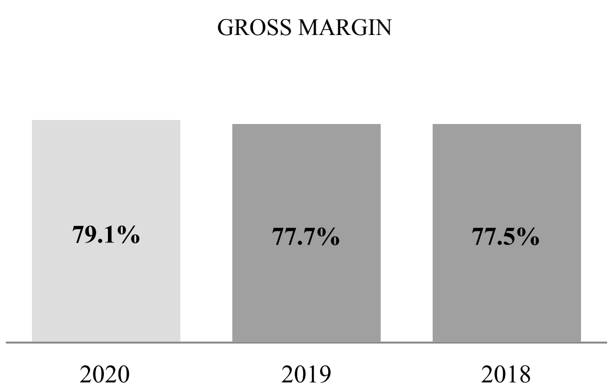
- $(1.1) million in allocated expenses driven by certain office closures, including our operations in China;
- $(0.6) million in bad debt expense due to improved cash collections; and
- $(0.4) million in compensation and employee-related costs due to reductions in headcount, primarily as a result of the 2019 Actions; partially offset by
- $0.8 million in transaction and subsequent general and administrative costs associated with our July 2020 acquisition of BlueBoard.

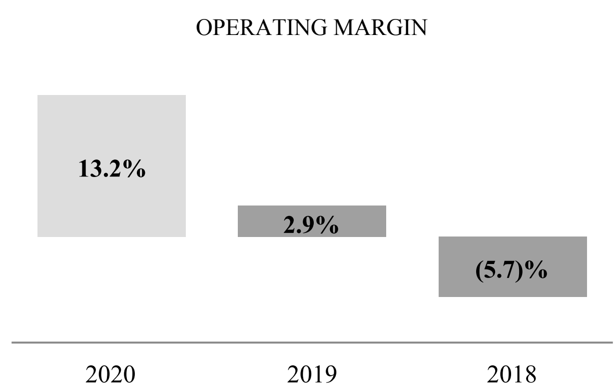
Comparison of 2019 to 2018

General and administrative expense decreased by 6.2%, or $1.6 million, to $25.1 million for the year ended December 31, 2019 compared with $26.8 million for the prior year. The change was comprised primarily of (decreases) increases of:

- $(1.2) million in compensation and employee-related costs, including stock-based compensation expense, due to reductions in headcount, primarily as a result of the 2019 Actions and changes in management; and
- $(0.8) million in professional fees in connection with the assessment by our independent auditors of the effectiveness of our internal control over financial reporting, which was required for the first time as part of our Annual Report on Form 10-K for fiscal 2018, and our implementation of the new revenue recognition standard in 2018; partially offset by
- $0.7 million in severance and related costs in connection with the 2019 Actions and changes in management.

GROSS AND OPERATING MARGINS





Comparison of 2020 to 2019

Gross margin improved by 140 basis points to 79.1% during the year ended December 31, 2020 compared with 77.7% for the prior year as a result of the 11.6% increase in revenue which exceeded the 4.6% increase in cost of revenue noted above.

Operating margin improved by 1,030 basis points to 13.2% during the year ended December 31, 2020 compared with 2.9% for the prior year. Our improved operating margin was a result of the 11.6% increase in revenue and 1.6% decrease in operating expenses driven by the 2019 Actions, cost savings attributable to the COVID-19 pandemic, primarily related to travel and promotional event program cancellations, and our continuing strategic efforts to scale our business operations while managing costs.

Comparison of 2019 to 2018

Gross margin improved by 20 basis points to 77.7% during the year ended December 31, 2019 compared with 77.5% for the prior year, primarily due to a decrease in cost of revenue resulting from our 2019 Actions, which exceeded the decrease in revenue, noted above.

Operating margin improved by 860 basis points to 2.9% during the year ended December 31, 2019 compared with (5.7)% for the prior year due to decreases in operating expenses and cost of revenue of 11.1% and 1.7%, respectively. Our improved operating margin was a result of the 2019 Actions and our continuing strategic efforts to scale our business operations while managing costs.

TOTAL OTHER INCOME (EXPENSE)

Other income (expense) consists primarily of:

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

Comparison of 2020 to 2019

Other income (expense) decreased by $0.2 million to $0.2 million for the year ended December 31, 2020 compared with $0.4 million for the prior year. The change was primarily due to a $0.6 million decrease in interest income driven by lower interest earned on our cash and cash equivalents due to overall market conditions, partially offset by a $0.4 million loss recorded in the prior year due to the closing of our China operations.

Comparison of 2019 to 2018

Other income (expense) decreased by $0.2 million to $0.4 million for the year ended December 31, 2019 compared with $0.5 million for the prior year. The change was primarily due to a $0.4 million loss recorded due the closing of our China operations, partially offset by a $0.2 million increase in interest income driven by higher interest earned on our cash and cash equivalents.

INCOME TAX EXPENSE

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.

Comparison of 2020 to 2019

Income tax expense was $0.4 million for the year ended December 31, 2020 compared with $0.7 million for the prior year. The change was primarily due to the recognition of tax benefits in 2020, driven by an increase in the UK corporate income tax rate resulting in an increase to the UK deferred tax assets, the acquisition of BlueBoard and the ability to recognize the tax benefit on BlueBoard's 2020 operating losses and the completion of an R&D credit project in Spain. This was partially offset by an increase in current U.S. state tax expense due to being in a taxable income position in the current year, as well as California suspending the ability to carry forward net operating losses (NOLs) from previous years in 2020.

Comparison of 2019 to 2018

Income tax expense was $0.7 million for the year ended December 31, 2019 compared with $0.6 million for the prior year. The change was primarily due to a nonrecurring deferred tax benefit recorded in the United States in the year ended December 31, 2018 attributable to the enactment of the Tax Act.

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 $4.0 million to $5.0 million, which will primarily consist of computer hardware and purchased software.

The foregoing estimate does not give effect to any potential amounts that we may draw under our credit facility, or Credit Facility, with HSBC Bank, or HSBC, that we entered into in August 2020 and which is described in more detail below.

Our principal future commitments consist of non-cancelable leases for our office space and computer equipment, totaling $10.1 million as of December 31, 2020. We believe our future cash flows from operating activities and existing cash balances are sufficient to meet these commitments.

WORKING CAPITAL

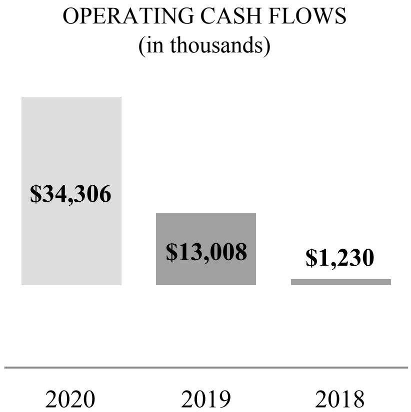
The following table summarizes our cash and cash equivalents, accounts receivable and working capital as of the end of each of the last three years:

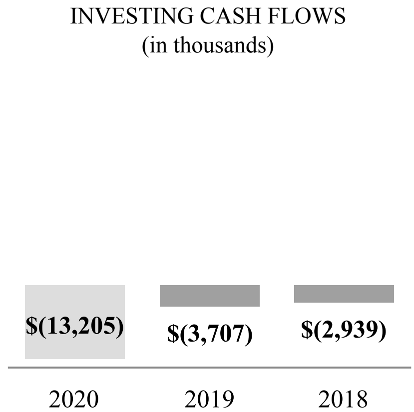
	December 31,		
	2020	2019	2018
		(in thousands)	
Cash and cash equivalents	$ 71,545	$ 51,785	$ 47,185
Accounts receivable, net of allowance	24,705	22,126	23,436
Working capital	67,110	47,946	41,139

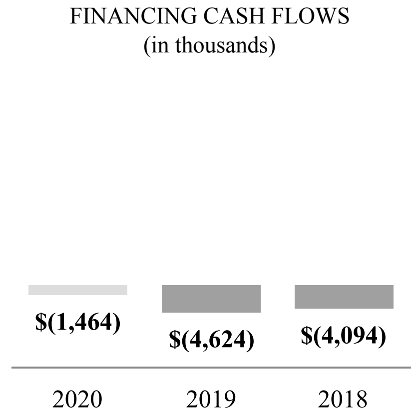
Our cash at December 31, 2020 was held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide on-demand immediate 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 13.1% was held outside of the United States at December 31, 2020. Our international operations primarily consist of selling and marketing and research and development functions supported by our U.S. operations, and are dependent on our U.S. operations for 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 income and withholding taxes to repatriate these funds. We currently intend to permanently reinvest these foreign amounts outside the United States, and based on our current plans we do not believe we will need to repatriate the foreign amounts to fund our U.S. operations.

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 provided by operating activities, the most directly comparable GAAP measure, to free cash flow for each of the periods indicated:

	Year Ended December 31,		
	2020	2019	2018
		(in thousands)	
Cash and cash equivalents provided by operating activities	$ 34,306	$ 13,008	$ 1,230
Less: Purchases of property and equipment	(1,704)	(986)	(2,045)
Less: Payment of capitalized software development costs	(3,034)	(2,721)	(894)
Free cash flow	$ 29,568	$ 9,301	$ (1,709)

Free cash flow increased by $20.3 million to $29.6 million for the year ended December 31, 2020 and increased $11.0 million to $9.3 million for the year ended December 31, 2019. The increase in free cash flow for the year ended December 31, 2020 was primarily a result of revenue growth during the year, as well as lower operating expenses, primarily related to the 2019 Actions, cost savings in 2020 attributable to the COVID-19 pandemic, improved cash collections and changes in assets and liabilities, which are further described below. The increase in free cash flow for the year ended December 31, 2019 was a result of lower operating expenses, primarily related to the 2019 Actions, improved cash collections and changes in assets and liabilities, which are further described 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;
- In 2019, the amount paid in non-recurring severance and related costs in connection with the 2019 Actions and non-recurring severance and related costs due to our reorganization of our China operations in 2018; and
- In 2018, the amount we paid to settle a sales tax audit.

Investing activities cash flows are largely driven by:

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

Financing activities cash flows are largely driven by:

- Proceeds from the exercises of stock options;
- Payments on finance lease obligations and debt;
- Tax withholdings related to the net-share settlement of restricted stock units; and
- Payment of line of credit financing costs.

2020

Operating Activities

Our cash provided by operating activities consisted of net income of $18.8 million adjusted for certain non-cash items totaling $16.4 million, which consisted of stock-based compensation expense, depreciation and amortization expense, bad debt expense and other non-cash items, and cash decreases of $0.9 million from changes in assets and liabilities.

The net decrease in cash resulting from changes in assets and liabilities of $0.9 million primarily consisted of:

- a $2.6 million increase in deferred contract costs consisting of sales commissions and a portion of other incentive compensation that is deferred and amortized to expense over the expected period of benefit;
- a $2.1 million increase in accounts receivable driven by strong net bookings performance and an increase in variable revenue during the period; and
- a $1.7 million increase in prepaid expenses and other assets driven by the timing of payments to our vendors during the period. These decreases in cash were partially offset by increases in cash due to:
- a $4.3 million increase in accrued expenses and accounts payable primarily due to an increase in quarterly bonuses earned and the deferral of payroll taxes associated with COVID-19 pandemic relief; and
- a $1.3 million increase in deferred revenue as a result of an increase in net bookings during the period.

Investing Activities

Our cash used in investing activities consisted of:

- $8.5 million for the acquisition of BlueBoard, net of cash acquired;
- $3.0 million of capitalized software development costs; and
- $1.7 million of capital expenditures primarily related to the purchase of computer equipment.

Financing Activities

Our cash used in financing activities consisted of:

- $3.3 million used for the payment of taxes related to the net-share settlement of restricted stock units;
- $1.8 million used for the repayment of finance leases and debt; and
- $0.2 million used for the payment of line of credit financing costs in connection with entering into our Credit Facility as described below; partially offset by
- $3.8 million in cash received upon the exercise of stock options.

2019

Operating Activities

Our cash provided by operating activities consisted of a net loss of $3.5 million adjusted for certain non-cash items totaling $17.1 million, which consisted of stock-based compensation expense, depreciation and amortization expense, bad debt expense and other non-cash items, and cash decreases of $7.6 million from changes in assets and liabilities.

The net decrease in cash resulting from changes in assets and liabilities of $7.6 million primarily consisted of:

- a $3.4 million decrease in deferred revenue as a result of the timing of revenue recognition for managed-service contracts;
- a $3.1 million increase in deferred contract costs consisting of sales commissions and a portion of other incentive compensation that is deferred and amortized to expense over the expected period of benefit; and
- a $2.3 million decrease in accounts payable and accrued expenses, driven by the timing of payments to our vendors during the period. These decreases in cash were partially offset by increases in cash due to:

- a $0.9 million decrease in prepaid expenses and other assets, primarily related to agency of record receipts (we record the amounts due from customers as a result of these arrangements as other receivables); and
- a $0.4 million decrease in accounts receivable as a result of increased cash collections during the period.

Investing Activities

Our cash used in investing activities consisted of:

- $2.7 million of capitalized software development costs; and
- $1.0 million of capital expenditures primarily related to the purchase of computer equipment.

Financing Activities

Our cash used in financing activities consisted of:

- $3.4 million used for the payment of taxes related to the net-share settlement of restricted stock units; and
- $2.2 million used for the repayment of finance leases; partially offset by
- $1.0 million in cash received upon the exercise of stock options.

CREDIT FACILITY

On August 5, 2020, we established the Credit Facility with HSBC under which we may borrow up to $25 million. We may use proceeds from borrowings under the Credit Facility for working capital and general corporate purposes, including acquisitions, and up to $10 million is available for letters of credit. We may also request increases in the amount of the Credit Facility, with such increases not to exceed $10 million in the aggregate, subject to HSBC's consent. As of the date of this report, we have not drawn on, or issued any letters of credit under, the Credit Facility. The Credit Facility matures in August 2023.

Any borrowings under the Credit Facility will bear interest at a per annum interest rate based on a base rate plus 2.25% or LIBOR plus 3.25%. The base rate will equal the highest of (a) the prime rate as publicly announced by HSBC, (b) the sum of (i) the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System plus (ii) 0.50%, and (c) the LIBOR rate plus 1.00% per annum, with a floor of 1.50%. The LIBOR rate will be based on London interbank offered rates published by ICE Benchmark Administration Limited for the applicable interest period, with a floor of 0.50%. We will pay a fee on all outstanding letters of credit at a rate of 3.25% per annum. We will pay HSBC a commitment fee on the undrawn portion of the facility at a rate per annum equal to 0.50%. We may terminate the Credit Facility, or prepay any borrowings, at any time in our discretion without premium or penalty.

Each of our existing and future material domestic subsidiaries must guarantee all of our obligations under the Credit Facility, and, in addition, our immaterial domestic subsidiaries may guarantee our obligations. As of the date of this report, we do not have any material domestic subsidiaries, but all of our obligations are guaranteed by our wholly-owned subsidiary CA Washington, LLC. Our obligations under the Credit Facility are secured by first priority liens on substantially all of our assets and those of our subsidiary CA Washington, LLC.

The credit agreement for the Credit Facility, or the Credit Agreement, contains affirmative and negative covenants, including covenants that, without consent of HSBC, limit our ability to, or to permit our subsidiaries to, (a) incur indebtedness, with exceptions permitting, among others, earnouts and other indebtedness incurred in an acquisition; (b) grant or incur liens; (c) make loans and investments, with exceptions permitting, among others, specified acquisitions of up to an aggregate amount of $30 million, subject to satisfaction of a pro forma consolidated leverage ratio; (d) enter into mergers; (e) dispose of assets; (f) pay dividends on our equity and complete distributions, redemptions and equity repurchases; (g) transact with affiliates; and (h) make capital expenditures in excess of $10 million during any fiscal year.

In addition, under the Credit Agreement, we may not permit the ratio of our outstanding indebtedness to consolidated EBITDA to exceed 2.50 to 1.00 as of the last day of any fiscal quarter. We also may not permit the ratio of our consolidated EBITDA (minus maintenance-related capital expenditures paid in cash and minus dividends, distributions and stock repurchases paid in cash) to consolidated interest expense to be less than 3.00 to 1.00 for any period of four consecutive fiscal quarters.

The Credit Agreement contains customary events of default. Upon the occurrence and during the continuance of an event of default, HSBC may terminate the commitments under the Credit Facility and declare the outstanding advances and all other obligations under the Credit Facility immediately due and payable.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2020, 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.

While our significant accounting policies are more fully described in Note 2, "Significant Accounting Policies," 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

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 typically one year. A customer typically pays a recurring subscription fee based on a specified minimum amount of GMV or advertising spend that the customer expects to process through our platform. Subscription fees may also include implementation fees such as launch assistance and training fees. The remaining portion of a customer's 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 fee is based is fixed and does not vary depending on the amount of the excess. Customers do not have the contractual right to take possession of our software at any time.

We recognize subscription fees and implementation fees ratably over the contract period beginning on the date the customer has access to the software. In general, we invoice and recognize revenue from the variable portion of fees in the period in which the related GMV or advertising spend is processed.

Customers may elect to purchase a subscription to multiple modules, multiple modules with multiple service levels, or, for certain of our solutions, multiple brands or geographies. We evaluate such contracts to determine whether the services to be provided are distinct and accordingly should be accounted for as separate performance obligations. If we determine that a contract has multiple performance obligations, the transaction price, which is the total price of the contract, is allocated to each performance obligation based on a relative standalone selling price method. We estimate standalone selling price based on observable prices in past transactions for which the product offering subject to the performance obligation has been sold separately.

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

Accounts Receivable and Allowance for Credit Losses

We extend credit to customers without requiring collateral. Accounts receivable are stated at amortized cost, net of an allowance for credit losses. We record an allowance for credit losses at the time that accounts receivable are initially recorded based on our consideration of the current economic environment, expectations of future economic conditions, our historical collection experience and a loss-rate approach whereby impairment is calculated by multiplying an estimated loss rate by the asset's amortized cost at the balance sheet date. We reassess the allowance at each reporting date. When it becomes apparent, based on age or customer circumstances, that such amounts will not be collected, they are charged to the allowance. Payments subsequently received are credited to the credit loss expense account included within general and administrative expense in the consolidated statements of operations. At December 31, 2020, our allowance for credit losses was 1.7% of our gross accounts receivable.

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.

We test goodwill for impairment annually on October 1 or more frequently if events or changes in business circumstances indicate the asset might be impaired.

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, 2020 and 2019, we concluded there was no impairment of goodwill.

In connection with our acquisition of BlueBoard in July 2020, we recorded a $7.5 million increase in goodwill. Refer to Note 4, "Business Combination, Goodwill and Intangible Assets," to our consolidated financial statements appearing elsewhere in this Annual Report for additional information regarding the purchase price allocation and recording of goodwill in connection with this acquisition.

Stock-Based Compensation

Stock-based compensation awards, which include stock options, time-based restricted stock units, or RSUs, and performance-based vesting restricted stock units, or PSUs, 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 and RSUs generally vest annually over a four-year period. PSUs are eligible for vesting only if we achieve pre-defined targets set by the Compensation Committee for our combined year-over-year revenue growth and adjusted earnings before interest, tax, depreciation and amortization, or EBITDA, margin over a multi-year measurement period (a two-year measurement period for fiscal 2020 grants), subject to continued service with us. Refer to Note 10, "Equity Incentive Plans and Stock-Based Compensation," to our consolidated financial statements appearing elsewhere in this Annual Report for additional information regarding PSU grants and vesting.

The determination of the fair value of stock options is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Refer to Note 10, "Equity Incentive Plans and Stock-Based Compensation," 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.

The fair value of our common stock, for purposes of determining the grant date fair value of option, RSU and PSU 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.

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 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.

Recent Accounting Pronouncements

Refer to Note 2, "Significant Accounting Policies," 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 and Australian 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, 2020.

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. Although we have not drawn on our Credit Facility, we may do so in the future which may subject us to risks from changing interest rates.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the 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, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, 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 financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 11, 2021 expressed an unqualified opinion thereon.

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 PCAOB and are required to be independent with respect to the Company in accordance with the U.S. 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. 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 included 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Revenue Recognition
Description of the Matter	As described in Note 8 to the consolidated financial statements, the Company recognizes revenue when a customer obtains control of promised services, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those services. Contracts with customers may include multiple services, modules, brands, and/or geographies. The Company evaluates such contracts to determine whether the services to be provided are distinct and accordingly accounted for as separate performance obligations. If a contract has multiple performance obligations, the transaction price is allocated to each performance obligation based on a relative standalone selling price method. The audit effort in evaluating the Company's accounting for revenue recognition was extensive and required auditor judgment for certain customer contracts to evaluate the terms and conditions and to identify distinct performance obligations.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over the Company's revenue recognition process, including management's review of terms and conditions and identification of distinct performance obligations in customer contracts.

To test the Company's accounting for revenue recognition, our audit procedures included, among others, selecting a sample of revenue transactions covering each of the significant service offerings for which we evaluated the terms and conditions and reperformed management's assessment of distinct performance obligations within the arrangement, as well as tested the application of the revenue recognition accounting requirements, including reperforming calculations of revenue recognized to test the mathematical accuracy and the underlying data used in the calculations. We also assessed the appropriateness of the related disclosures in the consolidated financial statements.

Accounting for Acquisitions

Description of the Matter

As disclosed in Note 4 to the consolidated financial statements, the Company completed its acquisition of Blueboard SAS ("BlueBoard") for a cash purchase price of $9.0 million. The transaction was accounted for as a business combination.

Auditing the Company's accounting for its acquisition of BlueBoard was complex due to the estimation utilized in the Company's determination of the fair value of the contingent consideration and acquired developed technology of $1.5 million and $3.3 million, respectively. The significant estimation was primarily due to the complexity of the valuation models used by management to measure the fair value of the contingent consideration and acquired developed technology and the sensitivity of the respective fair values to the significant underlying assumptions. The Company utilized Black Scholes models to measure the fair value of the contingent consideration and the significant assumptions used in the models were forecasted revenues, among other assumptions. The Company used an income approach (discounted cash flow model) to measure the fair value of the acquired developed technology and the significant assumptions used in the model were the discount rate as well as the significant assumptions that form the basis of the forecasted results (e.g., forecasted revenue, EBITDA and the obsolescence rate of the technology). The assumptions utilized in the models are forward looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over the Company's accounting for acquisitions including management's review of the valuation models and underlying assumptions used to develop the estimated fair values of the contingent consideration and acquired developed technology.

To test the estimated fair values of the contingent consideration and acquired developed technology, we performed audit procedures that included, among others, evaluating the methodologies and significant assumptions used in the models, and evaluating the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. For example, we evaluated significant forecast assumptions used in the models considering historical results as well as third-party industry projections for the e-commerce industry. We involved our valuation specialists to assist with our evaluation of the methodologies and significant assumptions used as well as to independently calculate fair value estimates for contingent consideration and acquired developed technology to compare to the Company's recorded amounts.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.

Raleigh, North Carolina
February 11, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited ChannelAdvisor Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, ChannelAdvisor Corporation and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 11, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Raleigh, North Carolina
February 11, 2021

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

	December 31,	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 71,545	$ 51,785
Accounts receivable, net of allowance of $417 and $733 as of December 31, 2020 and 2019, respectively	24,705	22,126
Prepaid expenses and other current assets	13,874	10,452
Total current assets	110,124	84,363
Operating lease right of use assets	8,141	11,128
Property and equipment, net	8,707	9,597
Goodwill	30,990	23,486
Intangible assets, net	4,155	1,285
Deferred contract costs, net of current portion	14,040	12,810
Long-term deferred tax assets, net	3,551	3,584
Other assets	953	614
Total assets	$ 180,661	$ 146,867
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 158	$ 409
Accrued expenses	14,008	8,577
Deferred revenue	22,819	21,000
Other current liabilities	6,029	6,431
Total current liabilities	43,014	36,417
Long-term operating leases, net of current portion	5,394	9,767
Long-term finance leases, net of current portion	8	27
Other long-term liabilities	2,154	1,007
Total liabilities	50,570	47,218
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, 2020 and 2019, respectively	—	—
Common stock, $0.001 par value, 100,000,000 shares authorized, 29,020,424 and 28,077,469 shares issued and outstanding as of December 31, 2020 and 2019, respectively	29	28
Additional paid-in capital	288,842	278,111
Accumulated other comprehensive loss	(1,095)	(1,740)
Accumulated deficit	(157,685)	(176,750)
Total stockholders' equity	130,091	99,649
Total liabilities and stockholders' equity	$ 180,661	$ 146,867

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

CHANNELADVISOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2020	2019	2018
Revenue	$ 145,072	$ 129,959	$ 131,218
Cost of revenue	30,354	29,008	29,501
Gross profit	114,718	100,951	101,717
Operating expenses:			
Sales and marketing	52,905	52,813	60,080
Research and development	18,990	19,200	22,359
General and administrative	23,739	25,136	26,784
Total operating expenses	95,634	97,149	109,223
Income (loss) from operations	19,084	3,802	(7,506)
Other income (expense):			
Interest income (expense), net	175	754	510
Other income (expense), net	9	(385)	9
Total other income (expense)	184	369	519
Income (loss) before income taxes	19,268	4,171	(6,987)
Income tax expense	443	689	614
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Net income (loss) per share:			
Basic	$ 0.66	$ 0.12	$ (0.28)
Diluted	$ 0.63	$ 0.12	$ (0.28)
Weighted average common shares outstanding:			
Basic	28,616,401	27,886,278	27,138,274
Diluted	30,035,261	28,816,977	27,138,274

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

CHANNELADVISOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Other comprehensive income (loss):			
Foreign currency translation adjustments	645	(33)	(918)
Total comprehensive income (loss)	$ 19,470	$ 3,449	$ (8,519)

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

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, 2017	26,601,626	$ 27	$ 262,805	$ (789)	$ (180,132)	$ 81,911
Cumulative effect of accounting change (1)	—	—	—	—	7,501	7,501
Exercise of stock options and vesting of restricted stock units	1,034,146	—	1,106	—	—	1,106
Stock-based compensation expense	—	—	10,598	—	—	10,598
Statutory tax withholding related to net-share settlement of restricted stock units	(288,657)	—	(2,959)	—	—	(2,959)
Net loss	—	—	—	—	(7,601)	(7,601)
Foreign currency translation adjustments	—	—	—	(918)	—	(918)
Balance, December 31, 2018	27,347,115	27	271,550	(1,707)	(180,232)	89,638
Exercise of stock options and vesting of restricted stock units	1,021,730	1	974	—	—	975
Stock-based compensation expense	—	—	8,976	—	—	8,976
Statutory tax withholding related to net-share settlement of restricted stock units	(291,376)	—	(3,389)	—	—	(3,389)
Net income	—	—	—	—	3,482	3,482
Foreign currency translation adjustments	—	—	—	(33)	—	(33)
Balance, December 31, 2019	28,077,469	28	278,111	(1,740)	(176,750)	99,649
Cumulative effect of accounting change (2)	—	—	—	—	240	240
Exercise of stock options and vesting of restricted stock units	1,183,904	1	3,825	—	—	3,826
Stock-based compensation expense	—	—	10,200	—	—	10,200
Statutory tax withholding related to net-share settlement of restricted stock units	(240,949)	—	(3,294)	—	—	(3,294)
Net income	—	—	—	—	18,825	18,825
Foreign currency translation adjustments	—	—	—	645	—	645
Balance, December 31, 2020	29,020,424	$ 29	$ 288,842	$ (1,095)	$ (157,685)	$ 130,091

(1) The Company recorded a reduction to accumulated deficit at January 1, 2018 as a result of its adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606).*

(2) The Company recorded a reduction to accumulated deficit at January 1, 2020 as a result of its adoption of Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326).*

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

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

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities			
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities:			
Depreciation and amortization	6,513	6,336	6,094
Bad debt expense	525	1,147	991
Stock-based compensation expense	10,200	8,976	10,598
Deferred income taxes	(39)	531	493
Other items, net	(829)	118	(851)
Changes in assets and liabilities, net of effects from acquisition:			
Accounts receivable	(2,143)	361	2,634
Prepaid expenses and other assets	(1,728)	892	10,303
Deferred contract costs	(2,572)	(3,146)	(6,730)
Accounts payable and accrued expenses	4,270	(2,306)	(10,936)
Deferred revenue	1,284	(3,383)	(3,765)
Cash and cash equivalents provided by operating activities	34,306	13,008	1,230
Cash flows from investing activities			
Acquisition, net of cash acquired	(8,467)	—	—
Purchases of property and equipment	(1,704)	(986)	(2,045)
Payment of software development costs	(3,034)	(2,721)	(894)
Cash and cash equivalents used in investing activities	(13,205)	(3,707)	(2,939)
Cash flows from financing activities			
Repayment of finance leases and debt	(1,808)	(2,209)	(2,241)
Proceeds from exercise of stock options	3,825	974	1,106
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(3,294)	(3,389)	(2,959)
Payment of line of credit financing costs	(187)	—	—
Cash and cash equivalents used in financing activities	(1,464)	(4,624)	(4,094)
Effect of currency exchange rate changes on cash and cash equivalents	123	(77)	(434)
Net increase (decrease) in cash and cash equivalents	19,760	4,600	(6,237)
Cash and cash equivalents, beginning of year	51,785	47,185	53,422
Cash and cash equivalents, end of year	$ 71,545	$ 51,785	$ 47,185
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 160	$ 215	$ 30
Cash paid for income taxes, net	$ 462	$ 62	$ 113
Supplemental disclosure of noncash investing and financing activities			
Accrued capital expenditures	$ 32	$ 15	$ 68
Finance lease obligations entered into for the purchase of fixed assets	$ —	$ 46	$ 4,217

The accompanying notes are an integral part of these 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 SaaS cloud platform helps brands and retailers 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 maintains sales, service, support and research and development offices in various domestic and international locations.

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.

Depreciation and Amortization

Depreciation and amortization expense is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Cost of revenue	$ 4,211	$ 3,942	$ 3,610
Sales and marketing	624	775	884
Research and development	257	353	371
General and administrative	1,421	1,266	1,229
	$ 6,513	$ 6,336	$ 6,094

Recent Accounting Pronouncements

Standard	Description	Effect on the Financial Statements or Other Significant Matters
Standards that the Company adopted effective January 1, 2020		
Financial Instruments:		
Accounting Standards Update, or 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 adopted this standard effective January 1, 2020. The adoption did not have a material impact on its consolidated financial statements.
Intangibles:		
ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)* Effective date: January 1, 2020	This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	The Company adopted this standard effective January 1, 2020. The adoption did not have a material impact on its consolidated financial statements.
Income Taxes:		
ASU 2019-12, *Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes* Effective date: January 1, 2020	This standard amends the approaches and methodologies in accounting for income taxes during interim periods and makes changes to certain income tax classifications. The new standard allows exceptions to the use of the incremental approach for intra-period tax allocation, when there is a loss from continuing operations and income or a gain from other items, and to the general methodology for calculating income taxes in an interim period, when a year-to-date loss exceeds the anticipated loss for the year. The standard also requires franchise or similar taxes partially based on income to be reported as income tax and the effects of enacted changes in tax laws or rates to be included in the annual effective tax rate computation from the date of enactment. Lastly, the Company would be required to evaluate when the step-up in the tax basis of goodwill is part of the business combination and when it should be considered a separate transaction. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.	The Company early adopted this standard effective January 1, 2020. The early adoption did not have a material impact on its consolidated financial statements or related disclosures.

The Company has reviewed other new accounting pronouncements that were issued as of December 31, 2020 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.

The Securities and Exchange Commission, or SEC, issued a final rule on November 19, 2020, adopting amendments to Regulation S-K to modernize, simplify and enhance certain disclosure requirements. The amendments reflect a principles-based, registrant-specific approach to disclosure intended to enhance the focus of financial disclosures on material information for the benefit of investors, while simplifying compliance efforts for registrants. Registrants are required to comply with the rule beginning with the first fiscal year ending on or after August 9, 2021, or the mandatory compliance date. Although registrants are not required to apply the amended rules until the mandatory compliance date, they may comply with the final amendments any time after the effective date, so long as disclosure responsive to an amended item is provided in its entirety. The Company early adopted these amendments, effective for this Annual Report.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles, or 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, assumptions used for purposes of determining stock-based compensation, leases, including estimating lease terms and extensions, and revenue recognition, including standalone selling prices for contracts with multiple performance obligations and the expected period of benefit for deferred contract costs, 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 with an original maturity of 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

Revenue is recognized when a customer obtains control of promised services, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those services. In determining the amount of revenue to be recognized, the Company performs the following steps: (i) identification of the contract with a customer; (ii) identification of the promised services in the contract and determination of whether the promised services are performance obligations, including whether they are distinct in the context of the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation. Refer to Note 8, "Revenue from Contracts with Customers" for a detailed discussion of accounting policies related to revenue recognition, including deferred revenue and sales commissions.

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 and amortization of capitalized software 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.

The acquisition of Blueboard, a private limited company organized under the laws of France ("BlueBoard") on July 23, 2020 includes a contingent consideration arrangement, as described in Note 4 below. Contingent consideration was measured at fair value at the acquisition date and is remeasured at fair value at each reporting date until the contingency is resolved.

The fair value of the contingent consideration related to the BlueBoard acquisition was estimated utilizing Black-Scholes option pricing models in which various scenarios for achievement of the financial targets and resulting payouts are then discounted to determine the present value of the resulting liability. Key assumptions used in the measurement of fair value of contingent consideration include the forecasted revenue growth, revenue volatility and discount rates among other assumptions. Changes in any valuation inputs in isolation may result in a significantly lower or higher fair value measurement in the future. Subsequent changes in the fair value of contingent consideration are recognized within general and administrative expenses in the Company's consolidated statements of operations. As of December 31, 2020, the fair value of the contingent consideration was $1.3 million, of which $0.6 million is recorded in "Other current liabilities" and $0.7 million is recorded in "Other long-term liabilities."

The following table presents the changes to the Company's liability for acquisition-related contingent consideration for the year ended December 31, 2020 (in thousands):

Balance as of December 31, 2019	$	—
Acquisition		1,516
Change in fair value		(186)
Balance as of December 31, 2020	$	1,330

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 credit losses.

The Company did not have any customers that individually comprised a significant concentration of its accounts receivable as of December 31, 2020 and 2019, or a significant concentration of its revenue for the years ended December 31, 2020, 2019 and 2018.

Accounts Receivable and Allowance for Credit Losses

The Company extends credit to customers without requiring collateral. Accounts receivable are stated at amortized cost, net of an allowance for credit losses. The Company records an allowance for credit losses at the time that accounts receivable are initially recorded based on its consideration of the current economic environment, expectations of future economic conditions, the Company's historical collection experience and a loss-rate approach whereby impairment is calculated by multiplying an estimated loss rate by the asset's amortized cost at the balance sheet date. The Company reassesses the allowance at each reporting date. When it becomes apparent, based on age or customer circumstances, that such amounts will not be collected, they are charged to the allowance. Payments subsequently received are credited to the credit loss expense account included within general and administrative expense in the consolidated statements of operations.

The following table presents the changes in the Company's allowance for credit losses during the year ended December 31, 2020 (in thousands):

	Balance, beginning of period	Provision for credit losses (1)	Write-offs, net of recoveries	Balance, end of period
Allowance for credit losses:				
Year ended December 31, 2020	$ 733	525	(841)	$ 417

(1) Includes adjustment recorded at January 1, 2020 as a result of the Company's adoption of Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326).*

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 capitalized software development costs	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.

Software Development Costs

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

Capitalized software development costs related to creating internally developed software and implementing software purchased for internal use are included in property and equipment in the accompanying consolidated balance sheets. The Company capitalized software development costs of $3.1 million and $3.0 million during the years ended December 31, 2020 and 2019, respectively. Amortization expense related to capitalized internally developed software was $1.8 million, $0.8 million and $0.3 million for the years ended December 31, 2020, 2019 and 2018, respectively, and is included in cost of revenue or general and administrative expense in the accompanying consolidated statements of operations, depending upon the nature of the software development project. The net book value of capitalized internally developed software was $4.2 million and $2.9 million at December 31, 2020 and 2019, respectively.

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

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset or asset group to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets are not recoverable, the impairment to be recognized, if any, is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets or asset group. Assets held for sale are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2020 and 2019, 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. Refer to Note 4 below for information regarding goodwill recorded in connection with the acquisition of BlueBoard. 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.

The Company performs its annual goodwill impairment analysis as of October 1, the first day of the fourth quarter. As a result of the Company's annual impairment analysis as of October 1, 2020 and 2019, 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, 2020, 2019 and 2018 was $3.5 million, $4.2 million and $5.7 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. An uncertain tax position will be recognized if it is more likely than not to be sustained. As of December 31, 2020, the Company recorded a nominal amount of accrued interest and penalties associated with unrecognized tax positions. As of December 31, 2019, the Company did not have any accrued interest or penalties associated with unrecognized tax positions. The Company's policy for recording interest and penalties is to record them as a component of provision for income taxes.

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 income (expense).

Stock-Based Compensation

The Company accounts for stock-based compensation awards, which include stock options, time-based restricted stock units, or RSUs, and performance-based vesting restricted stock units, or PSUs, 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, which is estimated based on the historical volatility of the Company's stock. 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, RSU and PSU 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 Income (Loss) per Common Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is calculated giving effect to all potentially dilutive shares of common stock, including stock options, RSUs and PSUs. The dilutive effect of outstanding awards is reflected in diluted earnings per share by application of the treasury stock method.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Purchased software, including capitalized software development costs	$ 17,303	$ 13,965
Computer hardware	9,541	8,975
Furniture and office equipment	2,388	2,369
Leasehold improvements	7,368	7,244
Construction in process	48	46
	36,648	32,599
Less: accumulated depreciation	(27,941)	(23,002)
Property and equipment, net	$ 8,707	$ 9,597

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was $5.7 million, $5.7 million and $5.5 million, respectively. During the year ended December 31, 2020, the Company disposed of purchased software, including capitalized software development costs, computer hardware, furniture and office equipment with a cost of $0.8 million and accumulated depreciation of $0.8 million. During the year ended December 31, 2019, the Company disposed of purchased software, including capitalized software development costs, computer hardware, furniture and office equipment and leasehold improvements with a cost of $10.0 million and accumulated depreciation of $9.6 million resulting in a $0.4 million loss in the consolidated statements of operations for the year ended December 31, 2019 related to these disposals. During the year ended December 31, 2018, the Company disposed of computer hardware, furniture and office equipment and leasehold improvements with a cost of $4.9 million and accumulated depreciation of $4.9 million. As a result of an amendment to the Company's corporate headquarters lease agreement during the year ended December 31, 2018, the Company disposed of leasehold improvements with a cost of $0.8 million and accumulated depreciation of $0.3 million and recorded a $0.5 million reduction to its lease incentive obligation.

4. BUSINESS COMBINATION, GOODWILL AND INTANGIBLE ASSETS

Business Combination

On July 23, 2020, the Company entered into a Share Purchase Agreement (the "Purchase Agreement") pursuant to which it acquired all of the issued and outstanding shares of Blueboard, a private limited company organized under the laws of France ("BlueBoard"). BlueBoard is headquartered in Paris, France and is a leader in e-commerce analytics. The acquisition of BlueBoard adds analytic capabilities, including actionable insights into how products are performing across thousands of retailer websites and marketplaces, to the Company's existing cloud-based e-commerce solutions.

Under the Purchase Agreement, the Company paid to the shareholders of BlueBoard a cash purchase price of $9.0 million, which is subject to adjustment as set forth in the Purchase Agreement. A portion of the purchase price has been placed into escrow to secure the indemnification obligations of BlueBoard's shareholders until July 22, 2021. In addition to the purchase price paid at the closing, the Company may be obligated to pay up to $3.0 million to the BlueBoard shareholders upon the achievement of specified annual revenue targets through July 2023, as set forth in the Purchase Agreement. Pursuant to ASC Topic 805, *Business Combinations*, or ASC 805, this contingent consideration is deemed to be part of the purchase price and is recorded as a liability based on the estimated fair value of the consideration the Company expects to pay as of the acquisition date. As of December 31, 2020, $1.3 million of contingent consideration was recorded as a liability on the Company's condensed consolidated balance sheet.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805. Under the acquisition method of accounting, the Company allocated the purchase price to the identifiable assets acquired and liabilities assumed based on their estimated acquisition-date fair values. The fair values of the identifiable intangible assets were determined based on income approaches utilizing forecasted earnings assumptions. The excess of the purchase price over the net assets acquired is recorded as goodwill.

Based on management's provisional assessment of the acquisition-date fair value of the assets acquired and liabilities assumed, the aggregate purchase price of $10.5 million, which is comprised of $9.0 million of cash and $1.5 million for contingent consideration noted above, has been allocated to the Company's assets and liabilities on a preliminary basis as follows: $7.5 million to goodwill, $3.7 million to identifiable intangible assets, including acquired technology of $3.3 million and customer relationships of $0.4 million, $0.6 million to long-term deferred tax liabilities and $0.1 million to working capital as a net current liability. The purchase price allocation in conjunction with the acquisition of BlueBoard is subject to change as additional information becomes available. Any adjustments will be made as soon as practicable, but not later than one year from the acquisition date.

The goodwill arising from the acquisition of BlueBoard represents the future economic benefits expected to arise from other intangible assets that do not qualify for separate recognition, including acquired workforce, as well as expected future synergies. The goodwill recognized is not deductible for income tax purposes.

The Company incurred transaction costs in connection with the acquisition of $0.5 million for the year ended December 31, 2020, which are included in general and administrative expense in the accompanying consolidated statements of operations.

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

Goodwill and Intangible Assets

The following table shows the changes in the carrying amount of goodwill for the year ended December 31, 2020 (in thousands):

Balance as of December 31, 2019	$	23,486
Goodwill attributable to the BlueBoard acquisition		7,504
Balance as of December 31, 2020	$	30,990

There were no changes to the Company's goodwill during the year ended December 31, 2019.

Intangible assets consisted of the following as of December 31, 2020 and 2019 (in thousands):

	December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in years)
Customer relationships	$ 2,603	$ (1,940)	$ 663	7.0
Acquired technology	5,367	(1,875)	3,492	7.0
Total	$ 7,970	$ (3,815)	$ 4,155	7.0

	December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in years)
Customer relationships	$ 2,230	$ (1,598)	$ 632	7.0
Acquired technology	2,030	(1,377)	653	7.0
Total	$ 4,260	$ (2,975)	$ 1,285	7.0

Amortization expense was $0.8 million for the year ended December 31, 2020 and $0.6 million for each of the years ended December 31, 2019 and 2018. As of December 31, 2020, expected amortization expense over the remaining intangible asset lives is as follows (in thousands):

Year Ending December 31,		
2021	$	1,048
2022		596
2023		596
2024		557
2025		530
Thereafter		828
Total	$	4,155

5. LEASES

Operating and Finance Lease Commitments

The Company leases office facilities and certain equipment under non-cancelable operating and finance leases. The Company determines if an arrangement is a lease and whether its classification is operating or finance at inception. Leases with an initial term of twelve months or less that are not expected to be renewed are not recorded on the balance sheet. For such leases, lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Certain operating leases include options to renew, with renewal terms extending up to 10 years, subject to certain conditions and notice obligations set forth in the lease agreements. The exercise of lease renewal options is at the Company's discretion.

Operating lease right of use, or ROU, assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the Company's best estimate of the collateralized borrowing rate over a similar term at the commencement date of the lease in determining the present value of future payments. The operating lease ROU assets also include any lease payments made and lease incentives and initial direct costs incurred. The lease terms may include options to extend the lease when it is reasonably certain that the Company will exercise that option.

The following table summarizes the Company's lease assets and liabilities as of December 31, 2020 and 2019 (in thousands):

	December 31, 2020		December 31, 2019	
Assets				
Operating lease right of use assets	$	8,141	$	11,128
Finance lease assets, included in Property and equipment, net (1)		495		1,917
Total leased assets	$	8,636	$	13,045
Liabilities				
Current				
Operating lease liabilities, included in Other current liabilities	$	4,716	$	4,177
Finance lease liabilities, included in Other current liabilities		15		1,418
Long-term				
Long-term operating leases, net of current portion		5,394		9,767
Finance leases, net of current portion	$	8	$	27
Total lease liabilities	$	10,133	$	15,389

(1) Finance leases are presented net of accumulated amortization of $5.8 million and $4.4 million as of December 31, 2020 and 2019, respectively.

The following table summarizes the components of lease expense for the years ended December 31, 2020 and 2019 (in thousands):

	2020		2019	
Operating lease cost, included in General and administrative expense (1)	$	4,093	$	4,808
Finance lease cost:				
Amortization of leased assets, included in General and administrative expense		1,421		2,041
Interest on lease liabilities, included in Other income (expense), net		35		140
Less: sublease income, reducing rent expense in General and administrative expense (2)		(167)		(168)
Net lease cost	$	5,382	$	6,821

(1) Excludes short-term lease costs of $0.2 million and $0.4 million for the years ended December 31, 2020 and 2019, respectively.

(2) The Company subleases space to a third party for which it anticipates receiving $0.2 million in annual rental payments during the term of the sublease agreement, which is through August 2022.

The following table summarizes other information related to leases for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Supplemental cash flows information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$ 4,501	$ 4,852
Operating cash outflows from finance leases	105	216
Financing cash outflows from finance leases	1,422	2,209
Weighted-average remaining lease term (years)		
Operating leases	2.22	3.20
Finance leases	0.41	1.37
Weighted-average discount rate		
Operating leases	5.48 %	5.50 %
Finance leases	7.12 %	7.28 %

The following table summarizes maturities of lease liabilities as of December 31, 2020 (in thousands):

	Operating Leases	Finance Leases
2021	$ 5,130	$ 15
2022	4,360	8
2023	1,236	—
Total lease payments	$ 10,726	$ 23
Less: imputed interest	(616)	—
Present value of lease liabilities	$ 10,110	$ 23

As of December 31, 2020, the Company had no material operating or finance leases that had not yet commenced.

6. COMMITMENTS AND 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.

7. LINE OF CREDIT

On August 5, 2020, the Company established a $25.0 million revolving credit facility with a commercial lender that is available for use until August 5, 2023. Proceeds from borrowings under the credit facility may be used for working capital and general corporate purposes, including acquisitions. Up to $10.0 million of the facility is available for letters of credit. Additionally, the Company may request increases to the facility, subject to the consent of the lender, provided that the aggregate amount of such increases during the term do not exceed $10.0 million. Amounts borrowed under the facility will bear interest equal to either a base rate plus 2.25% per annum or LIBOR plus 3.25% per annum. The Company will pay a fee on all outstanding letters of credit at a rate of 3.25% per annum. In addition, the Company will pay a quarterly fee at a rate of 0.50% per annum on the undrawn portion of the facility. As collateral for extension of credit under the facility, the Company granted security interests in substantially all of its assets and those of one of its subsidiaries. The agreement for the credit facility contains customary representations and warranties and subjects the Company to affirmative and negative covenants. As of December 31, 2020, the Company had not drawn on, or issued any letters of credit under, the credit facility.

8. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

The Company derives the majority of its revenue from subscription fees paid for access to and usage of its SaaS solutions for a specified contract term. A customer typically pays a recurring subscription fee based on a specified minimum amount of gross merchandise value (GMV) or advertising spend that the customer expects to process through the Company's platform. Subscription fees may also include implementation fees such as launch assistance and training fees. The remaining portion of a customer's 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 GMV or advertising spend amount. In most cases, the specified percentage of excess GMV or advertising spend on which the variable fee is based is fixed and does not vary depending on the amount of the excess. Subscription fees are billed in advance of the subscription term and are due in accordance with contract terms, which generally provide for payment within 30 days. Variable fees are subject to the same payment terms, although they are generally billed at the end of the period in which they are incurred. The Company also generates revenue from its solutions that allow brands to direct potential consumers from their websites and digital marketing campaigns to authorized resellers. The majority of the Company's contracts have a one year term. 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. Sales taxes collected from customers and remitted to government authorities are excluded from revenue.

Customers may subscribe to the Company's SaaS solutions on a self-service or managed-service basis. Self-service subscriptions allow the customer to manage their own activity on the platform. Launch services are also available, although they are not required for the customer to access the platform. Revenue from self-service subscriptions, including subscription fees and fees associated with any elected launch services, is recognized ratably over the subscription term, which is typically one year, beginning on the date the customer has access to the platform. Managed-service subscriptions offer the customer an outsourced, managed platform experience. Implementation services are included with managed-service subscriptions and are necessary to launch on the platform. Revenue from managed-service subscriptions, including subscription fees and fees associated with implementation services, is recognized ratably over the subscription term, which is typically one year, beginning once implementation services are complete.

As noted above, customers incur variable fees when the GMV or the advertising spend processed through the platform exceeds the GMV or advertising spend included in their subscriptions. In general, revenue from variable fees is recognized in the period in which the related GMV or advertising spend is processed through the platform.

Disaggregation of Revenue

The Company's customers are categorized as follows:

Retailers. The Company generally categorizes a customer as a retailer if it primarily focuses on selling third-party products.

Brands. The Company generally categorizes a customer as a brand if it primarily focuses on selling its own proprietary products.

Other. Other is primarily comprised of strategic partnerships.

The following table summarizes revenue disaggregation by customer type for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Retailers	87,704	84,316	89,992
Brands	47,999	38,470	32,628
Other	9,369	7,173	8,598
	$ 145,072	$ 129,959	$ 131,218

Contracts with Multiple Performance Obligations

Customers may elect to purchase a subscription to multiple modules, multiple modules with multiple service levels, or, for certain of the Company's solutions, multiple brands or geographies. The Company evaluates such contracts to determine whether the services to be provided are distinct and accordingly should be accounted for as separate performance obligations. If the Company determines that a contract has multiple performance obligations, the transaction price, which is the total price of the contract, is allocated to each performance obligation based on a relative standalone selling price method. The Company estimates standalone selling price based on observable prices in past transactions for which the product offering subject to the performance obligation has been sold separately. As the performance obligations are satisfied, revenue is recognized as discussed above.

Transaction Price Allocated to Future Performance Obligations

As the Company typically enters into contracts with customers for a twelve-month subscription term, a substantial majority of its performance obligations that have not yet been satisfied as of December 31, 2020 are part of a contract that has an original expected duration of one year or less. For contracts with an original expected duration of greater than one year, the aggregate transaction price allocated to the unsatisfied performance obligations was $30.6 million as of December 31, 2020, of which $19.0 million is expected to be recognized as revenue over the next twelve months.

Deferred Revenue

Deferred revenue generally represents the unearned portion of subscription fees. Deferred revenue is recorded when fees are invoiced in advance of performance. Deferred amounts are generally recognized within one year. Deferred revenue is included in the accompanying consolidated balance sheets under "Total current liabilities," net of any long-term portion that is included in "Other long-term liabilities." The following table summarizes deferred revenue activity for the year ended December 31, 2020 (in thousands):

	Balance, beginning of period	Net additions	Revenue recognized from deferred revenue	Balance, end of period
Deferred revenue	$ 21,459	109,045	(107,203)	$ 23,301

Of the $145.1 million of revenue recognized in the year ended December 31, 2020, $20.0 million was included in deferred revenue at January 1, 2020.

Costs to Obtain Contracts

The Company capitalizes sales commissions and a portion of other incentive compensation costs that are directly related to obtaining customer contracts and that would not have been incurred if the contract had not been obtained. These costs are included in the accompanying consolidated balance sheets and are classified as "Prepaid expenses and other current assets," net of any long-term portion that is included in "Deferred contract costs, net of current portion." As of December 31, 2020, $7.3 million was included in "Prepaid expenses and other current assets." Deferred contract costs are amortized to sales and marketing expense over the expected period of benefit, which the Company has determined to be 5 years based on the estimated customer relationship period. The following table summarizes deferred contract cost activity for the year ended December 31, 2020 (in thousands):

	Balance, beginning of period	Additions	Amortized costs (1)	Balance, end of period
Deferred contract costs	$ 18,414	8,963	(6,044)	$ 21,333

(1) Includes contract costs amortized to sales and marketing expense during the period and the impact from foreign currency exchange rate fluctuations.

9. INCOME TAXES

The components of income (loss) before income taxes for the years ended December 31, 2020, 2019 and 2018 were as follows (in thousands):

	2020	2019	2018
Domestic	$ 18,176	$ 1,994	$ (10,552)
Foreign	1,092	2,177	3,565
Total income (loss) before income taxes	$ 19,268	$ 4,171	$ (6,987)

The provision for income tax expense (benefit) included the following for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Current:			
Federal	$ (10)	$ (10)	$ (20)
State	460	—	—
Foreign	32	168	141
Total	482	158	121
Deferred:			
Federal	—	—	(211)
State	3	(18)	12
Foreign	(42)	549	692
Total	(39)	531	493
Total tax expense	$ 443	$ 689	$ 614

Additionally, the Company recorded $(0.1) million of foreign deferred income tax benefit and $0.1 million of foreign current income tax expense in other comprehensive income for the years ended December 31, 2020 and 2019, respectively. There was no impact on other comprehensive income for the year ended December 31, 2018.

The Company accounts for the global intangible low taxed income inclusion as a period cost.

The components of the Company's net deferred tax assets as of December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Deferred tax assets:		
Domestic tax loss carryforwards	$ 27,651	$ 31,974
Foreign tax loss carryforwards	7,596	6,098
Stock-based compensation	3,092	3,129
Tax credits	4,345	3,860
Operating lease liability	2,277	3,121
Other assets	3,010	2,062
Valuation allowance	(35,393)	(38,603)
Total deferred tax assets	12,578	11,641
Deferred tax liabilities:		
Fixed assets	1,000	821
Intangible assets	1,395	491
Capitalized contract costs	5,242	4,468
Right of use assets	1,840	2,478
Other liabilities	21	21
Total deferred tax liabilities	9,498	8,279
Net deferred tax asset	$ 3,080	$ 3,362

At December 31, 2020 and 2019, the Company had federal net operating loss, or NOL, carryforwards of $110.3 million and $128.7 million, respectively, which expire beginning in 2026. At December 31, 2020 and 2019, the Company had state

NOL carryforwards of $136.5 million and $151.1 million, respectively, which expire beginning in 2021. At December 31, 2020 and 2019, the Company had U.S. federal income tax credit carryforwards of $5.9 million and $5.1 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 defined under the Internal Revenue Code and state and foreign tax laws. During the year ended December 31, 2020, the Company assessed the limitations on its U.S. federal and state NOL carryforwards and determined that the Company is not prohibited from utilizing its NOL carryforwards, with the exception of $0.9 million and $0.2 million related to U.S. federal and state NOL carryforwards, respectively, from an acquired entity. As of December 31, 2020 and 2019, the Company also had foreign NOL carryforwards for use against future tax in those jurisdictions of $36.6 million and $32.3 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. There were net decreases in the valuation allowance of $3.2 million and $0.4 million during the years ended December 31, 2020 and 2019, respectively, that were allocable to operations. The Company does not generally consider deferred tax liabilities on indefinite-lived assets as a 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 NOL carryforwards generated in years ended after December 31, 2017, 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 asset, which is offset by a valuation allowance.

Generally, undistributed earnings of the Company's foreign subsidiaries are indefinitely reinvested offshore and, accordingly, no provision for U.S. federal, state or foreign income taxes has been provided thereon. In the year ended December 31, 2019, the Company determined that the undistributed earnings of its foreign subsidiary located in China are no longer permanently reinvested. Accordingly, the Company recorded a deferred tax liability for this temporary difference. The amount of the deferred tax liability is nominal. The cumulative amount of undistributed earnings of the Company's non-U.S. subsidiaries for the years ended December 31, 2020 and 2019 was $0.5 million and nominal, respectively. 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 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, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
U.S. statutory federal rate	21.0 %	21.0 %	21.0 %
Increase (decrease) resulting from:			
State taxes, net of federal benefit	3.9	3.7	7.8
Nondeductible expenses and excludable income	(0.4)	1.6	(3.7)
Effect of foreign tax rate differential	(0.2)	2.3	(0.5)
Uncertain tax positions	1.8	4.9	(3.3)
Research and development credit	(4.8)	(24.8)	15.1
Change in valuation allowance	(17.0)	(12.0)	(36.4)
Expiration of NOL carryforwards	0.7	4.0	(1.0)
Stock-based compensation	(0.9)	6.4	(9.8)
Change in statutory tax rates	(2.3)	4.0	0.6
Other	0.5	5.4	1.4
Effective tax rate	2.3 %	16.5 %	(8.8)%

The Company's effective tax rates for the years ended December 31, 2020, 2019 and 2018 are lower than the U.S. federal statutory rate 21% primarily due to operating losses which are subject to a valuation allowance. The Company cannot recognize the tax benefit of operating loss carryforwards generated in certain jurisdictions due to uncertainties relating to future taxable income in those jurisdictions in terms of both its timing and its sufficiency, which would enable the Company to realize the benefits of those carryforwards. The primary reason for the variances in the tax rate impacts from uncertain tax positions, research and development credits, change in valuation allowance, expiration of NOL carryforwards and stock-based compensation for the years ended December 31, 2020, 2019 and 2018 is the variance in income and loss before income taxes between the three years. The decrease and increase in the tax rate impact from change in valuation allowance in the year ended December 31, 2020, as compared to the years ended December 31, 2019 and 2018, respectively, is also partially attributable to the utilization of U.S. federal and state NOLs in the year ended December 31, 2020, which are offset by a valuation allowance. The decrease and increase in the impact on the tax rate from stock-based compensation in the year ended December 31, 2020, as compared to the years ended December 31, 2019 and 2018, respectively, is also partially attributable to an increase in stock-based compensation windfalls and deductions from disqualifying dispositions of incentive stock options in the year ended December 31, 2020. The Company's foreign jurisdictions comprise a mix of income and loss making entities. In the years ended December 31, 2020, 2019 and 2018, foreign income exceeded foreign losses.

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.

The following table shows the changes in unrecognized tax benefits in accordance with ASC 740-10 for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Balance as of January 1,	$ 1,601	$ 1,408	$ 1,282
Increases related to current tax positions	281	183	217
Increases related to prior year tax positions	150	20	12
Decreases related to prior year tax positions	(109)	(10)	(103)
Balance as of December 31,	$ 1,923	$ 1,601	$ 1,408

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.

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 tax periods 2016 and prior, although carryforward attributes that were generated prior to 2017 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 2015 and prior. No income tax returns are currently under examination by taxing authorities.

10. EQUITY INCENTIVE PLANS AND STOCK-BASED COMPENSATION

In May 2013, the Company's board of directors adopted, and the Company's stockholders approved, the 2013 Equity Incentive Plan, or 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, 2021 the number of shares reserved for issuance under the 2013 Plan increased by 1,451,021 shares. As of December 31, 2020, 3,443,894 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.

In February 2020, the Company's Compensation Committee implemented changes to the equity compensation program for the Company's executive officers. Beginning in 2020, 50% of each executive's equity awards were granted in the form of performance-based vesting restricted stock units, or PSUs, that are eligible for vesting only if the Company achieves pre-defined targets set by the Compensation Committee for the Company's combined year-over-year revenue growth and adjusted earnings before interest, tax, depreciation and amortization, or EBITDA, margin over a multi-year measurement period (a two-year measurement period for fiscal 2020 grants), subject to the executive's continued service with the Company. For any PSUs to vest, revenue growth must be positive over the performance period. Vesting of these PSU awards is based on a sliding scale of actual performance against the pre-defined goals. The sliding scale ranges from zero vesting and forfeiture of the awards if the Company does not achieve the performance threshold, to an award of up to 150% of the target number of awards if the pre-defined maximum performance is achieved. As soon as reasonably practicable after the completion of the performance period, the Compensation Committee will determine the level of attainment of the performance goal and if the performance threshold is achieved, on the second anniversary of the grant date, subject to the executive's continued service as of that date, 50% of the earned PSU awards will vest and, on the third anniversary of the grant date, the remaining 50% of earned PSU awards will vest, subject to the executive's continued service as of that date. The Committee may make adjustments to the manner in which the achievement is determined as it deems equitable and appropriate to exclude the effect of unusual, non-recurring or infrequent matters, transactions or events affecting the Company or its consolidated financial statements; changes in accounting principles, practices or policies or in tax laws or other laws or requirements; or other similar events, matters or changed circumstances. Each adjustment, if any, shall be made solely for the purpose of maintaining the intended economics of the award in light of changed circumstances to prevent the dilution or enlargement of the executive's rights with respect to the PSUs. The fair value of the PSU awards is determined using the Company's stock price on the grant date. These awards are equity classified and will be expensed over the requisite service period based on the extent to which achievement of the performance metrics is probable.

Stock-based compensation expense is included in the following line items in the accompanying consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Cost of revenue	$ 972	$ 995	$ 911
Sales and marketing	2,792	2,385	3,144
Research and development	2,168	1,898	2,152
General and administrative	4,268	3,698	4,391
	$ 10,200	$ 8,976	$ 10,598

Stock Option Awards

The Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." Under the "simplified method," the expected life of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. The Company used the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is estimated based on the historical volatility of the Company's stock. 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, 2019 and 2018:

	2019	2018
Risk-free interest rate	1.8% - 2.5%	2.7% - 2.9%
Expected term (years)	6.25	6.25
Expected volatility	37% - 41%	43%
Dividend yield	0%	0%

There were no stock options granted during the year ended December 31, 2020.

The following is a summary of the option activity for the year ended December 31, 2020:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding balance at December 31, 2019	2,196,766	$ 10.47		
Granted	—	—		
Exercised	(440,174)	8.69		
Forfeited	(5,355)	11.60		
Expired	(47,992)	12.38		
Outstanding balance at December 31, 2020	1,703,245	$ 10.87	5.69	$ 9,160
Exercisable at December 31, 2020	1,189,509	$ 10.38	4.80	$ 7,122
Vested and expected to vest at December 31, 2020	1,594,971	$ 10.80	5.55	$ 8,727

The weighted average grant date fair value for the Company's stock options granted during the years ended December 31, 2019 and 2018 was $4.51 and $5.98 per share, respectively.

The total fair value of stock options vested during the years ended December 31, 2020, 2019 and 2018 was $1.5 million, $1.8 million and $1.5 million, respectively.

The total compensation cost related to nonvested stock options not yet recognized as of December 31, 2020 was $0.6 million and will be recognized over a weighted average period of approximately 1.3 years.

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2020, 2019, and 2018 was $2.3 million, $0.2 million and $0.6 million, respectively.

Restricted Stock Units and Performance Stock Units

The following table summarizes the RSU and PSU activity for the year ended December 31, 2020:

	Number of RSUs	Weighted Average Grant-Date Fair Value	Number of PSUs	Weighted Average Grant-Date Fair Value
Unvested as of December 31, 2019	2,086,646	$ 10.93	—	$ —
Granted	958,055	11.32	142,317	9.27
Vested	(743,730)	11.21	—	—
Forfeited	(240,143)	10.36	—	—
Unvested as of December 31, 2020	2,060,828	$ 11.08	142,317	$ 9.27

The total unrecognized compensation cost related to the unvested RSUs and PSUs as of December 31, 2020 was $9.0 million and $1.1 million, respectively, and will be recognized over a weighted average period of approximately 1.8 years and 1.7 years, respectively.

11. NET INCOME (LOSS) PER SHARE

The following table summarizes the calculation of basic and diluted net income (loss) per share for the years ended December 31, 2020, 2019 and 2018 (in thousands, except share and per share data):

	2020	2019	2018
Basic:			
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Weighted average common shares outstanding, basic	28,616,401	27,886,278	27,138,274
Basic net income (loss) per share	$ 0.66	$ 0.12	$ (0.28)
Diluted:			
Net income (loss)	$ 18,825	$ 3,482	$ (7,601)
Weighted average common shares outstanding, basic	28,616,401	27,886,278	27,138,274
Dilutive effect of:			
Stock options	383,607	167,208	—
Unvested RSUs	1,035,253	763,491	—
Diluted weighted average common shares outstanding	30,035,261	28,816,977	27,138,274
Diluted net income (loss) per share	$ 0.63	$ 0.12	$ (0.28)

For the year ended December 31, 2018, the Company incurred a net loss and, therefore, the effect of the Company's outstanding stock options and unvested RSUs were not included in the calculation of diluted net loss per share as the effect would be anti-dilutive.

The following equity instruments have been excluded from the calculation of diluted net income (loss) per share because the effect is anti-dilutive for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Stock options	437,927	1,626,757	2,208,141
RSUs	60,674	278,937	2,216,430

12. RESTRUCTURING

In the third quarter of 2019, the Company implemented a plan to reduce its expenses and align its operations with evolving business needs, or the 2019 Actions. As part of this strategic initiative, the Company reduced its global workforce by approximately 10% and discontinued its physical operations in China. As a result of the implementation of the 2019 Actions, the Company paid and recognized severance and related costs of $1.4 million during the year ended December 31, 2019. These costs are included in the following line items in the accompanying consolidated statements of operations (in thousands):

Cost of revenue	$	238
Sales and marketing		369
Research and development		142
General and administrative		560
Other (expense) income, net		120
	$	1,429

13. 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, or 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, 2020 and 2019. The following tables summarize revenue by geography and by product for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Revenue by geography (1):			
Domestic	$ 108,556	$ 97,111	$ 100,442
International	36,516	32,848	30,776
Total	$ 145,072	$ 129,959	$ 131,218
Revenue by product:			
Marketplaces	$ 107,425	$ 95,757	$ 96,321
Digital marketing	21,424	19,683	18,919
Other	16,223	14,519	15,978
Total	$ 145,072	$ 129,959	$ 131,218

(1) Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no impact on the reported total revenue for the period.

The Company's revenue from international customers based in the United Kingdom totaled $12.5 million, $13.0 million and $12.3 million for the years ended December 31, 2020, 2019 and 2018, respectively. No other single foreign country represented more than 10% of the Company's revenue for any of the periods indicated.

14. 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 contributed an aggregate of $1.9 million to the plans for the year ended December 31, 2020 and $1.7 million for each of the years ended December 31, 2019 and 2018.

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, 2020, 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 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, or the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, 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, 2020 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 Report of Independent 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, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by our independent registered public accounting firm, as stated in their attestation report, which is included in Part II, Item 8. of this Annual Report.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

We will file a definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, or the 2021 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 2021 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 2021 Proxy Statement under the captions "Information Regarding the Board of Directors and Corporate Governance," "Election of Directors," and "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference to the sections of the 2021 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 2021 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

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

The information required by Item 13 is hereby incorporated by reference to the sections of the 2021 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 2021 Proxy Statement under the caption "Ratification of Selection of Independent Auditors."

PART IV

ITEM 15. EXHIBITS, 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).
4.2	Description of Certain of Registrant's Securities (incorporated herein by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 12, 2020).

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 Incentive 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 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 January 21, 2020 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 12, 2020).
10.9	Office Lease, dated as of August 15, 2014, by and between the Registrant and Raleigh 1 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 Raleigh 1 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 10-K (File No. 001-35940), filed with the SEC on February 25, 2016).
10.12	Second Amendment to Office Lease, dated as of August 25, 2017, by and between the Registrant and Raleigh 1 LP (as successor in interest to Duke Realty Limited Partnership) (incorporated herein by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the SEC on February 13, 2018).
10.13	Third Amendment to Office Lease, dated as of April 5, 2018, by and between the Registrant and Raleigh 1 LP (as successor in interest to Duke Realty Limited Partnership). (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 August 9, 2018).
10.14+	Amendment to Executive Severance and Change in Control Letter Agreement, dated as of December 31, 2018, by and between the Registrant and David J. Spitz. (incorporated herein by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 13, 2019).
10.15+	Amendment to Executive Severance and Change in Control Letter Agreement, dated as of December 31, 2018, by and between the Registrant and Diana S. Allen. (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 13, 2019).

10.16+	Executive Severance and Change in Control Letter Agreement, dated as of November 5, 2015, by and between the Registrant and Richard Cornetta, as amended on December 31, 2018 (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 7, 2019).
10.17+	Amended and Restated Executive Severance and Change in Control Letter Agreement, dated as of August 8, 2019, by and between the Registrant and Elizabeth Segovia (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 7, 2019).
10.18+	Second Amendment to Executive Severance and Change in Control Letter Agreement, dated as of November 11, 2019, by and between the Registrant and David J. Spitz (incorporated herein by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K (File No. 001-35940), filed with the Securities and Exchange Commission on February 12, 2020).
10.19+	Form of Performance Stock Unit Grant Notice and Performance Stock Unit Agreement under 2013 Equity Incentive Plan (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 7, 2020).
10.20	Credit Agreement, dated as of August 5, 2020, by and between the Registrant, as Borrower, and HSBC Bank USA, N.A., as Lender (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, 2020).
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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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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.

* Filed herewith.

(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.

ITEM 16. FORM 10-K SUMMARY

None.

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 11, 2021

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard F. Cornetta 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 11, 2021
/s/ Richard F. Cornetta Richard F. Cornetta	Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*	February 11, 2021
/s/ Timothy J. Buckley Timothy J. Buckley	Director	February 11, 2021
/s/ Joseph L. Cowan Joseph L. Cowan	Director	February 11, 2021
/s/ Janet R. Cowell Janet R. Cowell	Director	February 11, 2021
/s/ Marshall A. Heinberg Marshall A. Heinberg	Director	February 11, 2021
/s/ Marc E. Huffman Marc E. Huffman	Director	February 11, 2021
/s/ Timothy V. Williams Timothy V. Williams	Director	February 11, 2021
/s/ M. Scot Wingo M. Scot Wingo	Director	February 11, 2021

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CORPORATE INFORMATION

Corporate Headquarters

ChannelAdvisor Corporation
3025 Carrington Mill Blvd., Suite 500
Morrisville, NC 27560
Phone (919) 228-4700
Fax (866) 225-3085
www.channeladvisor.com

Independent Auditor

Ernst & Young LLP
Raleigh, NC

Transfer Agent and Registrar

Computershare, Inc.
P.O. Box 505000
Louisville, KY 40233
Phone (877) 373-6374
www.computershare.com

Investor Relations

Raiford Garrabrant
Phone: (919) 228-4817
Additional investor materials may be obtained without charge by contacting Investor Relations.

Annual Meeting of Shareholders

The annual meeting of shareholders will be held on May 7, 2021 at 10 a.m. at ChannelAdvisor's headquarters located at 3025 Carrington Mill Blvd., Suite 500, Morrisville, NC.

Additional Information

The company's stock is traded on the NYSE and is quoted under the symbol "ECOM."

Executive Officers

David J. Spitz
Chief Executive Officer and Director

Richard F. Cornetta
Chief Financial Officer and Treasurer

Elizabeth Segovia
Chief Operating Officer

Diana S. Allen
Vice President, General Counsel and Secretary

Board of Directors

Timothy J. Buckley
Retired Chief Executive Officer
Xtium, Inc.

Joseph L. Cowan
Retired President and Chief Executive Officer
Epicor Software Corporation

Janet R. Cowell
Former Treasurer
State of North Carolina

Marshall A. Heinberg
Managing Director
MAH Associates, LLC

Marc E. Huffman
Chief Executive Officer
BlackLine, Inc.

David J. Spitz
Chief Executive Officer and Director
ChannelAdvisor Corporation

Timothy V. Williams
Retired Chief Financial Officer
Blackbaud, Inc.

M. Scot Wingo
Chief Executive Officer
Get Spiffy, Inc.

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